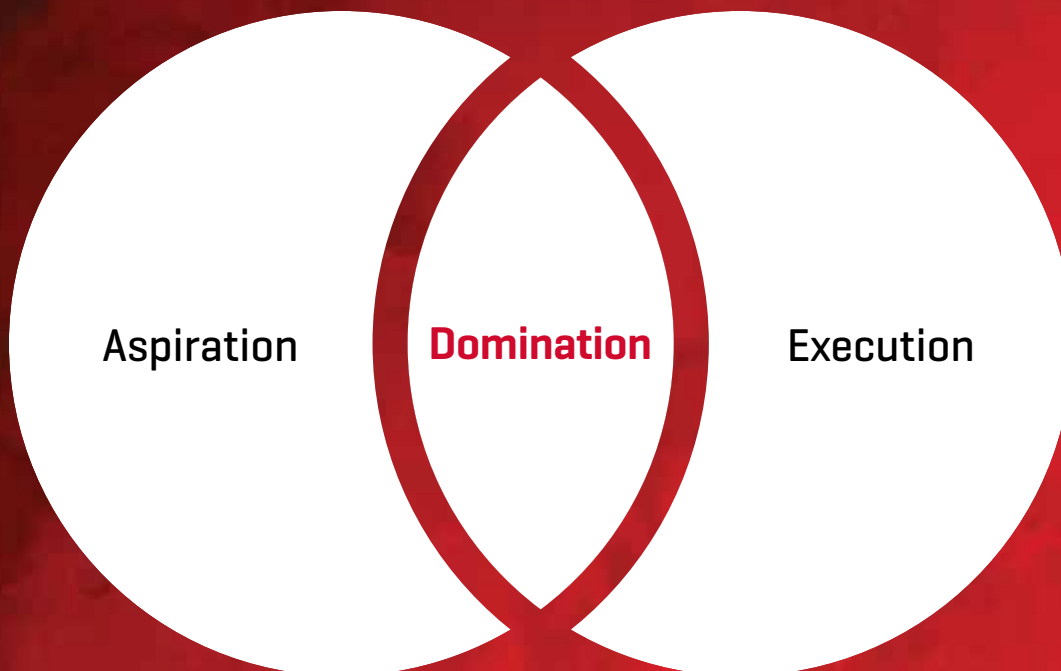




National Development Bank PLC
Annual Report 2018

Aspiration + Execution

= Domination

This is the simple equation that has inspired us for 40 years now, illuminating our strategies, motivating our people and driving the development of the fast-growing, ambitious bank that you partner today.

We're steadily pursuing our aspiration to rank ourselves among the domestic systemically important banks in Sri Lanka by 2020; growing and streamlining our business portfolio, developing simpler, faster, more innovative products and processes and flawlessly executing every enterprise in alignment with the robust strategy we have designed to optimise sustainable growth.

Reading this report, you will see that our trajectory of growth is steady and strong, with excellent performances achieved across every business segment we operate. Your Bank is also proud to have become 'Bank of the Year in Sri Lanka 2018'- a significant industry award we received from The Banker Magazine, UK. Impressively, NDB Bank was also recognised as the 'Best Bank in Sri Lanka, 2018' by Global Finance USA, accomplishing a rare feat in the industry by winning both these awards in a single year.

That's why we are so confident of the future, about where we are going and who we want to be. This is the year we step up to a new level, as we continue to expand and fine-tune our business model while faithfully delivering on our promise of increasing value to the many stakeholders who have placed their trust in us.

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Scan the QR Code with your smart device to view this report online

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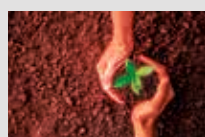
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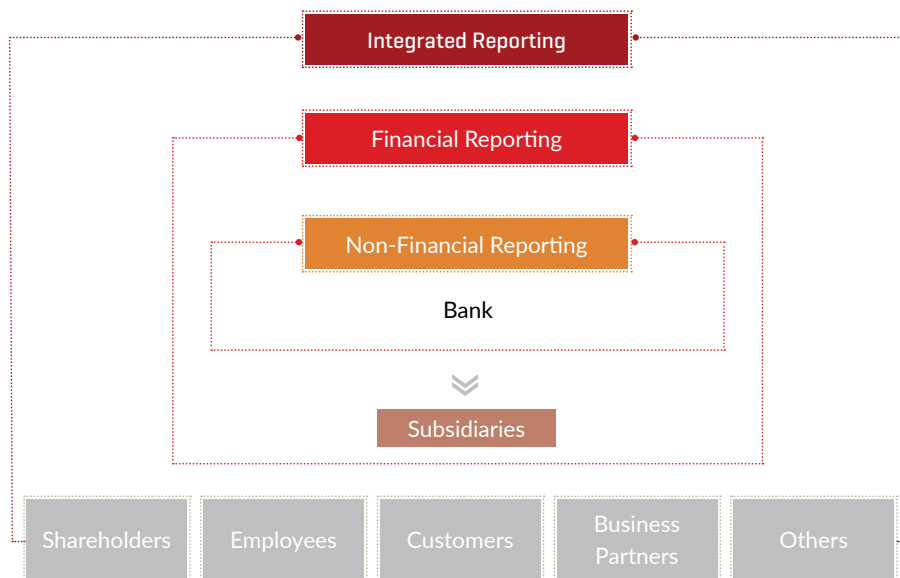
ABOUT THIS REPORT

WELCOME TO OUR SIXTH INTEGRATED ANNUAL REPORT

This year we present our sixth Integrated Annual Report for the financial year ended 31 December 2018. As our primary publication to stakeholders, this Report aims to help our readers understand how we define and measure value creation while serving our vision, which is to be the driving force for a financially-empowered Sri Lanka. The Report builds on our previous Annual Report for the financial year ended 31 December 2017 and is consistent with our annual reporting cycle for both financial and sustainability reporting.

SCOPE AND BOUNDARY

The Report covers the operations of National Development Bank PLC ("Bank") and its group companies (collective referred to as the "Group"). The Financial Statements on pages 218 to 359 and the discussion of financial aspects present a consolidated view of the Bank and its subsidiaries. However, given that the Bank accounts for the majority of the Group's revenue, profits and employees, the social and environmental information presented in the narrative reflect only those of the Bank unless otherwise referred to as the Group. This distinction is graphically represented below. There were no significant changes in the size, structure, ownership or supply chain of the Bank compared to 2017. There are also no material restatements of information provided in previous Reports.



Reporting Principles

Financial Statements

- Sri Lanka Financial Reporting Standards
- Banking Act direction No.01 of 2016 and circular No. 04 of 2018
- Relevant circulars issued on the reporting format by the Central Bank of Sri Lanka
- Companies Act No. 7 of 2007
- Inland Revenue Act No. 10 of 2006 and amendments thereto, and Inland Revenue Act No. 24 of 2017

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

Sustainability Reporting

- GRI Standards - In accordance (Core)
- GRI Financial Services Sector Disclosures
- Sustainable Development Goals (SDG)

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 the Institute of Chartered Accountants of Sri Lanka (2017)

Connectivity

Relationship between strategy, actions, performance and capitals showcased through navigation icons.

Balance

We present the positive impacts of performance along with the disappointments

Reporting Concepts

Strategic Orientation

Emphasis on how the Bank's strategy "Transformation 2020" is redefining the way we see and create value

Materiality

Material topics represents information that is vital to our stakeholders.

MATERIALITY

Information included in this Integrated Report has been selected and prioritised based on the principle of materiality. Material matters are the issues which have or could potentially impact the Group's ability to create value over the short, medium and long-term. Through this Report, we hope to provide context for what we have determined as our material matters and how we are addressing these issues through strategic responses. In determining these material issues, we have given due consideration to the following;

- Opportunities and threats arising from the operating landscape (pg. 60)
- Concerns and feedback received from our stakeholders (pg. 50)
- Strategic aspirations as articulated by the Bank's Strategy Transformation 2020 (pg. 56)
- The Group's value creation model (pg.48)

RELEVANCE OF TRANSFORMATION 2020

The Group's journey of transformation to a large and systemically important financial institution is clearly articulated in its strategic agenda- 'Transformation 2020 [T20]'. This involves dramatic changes across the organisation and since 2017 the Group's business focus, business processes, organisational structure, employee mindset and culture have been realigned to drive Transformation 2020. Our corporate reporting reflects this thinking and in this year's Report we have sought to showcase this through demonstrating connectivity to the Transformation 2020 strategic pillars where ever relevant and practical, primarily through navigation icons. Meanwhile, the six capitals also implicit in this strategy are also showcased through navigation icons throughout the Report.

EXTERNAL ASSURANCE

The Financial Statements from pages 218 to 359, the sustainability disclosures across the Report and the Internal Control environment over Financial Reporting have been assured by Messrs. Ernst and Young. These statements are available on page 215, 118 and 211 of this Report. 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.

ICON GUIDE

Capitals as Defined in the <IR> Framework



Strategic Priorities of Transformation 2020



REPORTING IMPROVEMENTS

Key improvements/reporting innovations introduced in this year's Annual Report include the following;

- Adoption of the revised Code of Best Practices on Corporate Governance 2017 issued by CA Sri Lanka
- Increased strategic orientation with connectivity across the Report through navigation icons
- Emphasis on demonstrating the linkages and trade-offs between the capital inputs
- Dedicated chapters
 - 1 The Bank's Economic Contribution
 - 2 Resource Allocation
 - 3 Way Forward

FEEDBACK

We understand that Integrated Reporting is a journey of continuous improvement and welcome your comments and suggestions on our Report. Please direct your feedback to,

Ms. Suvendrini Muthukumarana,
Acting Group Chief Financial Officer/
Assistant Vice President - Finance and Planning

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FINANCIAL HIGHLIGHTS 2018

	BANK			GROUP		
	2018	2017	Change	2018	2017	Change
	LKR '000	LKR '000	%	LKR '000	LKR '000	%
Operating results for the year						
Gross income	51,103,421	42,520,594	20	52,071,241	43,017,759	21
Operating profit before tax on financial services	9,494,029	7,547,420	26	9,421,820	7,191,740	31
Taxation	3,945,637	3,195,791	23	4,145,833	3,759,437	10
Profit for the year	5,548,392	4,351,629	28	5,275,987	3,432,303	54
Profit attributable to equity holders of the parent	5,548,392	4,351,629	28	5,136,168	3,489,752	47
Gross dividends for the year	1,682,537	1,543,371	9	1,682,537	1,543,371	9
Revenue to Government	5,180,875	3,145,376	65	5,284,963	3,264,294	62
Assets and liabilities						
Financial liabilities at amortised cost-due to depositors	347,511,223	273,369,023	27	347,169,564	273,041,417	27
Financial assets at amortised cost-loans and receivables to other customers	344,203,289	274,029,448	26	344,276,363	274,078,788	26
Total assets	472,911,930	383,073,042	23	478,428,210	388,645,438	23
Total liabilities	437,913,888	354,335,207	24	438,316,722	354,667,465	24
Total equity to equity holders of the Bank	34,998,042	28,737,835	22	39,012,446	33,012,227	18
Profitability (%)						
Net interest margin	3.46	3.00	15	3.48	3.04	15
Non-performing loans ratio	2.85	1.83	56	2.85	1.83	56
Return on assets	1.30	1.21	7	1.18	0.96	23
Return on equity	17.41	16.27	7	14.26	11.09	29
Total leverage (times)	13.51	13.33	1	12.26	11.77	4
Cost to income ratio	39.34	45.48	(14)	41.53	49.16	(16)
Investor Information (LKR)						
Net asset value per share	166.41	167.58	(1)	185.49	192.51	(4)
Market value per share – as at 31 December	106.80	136.40	(22)	NA	NA	-
Earnings per share – basic/diluted	28.44	24.52	16	26.33	19.66	34
Price earnings (times)	3.75	5.56	(32)	NA	NA	-
Dividend per share	8.00	9.00	(11)	NA	NA	-
Dividend cover (times)	3.56	2.72	30	NA	NA	-
Dividend yield (%)	7.49	6.60	14	NA	NA	-
Market capitalisation (LKR' 000)	22,461,868	23,390,650	(4)	NA	NA	-
Regulatory ratios (%)						
Capital adequacy ratios:						
Common Equity Tier 1 Capital Ratio (Minimum Requirement-6.375% (2017-5.75%))	9.17	8.85	4	10.39	10.49	(1)
Tier 1 Capital Ratio (Minimum Requirement-7.875% (2017-7.25%))	9.17	8.85	4	10.39	10.49	(1)
Total Capital Ratio (Minimum Requirement-11.875% (2017-11.25%))	12.63	13.89	(9)	13.62	15.18	(10)
Statutory liquid assets ratio:						
DBU	20.87	22.13	(5.69)	N/A	N/A	-
FCBU	24.48	24.01	1.96	N/A	N/A	-

FINANCIAL GOALS AND ACHIEVEMENTS

		Achievements				
	Goals	2018	2017	2016	2015	2014
Financial indicators - Bank						
Return on assets (%)	Over 1.5%	1.30	1.21	0.99	1.23	1.47
Return on equity (%)	Over 17%	17.41	16.27	13.36	15.63	16.33
Growth in total operating income (%)	Over 20%	33.44	22.82	7.71	4.69	19.00
Growth in profit after taxation (%)	Over 20%	27.50	37.26	(9.72)	2.73	64.00
Growth in total assets (%)	Over 18%	23.45	14.51	8.21	17.67	31.00
Dividend per share (LKR)	8 per Share	8.00	9.00	8.00	11.00	11.00
Capital adequacy ratios:						
Common Equity Tier I Capital Ratio - (Minimum requirement - 6.375%)	Over 8%	9.17	8.85	N/A	N/A	N/A
Total Tier I Capital Ratio - (Minimum requirement - 7.875%)	Over 8.5%	9.17	8.85	9.31	8.51	10.09
Total Capital Ratio - (Minimum requirement - 11.875%)	Over 12.5%	12.63	13.89	12.95	12.59	14.68

Gross income



+21%
growth

Driven by targeted expansion in high-yielding segments, and growth in fee-based income

Profit attributable to shareholders



+47%
growth

Upheld by portfolio growth, smart margin management and cost efficiencies

Dividend per share



LKR 8/-

Consistent value created to shareholders

Average training hours



41

Hours per employee

Ongoing investments in enhancing employee competencies and capabilities

Carbon footprint



+0.3%

Relatively unchanged carbon footprint despite an increase in operational activity.

PERFORMANCE

HIGHLIGHTS 2018

		2018	2017	Change %
HUMAN CAPITAL	Number of employees	2,494	2,169	15
	Number of new recruits	744	423	76
	Turnover rate (%)	7	9.3	-
	Female representation - Overall (%)	39	39	-
	Female representation - Senior Management (%)	40	41	-
	Employee Expenses (LKR Mn)	4,444	3,611	23
	Number of promotions	487	290	68
	Total training hours	88,286	84,966	4
	Average training hours per employee	41	39.5	4
	Workplace injuries	6	0	-
	Revenue per employee (LKR Mn)	8.6	7.4	16
	Profit before taxes per employee (LKR Mn)	3.8	3.5	9
SOCIAL AND RELATIONSHIP CAPITAL	Interest payments to customers (LKR Mn)	23,912	19,514	23
	Customer contact points (Branches, ATMs and Cash Recycle Machines)	249	228	-
	Number of countries with correspondent relationships	93	94	-
	SME and Micro Finance Lending outside the Western Province (%)	42	48	-
	Number of material incidents of non compliance with laws and regulations	0	0	-
	Number of registered suppliers	434	357	-
	Investment in community engagement (LKR Mn)	22	20	9.14
	Number of beneficiaries	116,323	114,923	-
MANUFACTURED CAPITAL	Staff volunteer hours	1,560	360	333
	Capital expenditure (LKR Mn)	942	588	60
	Number of branches	108	107	-
	Number of ATMs including Cash Recycle Machines	141	121	-
NATURAL CAPITAL	New branches opened during the year	1	3	-
	Electricity consumption (kWh)	5,857,158	5,864,560	(0.12)
	Paper consumption (KG)	53,402	48,350	10
	Paper recycled (%)	24	30	-
	Carbon footprint (tCO ₂ e)	2,633	2,624	0.3

AN UNRIVALLED ACCOMPLISHMENT

We are honoured to have achieved the rare feat of winning the twin awards of The Best Bank in Sri Lanka within a single year by the prestigious Global Finance Magazine of USA and The Banker Magazine UK



The total award tally, close to 40, including the Winner – Banking Sector at the prestigious National Business Excellence Awards 2018 of the National Chamber of Commerce of Sri Lanka, is testimony to our aspirations to deliver excellence to all our stakeholders and the precision in our strategic execution.

We pay tribute to all our stakeholders for partnering with us, in our commitment for their success.

AWARDS AND RECOGNITION



Overall Excellence

- Best Bank in Sri Lanka 2018 as adjudged by the Global Finance Magazine of USA
- Bank of the Year Sri Lanka 2018 as adjudged by The Banker Magazine of UK
- National Business Excellence Awards 2018 of the National Chamber of Commerce of Sri Lanka
 - Winner – Banking Sector
 - Runner-up for Excellence in Corporate Governance
- Asian Banking & Finance Magazine of Singapore - Country Awards 2018
 - Best Domestic Retail Bank [Sixth consecutive year]
 - Best SME Bank of the Year [Sixth consecutive year]
 - Best Domestic Project Finance Bank of the Year [Fourth consecutive year]
 - Best Financial Inclusion Initiative of the Year

- Global Banking & Finance Review of UK
 - Best Project Finance Bank Sri Lanka 2018
 - Best SME Bank 2018 [For the second consecutive year]
 - Best Financial Group of the Year Sri Lanka

Project Finance - Excellence in Corporate & Investment Banking

- Asian Banking & Finance Magazine of Singapore - Country Awards 2018
 - Best Debt Deal of the Year
 - Best Corporate Client Initiative of the Year
 - Best Syndicated Loan of the Year
- Islamic Finance Forum of South Asia Awards - Silver Award for the Deal of the Year
- Sri Lanka Asian Banking and Finance Association – Silver Award for Deal of the Year

Excellence in Retail Banking products

- Global Banking & Finance Review of UK - Country Awards 2018
 - Best Bank for Credit Cards Sri Lanka
 - Best Retail Banking Product - [Personal Loan Product - Dream Maker Loans] Sri Lanka

Excellence in Marketing & Sales

- Silver Award for "Best Celebrity Endorsement" - 7th Global Customer Engagement Awards Asian Customer Engagement Forum [ACEF] - Mumbai
- Silver Award for the Best Territory Manager at the Grand Gala Awards Night by the SLIM 2018 edition of the National Sales Congress [NASCO]
- Best Use of Social Media Marketing – Sri Lanka 2018 – The Golden Globe Tigers Awards 2018 by CMO Asia

Excellence in Investor relations

- CFA Sri Lanka Capital Market Awards 2018
 - Gold award -Best Investor Relations [Third consecutive year]

HOW TO READ THIS REPORT



Through this Report, we aim to address key questions around the NDB journey, encompassing the execution of our bold new transformation strategy.



CORE TOPIC

Progress we made on the Transformation 2020 journey

Mega trends in the operating environment that could affect us

How business lines performed during the year

How the Bank is governed and how the Board dealt with market dynamics

The risks facing our business and how we manage them

How we utilised and added value to our six capitals during the year

What the Bank and the Group will look like in the future



THE INFORMATION WE SHARE

Financial achievements
Process improvements
Adoption of new technology
NDB culture

Emerging risks and opportunities
How we intend to respond to these dynamics

Operating landscape for each business line
Key strategic priorities
Financial, social and environmental performance in 2018

Board dynamics and composition
Governance structure and framework
How the Board conducts itself
Key areas of Board focus in 2018

Current and emerging risks
Our approach to risk management
Summary of risk performance

How our strategy supported value creation
Capital interdependencies/linkages

What our operating environment is likely to look like in 2019
Our priorities for next year



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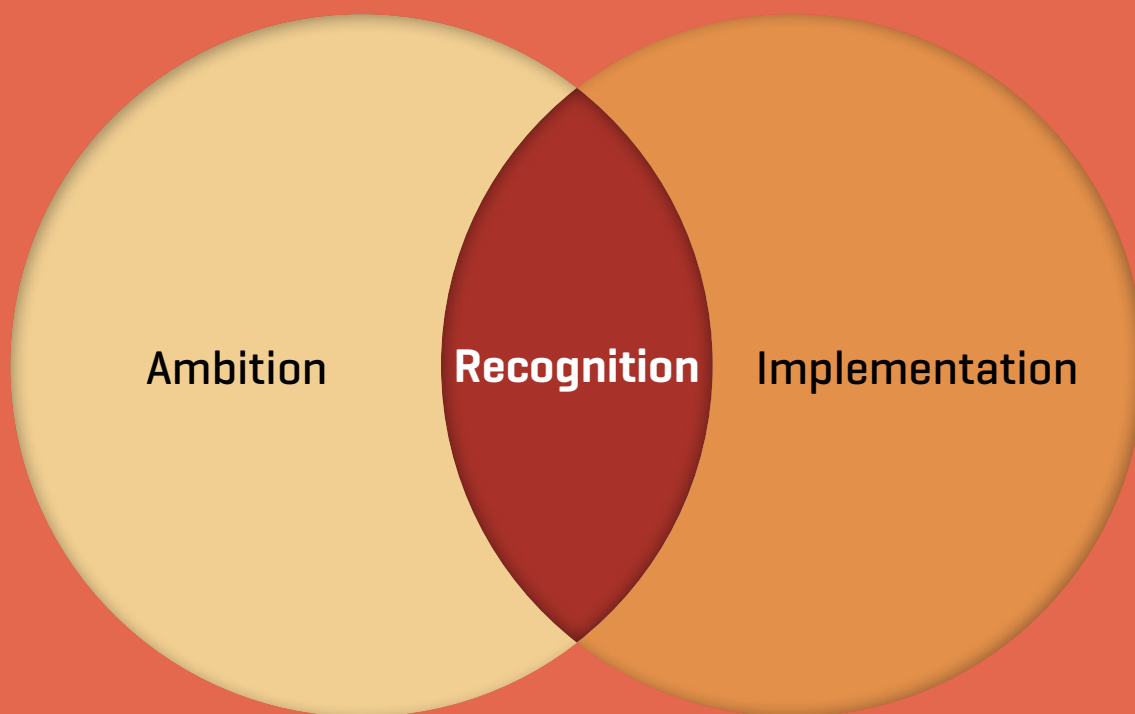
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CHAIRMAN'S MESSAGE



Chairman
Mr. Ananda W Atukorala

Dear stakeholders,

The year under review saw National Development Bank PLC clearly forging ahead, and becoming an impactful player within the Sri Lankan banking industry. The Bank's strategic and financial performance during the year was commendable given the tough operating conditions and it is indeed my pleasure to welcome you all to the fourteenth Annual General Meeting and present to you the Annual Report for the financial year ended 31 December 2018.

The Bank continued to deliver on its commitment to shareholders with a Return on Equity of 17.4% and an Earnings per Share (EPS) of LKR 28.44 which increased from 16.27% and LKR 24.52 respectively in the prior year. The Board also approved a first and final dividend of LKR 8/- per share for 2018, which compared with a total dividend per share of LKR 9/- for the previous year. The dividend declared is a clear affirmation of our commitment to deliver consistent value to our shareholders whilst ensuring we enhance our equity base, to empower our growth strategy and comply with the regulatory and prudent capital requirements. However, in view of subdued market conditions the Bank's share price performed at a level below expectation, to close at LKR 106.80 for the year.

NDB's relentless focus on driving excellence across all aspects of its operations was recognised by many prestigious awards during the year, some of which were first time wins for the Bank, as well as unique wins within the industry.

OPERATING ENVIRONMENT

Global economic growth of 3.7% in 2018 remained unchanged over the previous year, reflecting region and country-specific factors and a general slowdown in the growth momentum. Economic activity continued to be relatively strong in the USA which recorded a growth of 2.9% supported by fiscal stimulus. The EU region, however, particularly the United Kingdom witnessed moderating growth stemming from political uncertainty and slower export activity.

Domestic demand led growth fuelled activity in emerging markets and developing economies, which grew by 4.6%. Escalating trade tensions, particularly between the US and its main trading partners and tighter credit conditions in major markets resulted in a slowdown of global trade to 3.9% from 4.7% the year before. Financial conditions also tightened, particularly in advanced economies with the Federal Reserve and the Bank of England raising policy rates in 2018.

Domestic economic conditions also remained subdued reflecting weaker demand for consumer goods, tightening of cash flows and political instability towards the latter part of the year. GDP growth moderated to 3.3% in the first 9 months of 2018 reflecting slower growth in the industrial sector. The agriculture sector rebounded supported by favourable weather conditions to expand by 4.3% while the services sector also recorded sound growth of 4.4% led by the expansion of the financial services sub-sector and wholesale and retail trade. On the monetary policy front, the regulator shifted from the tighter stance adopted to a more expansionary policy, reducing the upper bound of the policy interest rates corridor in April 2018. However, given the gradual tightening of global interest rates, a more neutral stance was adopted towards the latter part of the year, which resulted in a gradual up-tick of market interest rates. Meanwhile, the Rupee experienced sharp depreciation in 2018, falling by 19% against the US dollar during the year due to heavy foreign outflows given the broad-based strengthening of the US dollar and domestic political uncertainty.

The banking sector experienced a year of mixed fortunes characterised by a loan growth of 19.6%, coupled with a considerable increase in NPLs given the subdued economic conditions. The industry's gross NPL ratio thus increased to 3.4% by the end of the year. Meanwhile the implementation of SLFRS 9: Financial Instruments, resulted in elevated impairment charges across the industry while increased vehicle taxes and import restrictions to safeguard the exchange rate adversely impacted the import-related

The Bank continued to deliver on its commitment to shareholders with a Return on Equity of 17.4% and an Earnings per Share (EPS) of LKR 28.44 which increased from 16.27% and LKR 24.52.

business. The implementation of the Debt Repayment Levy also impacted profitability, further compounding the challenge of enhancing capital in line with BASEL III requirements.

PERFORMANCE IN 2018

In this operating context, the Bank performed commendably to record total assets and post-tax profit growth of 23% and 28% respectively during the year. In line with the Bank's Transformation 2020 strategy we increased penetration to the country's SME sector thereby aligning ourselves with the national development agenda. As a financial institution we are cognisant of the role we can play in facilitating socio-economic empowerment and the Bank's deeper penetration of the SME sector is reflective of our commitment to do so. Understandably, NDB also saw a deterioration in portfolio quality although the Bank's gross NPL ratio of 2.85% compares favourably against the industry average. Impairment charges

Key Strengths of NDB

A clear strategy

Relentless focus on driving excellence

Robust governance structure

CHAIRMAN'S MESSAGE

for the year increased over the prior year, reflecting pressure on credit quality and increased provisioning requirements due to the implementation of SLFRS 9. We have proactively sought to preserve our portfolio quality through numerous measures which are discussed in further detail in the Group CEO's Review on page 18. The Bank's gross loans and receivables growth of 27% to LKR 353 Bn was supported by an equal expansion in its deposit base, reflecting NDB's strengthening deposit franchise and brand recognition.

CAPITAL REQUIREMENTS

As part of its capital augmentation plans in preparing for the full implementation of BASEL III, the Bank announced a rights issue to be completed during the last quarter of 2018, with the objective of raising LKR 6.2 Bn. Unfortunately, given the subdued investor sentiments experienced during that period, the rights issue was completed with a 55% success rate to source LKR 3.4 Bn for Tier I capital. The Bank explored avenues to partner with a strategic investor, towards the investment in the unsubscribed shares arising from the rights issue, which the Board ultimately ceased, considering the market conditions which prevailed and also as no finality was reached with the investor. Despite this temporary setback, we are confident of our ability to meet the phased capital augmentation requirements through pursuing alternative funding avenues.

In December 2018 the Bank also announced a LKR 5 Bn BASEL III compliant tier two debenture [with the option of going up to LKR 6.5 Bn] which is expected to further enhance the capital adequacy ratios of the Bank. The implications of SLFRS 9 and the introduction of the Debt Repayment Levy have rendered it even more challenging for banks to enhance capital in line with the regulatory requirements. Given the recent tax revisions, the industry is facing an effective tax rate as high as 57%, making it one of the highest taxed sectors in the country. This will have a considerable impact on our ability to augment capital through internally generated funds.

Board focus areas for 2018 included approval of the Bank's long-term strategy (2018-2023) in collaboration with the Leadership Team, review of the job evaluation and grading framework and review and revision of the policy framework. Accordingly, the Compliance Policy, Code of Conduct, Group Securities and Trading Policy and the Group Anti-Bribery and Corruption Policy were reviewed in line with prevailing regulations and best practices.

STRONG GOVERNANCE PRACTICES

NDB benefits from robust governance frameworks which are founded on the highest standards of ethics, transparency and corporate conduct. The Board of Directors provide direction and strategic leadership through well-defined board procedures that ensure empowerment, appropriate balance of power and structured engagement with key stakeholders. The Chairman remains an independent director of the Board with a healthy balance of executive and non-executive directors. In 2018, we welcomed Mr. Sriyan Cooray to the Board who brings with him extensive and multi-disciplined experience in banking. The Board combines a diverse set of skills, industry acumen and perspectives which have deepened board deliberations and enhanced the effectiveness of decisions. Board focus areas for 2018 included approval of the Bank's long-term strategy (2018-2023) in collaboration with the Leadership Team, review of the job evaluation and grading framework and review and revision of the policy framework. Accordingly, the Compliance Policy, Code of Conduct, Group Securities and Trading Policy and the Group Anti-Bribery and Corruption Policy were reviewed in line with prevailing regulations and best practices.

COMMITMENT TO SUSTAINABILITY

As a responsible corporate citizen, we have made concerted efforts to embed the principles of sustainability to our daily operations and processes. These efforts are reflected in the Bank's diverse workforce which has a relatively higher female representation rate, environmental and social screening criteria, lending towards underserved segments of the economy and ongoing investment in community engagement projects. These initiatives are discussed in further detail in subsequent sections of this Annual Report. The Bank's holistic approach to value creation is also reflected in its corporate reporting and the Bank has continued to enhance the quality and readability of its Integrated Annual Report. We also adopt the GRI Guidelines for sustainability published by the Global Reporting Initiative. The Bank's commitment towards transparent reporting was recognised at the South Asian Federation of Accountants (SAFA) Best Presented Annual Report Awards 2017 where it won the second runner-up position in the Private Sector Banks category. The 2017 Annual Report also won the bronze award in the Banking Sector at the CA Sri Lanka 54th Annual Report Awards.

INVESTING IN OUR FUTURE

I believe 2019 will be a year of mixed fortunes for Sri Lanka given headwinds from weakening global growth and domestic political uncertainties. On the other hand, the opportunities presented by Sri Lanka's emergence as Lonely Planet's No.1 tourism destination in the world, recommencement of large infrastructure projects and stabilisation of oil prices is expected to augur well for the economy. In this context, NDB will maintain focus on the strategic pillars clearly set out in its Transformation 2020 agenda with its sights set on achieving the status of a systemically important bank by 2020. We will leverage on our branch network and digital strategy to drive increased penetration in the retail and SME sectors with a view to achieving diversification and optimising risk-return dynamics. The Bank's future plans are discussed in further detail in the Group CEO's Review on page 18 and the dedicated chapter on the Way Forward on page 212.

ACKNOWLEDGEMENTS

I would like to take this opportunity to extend my gratitude and best wishes to my colleagues on the Board whose vision and valuable counsel have propelled the Bank forward. I congratulate the Group CEO, Mr. Dimantha Seneviratne and the Leadership Team for their excellent leadership, the drive and commitment of the NDB team in delivering the results set out in this Report. I would also like to extend my sincere appreciation to Mr. Trevine Jayasekara, who retired from his post as a Board Director on 08 February 2019, after nine years of valuable contribution to the Bank. My appreciation also goes out to the officials of the Central Bank of Sri Lanka, our valuable customers, business partners and all other stakeholders who have partnered us in this exciting journey of growth.



Mr. Ananda Atukorala
Chairman

18 February 2019
Colombo

CHIEF EXECUTIVE OFFICER'S REVIEW



Director/Group Chief Executive Officer
Mr. Dimantha Seneviratne

Dear friends,

2018 was a landmark year for the NDB Group and it gives me great pleasure to present to you a high-level overview of our strategy and factors that shaped the performance during the year. Precision in strategy formulation carried out since 2017 to restructure, reposition and revitalise the Group and, the commitment with which the same was executed, have come to fruition and is already evident in our performance, as set out in subsequent pages of this Report. A host of international and local awards are testimony to the Bank's commitment to excellence, the pinnacle of which was the Bank securing the twin titles of the Best Bank of Sri Lanka 2018 from the Global Finance Magazine of USA and the Bank of the Year from The Banker Magazine UK, becoming the first mid-sized bank in the country to achieve this feat in a single year.

RESILIENT PERFORMANCE

The Group delivered a year of strong financial performance in 2018, recording commendable profit growth and capital generation despite numerous external challenges. The Bank's Profit after Tax (PAT) increased by 28% to LKR 5.5 Bn, reflecting strong portfolio growth, margin management and cost efficiencies while at Group level, Profit Attributable to Shareholders increased by 47% to LKR 5.1 Bn. Net Interest Income (NII) growth of 38% was upheld by portfolio expansion of 27% as the Bank sought client acquisition and deeper penetration in the retail and SME segments. An astute funding strategy, foray into retail segments and active Balance Sheet management allowed the Bank to widen its Net Interest Margin (NIM) to 3.5%, compared to 3.0% the year before. Net Fee and Commission income also grew by 24% reflecting our focus on expanding trade services, digital banking and card operations among other products. Resultantly, non-fund-based income contributed 31% to operating income.

Moderating economic conditions coupled with the slowdown in the industrial sector and political instability towards the latter part of the year led to an industry-wide deterioration in portfolio quality. Against this backdrop and with the implementation

of SLFRS 9: Financial Instruments, the Bank saw its impairment charges for loans and other losses increasing to LKR 3.6 Bn (2017: LKR 1.3 Bn); that said NDB's gross NPL ratio of 2.85% continues to be well below the industry average of 3.4%. We have adopted proactive measures to stem the influx of NPLs through tightening underwriting and approval mechanisms and strengthening collections and monitoring frameworks. As macro-economic challenges are likely to persist over the short-to-medium term exerting pressure on portfolio quality, we are confident that the measures put in place to preserve credit quality will help us to remain resilient.

Operating expenses increased by 15% to LKR 8.5 Bn reflecting larger business volumes, investments in expanding our digital footprint and new recruitments to drive market penetration. Amidst such expansions, ongoing focus on process efficiencies and productivity improvements enabled the Bank to achieve an improvement in its cost-to-income ratio to 39.3% in 2018, from 45.5% the year before, and is one of the best cost to income ratios within the industry.

The Bank's asset expansion of 24% in 2018 was supported by deposit growth of 27% to LKR 348 Bn. NDB's ability to grow its deposit base faster than the industry average is testament to its improving deposit franchise, brand strength and customer convenience offered through a multi-channel strategy. Despite the prevalent high interest rate scenario, the Bank's CASA base also increased by 30%, translating to a quantum growth of LKR 18 Bn, resulting in a CASA ratio of 22% during the year. The Bank's Loans to Deposit ratio (LDR) recorded consistent improvement ending the year at 101.7%. We also sought to strengthen capital during the year, raising LKR 3.4 Bn through a rights issue which increased the Bank's Tier 1 and total capital ratios to 9.17% and 12.63% respectively.

The Bank's strategic transformation is ultimately aimed at growing shareholder value and the Bank's Return on Equity [ROE] improved to 17.41% in 2018, from 16.27% the preceding year, well above the industry average ROE recorded for 2018.

The Group delivered a year of strong financial performance in 2018, recording commendable profit growth and capital generation despite numerous external challenges. The Bank's Profit after Tax (PAT) increased by 28% to LKR 5.5 Bn.

BUSINESS LINE PERFORMANCE

In line with Transformation 2020 strategy, the Bank placed strategic thrust on strengthening its position in the Retail and SME segments while sustaining its competitive edge in the corporate segment. This strategy has allowed the Bank to optimise its risk-return balance while diversifying its portfolio and deepening its socio-economic impact.

The Retail Banking segment recorded sound growth, supported by strategic focus on client acquisition, direct to customer marketing and the pursuit of cross-sell opportunities. It is noteworthy that the top of mind awareness of our brand has recorded consistent improvement in this segment reflecting stronger visibility in the market. During the year we also sought regional expansion of our Privilege Banking proposition, opening 3 Privilege Centres, two of which were located outside Colombo. Given our current network of 109 branches, approximately 30% of which have been in existence for less than five years, we see tremendous untapped potential in the Retail segment and hope to leverage on our multi-channel strategy in pursuing these opportunities.

CHIEF EXECUTIVE OFFICER'S REVIEW

The SME Banking segment's inherent strengths in development banking and deep understanding of industry dynamics have enabled us to fortify our position in this segment within a relatively short period of time. A key achievement during the year was the segmentation of the SME business line into the 'middle market' and 'small' sectors, thereby allowing for more efficient deployment of resources. Through this approach, the Bank adopts a centralised, product program driven framework for 'small' businesses facilitating substantial improvements in loan processing time while contributing towards preserving portfolio health. This has enabled the Bank to record sound growth in both these segments, whilst maintaining high underwriting standards.

The Commercial Banking segment maintained its position as a relatively higher contributor to the Bank's assets base, benefiting by better wallet management in growth sectors of the economy. Meanwhile Project and Infrastructure Financing segment was a key driver of growth, supported by its strong market position and leveraging on their unique competencies in project evaluating and structuring.

The Group's capital market cluster experienced a challenging year due to the prevalent subdued market conditions. However, the cluster successfully maintained its position as the country's leading investment bank, handling several large equity and debt transactions during the year.

STRATEGIC PROGRESS

Relentless focus on our medium-term strategic agenda - Transformation 2020, decisive management interventions and precise execution since 2017 have led the Bank closer to its overarching strategic objectives. During the year, we focused on the following:

- **Process improvements:** Driving efficiency improvements and simplifying processes is a key pillar of our strategic agenda. In 2018 we introduced workflow solutions for several key processes and re-engineered several processes through a comprehensive Business Process

Re-engineering initiative. The Bank also launched six-sigma lean management during the year. These initiatives have led to considerable reductions in turnaround times and in the future, are expected to enhance customer experience and freeing of employee time for more value adding activities.

- **Digitalisation:** Strengthening our digital capabilities is a key priority and as a mid-sized bank, NDB is aptly positioned to drive a digital transformation. Bank2U, NDB's branchless proposition designed to bring banking to the customer, strengthened its position in 2018. The service is currently available via 71 branches and has supported the Bank's CASA drive while redefining customer convenience. I am happy to state that this initiative has helped us to reach hitherto unbanked segments in the society, whilst inculcating the savings habit in them. Other initiatives include installing 27 cash recycling machines (CRM), upgrading the Bank's mobile app and installation of an Enterprise Service Bus, to link all peripheral systems to the core banking platform via Application Programming Interface [API], setting the stage for more digital expansion. The Bank's digital penetration has increased considerably, with 69% of total transactions in 2018 performed through digital channels.
- **Customer experience:** We are working towards creating a superior and consistent customer experience across all our channels. To this end, Service LEAP was launched during the year with service leaders appointed and trained to drive the mind-set change required to achieve this goal. We also formed a dedicated Data Analytics Team during the year, which provides deep insights into customer behaviour thereby allowing us to predict preferences and offer relevant, tailor-made solutions.
- **People development:** A holistic Organisational Change Management initiative, ongoing and proactive engagement with the Leadership Team and significant investments in employee communication have led to

LKR 5.5 Bn

Profit after tax (+28%)

LKR 473 Bn

Assets (+23%)

LKR 353 Bn

Gross Loans and
receivables (+27%)

LKR 348 Bn

Customer deposits (+27%)

goal congruence across the Group, with all employees aligned towards achieving our strategic aspirations. I believe this cultural transformation is amongst our key achievements as it has led to positive attitudinal and behavioural changes across the Group.

- **Group synergies:** As the only financial institution in the country offering the full spectrum of banking and capital market solutions, NDB is aptly positioned to capture market opportunities and provide a full spectrum of financial solutions to customers, by leveraging on group synergies. In 2018 we set the foundation for this by setting a task force and formulating business teams and pursuing cross sell opportunities. Examples include retail banking products combined with wealth management offers for individuals and corporate and project financing solutions augmented with investment banking solutions for corporates.

RISK REWARD DYNAMICS

We are cognisant that the Bank's increasing tilt towards the Retail and SME segments will lead to a change in its risk profile. In optimising the risk return paradigm, we have placed parallel importance on strengthening underwriting standards using customised scorecards as well as collection and

monitoring frameworks. We also streamlined the recoveries structure and deployed additional resources for the recovery function. The Bank also derives comfort from the stringent regulatory framework set by the Central Bank of Sri Lanka, which has enabled Sri Lanka's financial sector to demonstrate a degree of resilience in the face of domestic and global headwinds.

ENHANCING OUR CAPITAL BASE

Implementation of the Basel III guidelines and the impact of SLFRS 9: Financial Instruments has placed greater demand on banks to strengthen capital levels. As detailed in the Chairman's Message on page 14, the sector will be required to balance high capital requirements with reasonably priced funds, a challenge that is further compounded by persistent increases in taxes and the resultant impact on capital retention. Given the relatively low liquidity and depth in Sri Lanka's debt market, Banks are compelled to seek funding through the equity market which in turn is impacted by the country's geopolitical and economic landscape. For instance, NDB sought to raise capital of LKR 6.2 Bn via a rights issue, during the last quarter of 2018, which, given the prevalent political instability, non-conducive market conditions and weak investor sentiments resulted in a success rate of 55%.

Meanwhile in February 2019, the Bank's national long-term credit rating was affirmed at A+ by Fitch Ratings Lanka Limited; the Rating Outlook was revised to Negative due to pressure on capitalisation following the Bank's strong growth over the past 2 years. In addressing this and with the Bank's anticipated achievement of a domestic systemically important bank status, we have accelerated our capital raising plans and despite the setback are currently pursuing alternative funding avenues and are confident of complying with the phased increase of capital requirements with sufficient buffers.

A RESPONSIBLE BANK

As a financial services provider we are cognisant of the role we can play in facilitating economic activity and addressing critical social and environmental issues. Driving

gender equality and female empowerment is key in the Bank's sustainability agenda and our efforts in creating a fair and conducive work environment was affirmed when NDB emerged as the first Sri Lankan organisation to obtain the prestigious EDGE (Economic Dividends for Gender Equality) Certification, the only global standard for gender equality at workplaces. We consider the diversity of our team as one of our key strengths and the Bank's female representation at senior management level of 40% is one of the highest in the industry. In aligning our sustainability and business objectives, NDB's Banking on Women initiative aims to create a holistic value proposition catering to the lifestyle requirements of women. Meanwhile the Bank's lending criteria gives due consideration to environmental and social risk factors through a comprehensive ESMS (Environmental and Social Management Systems) framework.

WAY FORWARD

In recent years, NDB has proved that it can continue to serve its customers well, increase efficiency and reward shareholders even in the most difficult times. As the Bank gears up to achieve the status of a systemically important bank by 2020, we are excited by the possibilities presented by the Group's foray into new markets and customer segments. Strengthening our digital capabilities will be a key focus in 2019 and we hope to change our core banking platform to reflect latest advances in technology. The Bank will continue to drive transaction migration through further strengthening its digital platforms and self-service propositions. To this end, we hope to further expand our network of phygital branches, the first of which was opened in January 2019. Automation will play a critical role in simplifying processes as we strive towards operational excellence. The Bank's transformation to a systemically important bank will provide access to sophisticated customers and we will continue to drive service excellence in effectively differentiating ourselves from competition.

Macro-economic challenges are likely to persist over the short-term given liquidity constraints, cascading effects of global trade tensions and upcoming elections which could

lead to fiscal slippage. Against this backdrop, the Bank will adopt a cautious approach towards growth ensuring that portfolio quality is preserved. Over the medium to long-term however the outlook remains positive as policy reforms over the last two years have led to gains on the macro-economic front, as reflected by improved public finances and an effective monetary policy. The Bank will continue to drive penetration in the Retail and SME sectors in which we see considerable opportunity for growth while facilitating economic activity.

ACKNOWLEDGEMENTS

I would like to extend my appreciation and gratitude to the Chairman, Mr. Ananda Atukorala for his vision and continued guidance and the entire Board of Directors for their valuable counsel and confidence in me. I am extremely proud of what Team NDB delivered in 2018 and thank all of them for their dedication and commitment to the organisation. I am humbled to lead such a wonderful team and look forward to working with them in coming years. 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. Finally, I would like to place on record my appreciation to our valued shareholders, customers, business partners and other stakeholders for inspiring us and placing their confidence in us.

As we look to the future, I am excited by the opportunities we have in leveraging NDB's unique value proposition in growing stakeholder value sustainably and driving socio-economic empowerment. The Group's aspirations are ambitious and I am fully confident of my team's ability to achieve these long-term objectives and drive towards market domination through effective execution.



Dimantha Seneviratne
Director/Group Chief Executive Officer

18 February 2019
Colombo

BOARD OF DIRECTORS



04

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03

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08

01 | Mr. Ananda Atukorala
Independent/Non-Executive
Chairman

02 | Mr. Ashok Pathirage
Non-Independent/Non-Executive
Director

03 | Mr. Dimantha Seneviratne
Non-Independent/Executive
Director/GCEO

04 | Mr. Trevine Jayasekara
(Retired w.e.f. 8 February 2019)

05 | Mr. Sarath Wikramanayake



06 | Mrs. Kimarli Fernando

07 | Mrs. Indrani Sugathadasa

08 | Mr. Dinal Phillips, PC

09 | Mr. Kavan Ratnayaka

10 | Mr. Ranasinghege Semasinghe

11 | Mr. Sriyan Cooray

12 | Mrs. Shehani Ranasinghe
(Company Secretary)

BOARD OF DIRECTORS

Name of the Director	Mr. Ananda Atukorala
Directorship status together with special comment if any	Independent/Non-Executive Chairman
Date of Appointment to the Board	31 August 2016
Date of Last Re-election as a Director	30 March 2017
Length of Service as a Director	2 year & 4 months
Membership in Board Sub Committees	Strategic Issues Committee Nominations Committee Related Party Transactions Review Committee Credit Committee
Skills/ Experiences/ Qualifications	BSc (Univ. of Leeds, UK) MTT (North Carolina State Univ., USA) MBA (Iran Centre for Management Studies, Tehran, Iran; then, an affiliate of the Harvard Business School)
Present Directorships with Other Companies/ Positions	United Motors Lanka PLC – Director Orient Finance PLC – Director Colombo City Holdings PLC – Director Development Holdings (Pvt) Limited – Chairman (Resigned w.e.f. 29 January 2019) NDB Securities (Pvt) Limited – Director NDB Zephyr Partners Limited (Mauritius) - Director Unimo Enterprises Limited – Director Arni Holdings & Investments (Pvt) Limited – Director Unawatuna Boutique Resort (Pvt) Limited – Director U B Finance Company Limited – Deputy Chairman
Past Directorships/ Positions Held	ANZ Grindlays Bank, Colombo Branch (with ANZ Grindlays Group in Sri Lanka & Overseas) – Deputy General Manager (at the time of leaving the bank) ANZ Banking Group in London and ANZ Bank in Vietnam – Corporate Banking & Audit in UK and Deputy GM in Ho Chi Minh City & in Hanoi Mashreq Bank PSC. – Country Manager, Sri Lanka Union Bank of Colombo PLC – Director DFCC Bank PLC – Director DFCC Vardhana Bank PLC – Director Sri Lanka Banks Association (Guarantee) Limited – Director Credit Information Bureau of Sri Lanka (CRIB) – Director
Other Information	-
Number of Shares Held in the Bank as at 31 December 2018	1,000

Name of the Director	Mr. Ashok Pathirage
Directorship status together with special comment if any	Non-Independent/Non-Executive Director
Date of Appointment to the Board	18 February 2011
Date of Last Re-election as a Director	30 March 2017
Length of Service as a Director	7 years & 10 months
Membership in Board Sub Committees	Strategic Issues Committee Human Resources & Remuneration Committee Nominations Committee Credit Committee
Skills/ Experiences/ Qualifications	G.C.E Advanced Level He has over 30 years of experience in senior managerial capacity in the Information Technology industry and in the business world

Name of the Director	Mr. Ashok Pathirage
Present Directorships with Other Companies/ Positions	Softlogic Holdings PLC – Chairman / Managing Director Asiri Hospital Holdings PLC – Chairman / Managing Director Asiri Surgical Hospital PLC – Chairman / Managing Director Central Hospital Limited - Chairman / Managing Director Softlogic Retail (Private) Limited – Chairman / Managing Director Ceysand Resorts Limited - Chairman / Managing Director Softlogic Finance PLC – Chairman Softlogic Capital PLC – Chairman Softlogic Life Insurance PLC – Chairman NDB Capital Holdings Limited– Chairman Softlogic Properties (Private) Limited – Chairman Softlogic Australia (Pty) Limited – Chairman (Incorporated in Australia) Softlogic City Hotels (Private) Limited – Chairman Softlogic Supermarkets (Private) Limited – Chairman Odel PLC – Chairman National Development Bank PLC – Deputy Chairman Odel Properties One (Private) Limited – Director Asiri A O I Cancer Centre (Private) Limited – Director Softlogic Retail Holdings (Private) Limited – Director Softlogic Healthcare Holdings Limited – Director
Past Directorships/ Positions Held	Fairfirst Insurance Limited - Chairman Softlogic Information Technologies (Pvt) Limited - Chairman Softlogic Credit Limited - Chairman Softlogic Brands (Pvt) Limited (Formerly known as Softlogic Distributors (Pvt) Limited & Uni Walker Distributors (Pvt) Limited - Chairman Softlogic International (Pvt) Limited - Chairman Softlogic Communications (Pvt) Limited - Chairman Softlogic Information Systems (Pvt) Limited (Now amalgamated with Softlogic Information Technologies (Pvt) Limited - Chairman Asiri Hospital Matara (Pvt) Limited – Chairman / Managing Director Matara Medi House (Pvt) Limited (which was amalgamated with Asiri Hospital Matara (Pvt) Limited effective from 22nd June 212)) – Chairman / Managing Director Future Automobiles (Pvt) Limited – Chairman / Managing Director Ominga International (Pvt) Limited - Director Dai-Nishi Securities (Pvt) Limited - Chairman Asiri Diagnostics Services (Pvt) Limited - Chairman / Managing Director Softlogic Communication Services (Pvt) Limited - Chairman Softlogic Computers (Pvt) Limited - Chairman Softlogic Corporate Services (Pvt) Limited - Director Gerry's Softlogic (Pvt) Limited - Director Softlogic Solar (Pvt) Limited - Director Softlogic Restaurants (Pvt) Limited – Director Sabre Travel Network Lanka (Pvt) Limited – Director Asiri Central Hospitals Limited – Chairman / Managing Director Asiri Hospital Kandy (Pvt) Limited - Chairman / Managing Director
Other Information	-
Number of Shares Held in the Bank as at 31 December 2018	5,466,010 (including shares in slash accounts)

BOARD OF DIRECTORS

Name of the Director	Mr. Dimantha Seneviratne
Directorship status together with special comment if any	Non-Independent/Executive (ex-officio) Director
Date of Appointment to the Board	01 January 2017
Date of Last Re-election as a Director	N/A
Length of Service as a Director	2 years
Membership in Board Sub Committees	Integrated Risk Management Committee Credit Committee
Skills/ Experiences/ Qualifications	Associate Member of the Institute of Bankers, Sri Lanka (AIB) -1992 Fellow of the Institute of Bankers, Sri Lanka (FIB) – 2006 Bachelor of Science, University of Sri Jayawardenapura (BSc) -1990 Diploma in Computer System Design with Distinction pass, National Institute of Business Management (NIBM) - 1990 Master of Business Administration, Postgraduate Institute of Management, University of Sri Jayawardenapura (MBA- PIM) – 1998 Has successfully completed the High Potential Leadership Programme at the Harvard Business School, Boston USA
Present Directorships with Other Companies/ Positions	Director - Credit Information Bureau of Sri Lanka Director - LankaClear (Pvt) Limited Director – Sri Lanka Banks' Association (Guarantee) Limited Director - NDB Capital Holdings Limited Director - NDB Wealth Management Limited Director - NDB Investment Bank Limited Director - NDB Capital Limited (Bangladesh)
Past Directorships/ Positions Held	Pan Asia Banking Corporation PLC – Director / Chief Executive Officer (01st March 2014 31 December 2016) HSBC Thailand – Chief Risk Officer (2011 Aug to 2014 Feb) HSBC Sri Lanka- Chief Risk Officer, Sri Lanka and Maldives (March 2008 to Aug 2011) HSBC Sri Lanka – Head of Credit Risk Management (Feb 2005-March 2008) HSBC Sri Lanka – Manager Credit Control (May 2003 to February 2005) HSBC Sri Lanka – Account Relationship Manager (June 2000-May 2003)
Other Information	
Number of Shares Held in the Bank as at 31 December 2018	16,000

Name of the Director	Mr. Trevine Jayasekara
Directorship status together with special comment if any	Independent/Non-Executive Director (Retired with effect from 8th February 2019)
Date of Appointment to the Board	10 February 2010
Date of Last Re-election as a Director	30 March 2018
Length of Service as a Director	8 years & 10 months
Membership in Board Sub Committees	Strategic Issues Committee Audit Committee Human Resources & Remuneration Committee Nominations Committee Related Party Transactions Review Committee
Skills/ Experiences/ Qualifications	FCA ACMA

Name of the Director	Mr. Trevine Jayasekara
Present Directorships with Other Companies/ Positions	Brandix Lanka Limited - Director Brandix Management Services (Private) Limited - Director Brandix Asia Limited - Director Kuruwita Textile Mills Limited - Director Nirbitha Adventures (Private) Limited - Director John Keells Hotels PLC -Non-Executive - Director Phoenix Industries Limited - Director Phoenix Ventures (Private) Limited - Director Inqube Global (Pvt) Limited - Director Quantum Clothing Lanka (Private) Limited Quantum Apparel (Cambodia) Limited – Director Quantum Clothing Group Limited - Director Fortude Inc. - Director Fortude (Private) Limited - Director Fortude Australia Pty. Limited – Director Phoenix Retail (Private) Limited
Past Directorships/ Positions Held	Brandix Apparel India (Private) Limited - Director Brandix Apparel Solutions Limited - Director Brandix Apparel Limited – Director Hayleys PLC - Non-executive Director Lanka Ventures Limited- Non-executive Director Ceylease Financial Services Limited - Director Sri Lanka Auditing and Accounting Standards Monitoring Board - Board Member Aitken Spence & Company Limited, Colombo - Group Finance Director Deutsche Bank, Colombo - General Manager & Financial Controller Arab Bank Limited, Bahrain - Internal Auditor Coopers & Lybrand, Zambia - Audit/Senior Supervisor
Other Information	-
Number of Shares Held in the Bank as at 31 December 2018	-

Name of the Director	Mr. Sarath Wikramanayake
Directorship status together with special comment if any	Non-Independent/Non-Executive
Date of Appointment to the Board	4 June 2010
Date of Last Re-election as a Director	30 March 2016
Length of Service as a Director	8 years & 6 months
Membership in Board Sub Committees	Integrated Risk Management Committee Strategic Issues Committee Audit Committee Related party Transactions Review Committee
Skills/ Experiences/ Qualifications	Chartered Accountant (FCA) 27 years in the banking industry and 16 years in insurance industry
Present Directorships with Other Companies/ Positions	NDB Capital Holdings Limited-Director NDB Capital Limited (Bangladesh)-Chairman NDB Wealth Management Limited.- Chairman NDB Investment Bank Limited.- Chairman AIA Insurance Lanka PLC-Director NDB Zephyr Partners Lanka (Pvt) Limited-Chairman

BOARD OF DIRECTORS

Name of the Director	Mr. Sarath Wikramanayake
Past Directorships/ Positions Held	Orient Finance PLC-Director Bartleets Finance PLC-Director Aviva NDB Insurance PLC-Director P C House PLC-Director Greenwich Lanka (Pvt) Limited-Chairman Procifinity Limited- director Rainbow Trust Management (Pvt) Limited-Director NDB Securities (Pvt) Limited.-Director Infoserve (Pvt) Limited.- Aviva NDB Holdings Lanka (Pvt) Limited.-Director Power World Gyms Limited-Director
Other Information	-
Number of Shares Held in the Bank as at 31 December 2018	-

Name of the Director	Mrs. Kimarli Fernando
Directorship status together with special comment if any	Non-Independent/Non-Executive Director
Date of Appointment to the Board	04 June 2010
Date of Last Re-election as a Director	28 March 2018
Length of Service as a Director	8 years & 6 months
Membership in Board Sub Committees	Strategic Issues Committee Human Resources & Remuneration Committee Nominations Committee Related Party Transactions Review Committee Credit Committee
Skills/ Experiences/ Qualifications	Barrister-at-Law Attorney-at-Law LLB London School of Economics, UK Human Resources Management, PIM
Present Directorships with Other Companies/ Positions	Vallibel One PLC - Director Delmege Limited - Director Richard Pieris Distributors Limited- Director
Past Directorships/ Positions Held	LB Finance PLC – Director/Acting Chairperson Pan Asia Banking Corporation PLC - CEO/Director Waters Edge - Director Deutsche Bank AG - Head-Corporate Banking/ Global Cash Management Standard Chartered Bank - Head-Client Relationships/ Corporate Banking/ Wholesale Banking LankaClear (Pvt) Limited - Director Sri Lanka Bankers Association - Board member
Other Information	-
Number of Shares Held in the Bank as at 31 December 2018	-

Name of the Director	Mrs. Indrani Sugathadasa
Directorship status together with special comment if any	Independent Non-Executive Director
Date of Appointment to the Board	4 October 2013
Date of Last Re-election as a Director	30 March 2017
Length of Service as a Director	5 years & 2 months

Name of the Director	Mrs. Indrani Sugathadasa
Membership in Board Sub Committees	Audit Committee Human Resources & Remuneration Committee Related Party Transactions Review Committee Credit Committee
Skills/ Experiences/ Qualifications	BA degree (Social Sciences) – Colombo University Masters degree (MBA/MPA) – Monash University, Australia Hubert H Humphry Fellow (Fulbright), City University of New York
Present Directorships with Other Companies/ Positions	Kalubovitiyana Tea Factory Limited - Director Hayleys Aventura (Pvt) Limited - Director Hayleys Consumer Products (Pvt) Limited - Director
Past Directorships/ Positions Held	Insurance Board of Sri Lanka - Chairperson Securities and Exchange Commission of Sri Lanka - Chairperson Permanent Secretary, Ministry of Plantation Industries Permanent Secretary, Ministry of Child Development & Women's Affairs Board of Investment of Sri Lanka - Director Sri Lanka Export Development Board - Member Environmental Council - Member Sri Lanka Bureau of Foreign Employment - Director Sri Lanka Tea Board - Member Rtd. Member, Sri Lanka Administrative Service
Other Information	-
Number of Shares Held in the Bank as at 31 December 2018	-

Name of the Director	Mr. Dinal Phillips, PC
Directorship status together with special comment if any	Independent/Non-Executive Director
Date of Appointment to the Board	22 April 2015
Date of Last Re-election as a Director	30 March 2016
Length of Service as a Director	3 years & 8 months
Membership in Board Sub Committees	Integrated Risk Management Committee Human Resources & Remuneration Committee Credit Committee
Skills/ Experiences/ Qualifications	Attorney at law (1982) Solicitor England and Wales (1986) Diploma Intellectual Property (1989/90 University of London)
Present Directorships with Other Companies/ Positions	President Counsel Director - Gestetner of Ceylon PLC Director - Vauxhall Beira Properties (Private) Limited Director - Abans Electricals PLC (appointed w.e.f. 15.02.2018)
Past Directorships/ Positions Held	Chairman - Intellectual Property Advisory (25.06.2004 to 28.01.2009)
Other Information	-
Number of Shares Held in the Bank as at 31 December 2018	-

Name of the Director	Mr. Kavan Ratnayaka
Directorship status together with special comment if any	Independent/Non-Executive Director
Date of Appointment to the Board	13 May 2015
Date of Last Re-election as a Director	30 March 2016
Length of Service as a Director	3 years & 7 months

BOARD OF DIRECTORS

Name of the Director	Mr. Kavan Ratnayaka
Membership in Board Sub Committees	Integrated Risk Management Committee Human Resources & Remuneration Committee Credit Committee
Skills/ Experiences/ Qualifications	Bachelor of Science (Physics) from the University of California
Present Directorships with Other Companies/ Positions	Sri Lanka Business Development Centre (SLBDC) (March 2006-to date) - Director KBSL (Pvt) Limited (May 2014-to date) - Director
Past Directorships/ Positions Held	Sri Lanka Tourism Development Authority - Chairman The Associated Newspapers of Ceylon Limited - Chairman & Managing Director Iagora Solution SDN BHD - Director Cargills Ceylon PLC - Group Chief Corporate Officer Dialog Axiata PLC - Group Chief Corporate Officer Dialog Broadband Networks - Chief Executive Officer IBM - Country General Manager for Sri Lanka / Maldives Employer's Federation of Ceylon (EFC) - Council Member Arthur C Clarke Institute for Modern Technologies - Director Sri Lanka Institute of Information Technology (SLIIT) - Director John Keells PLC - Director Amcham, Sri Lanka - Past President Sri Lanka Institute of Directors (SLID) - Director Independent Television Network (ITN) - Director
Other Information	-
Number of Shares Held in the Bank as at 31 December 2018	-

Name of the Director	Mr. Ranasinghe Semasinghe
Directorship status together with special comment if any	Non-Independent/Non-Executive Director as Nominee of the Ministry of Finance (in terms of the Articles of Association)
Date of Appointment to the Board	26 September 2017
Date of Last Re-election as a Director	N/A
Length of Service as a Director	01 year 03 months
Membership in Board Sub Committees	Integrated Risk Management Committee Audit Committee Related Party Transactions Review Committee
Skills/ Experiences/ Qualifications	B. (Development Studies) Special Degree, University of Sri Jayawardenapura MSc, Agricultural University of Norway Diploma in Information Technology, SLIDA Possess 35 years of experience in the public service holding middle and senior level positions.
Present Directorships with Other Companies/ Positions	Additional Secretary, Ministry of Finance and Mass Media Commissioner General of Excise Represents Boards of Management as Board Member/Treasury Representative of Ceylon Electricity Board (CEB) (2) Sri Jayawardenapura General Hospital, Central Environmental Authority, Police Academy, Katana and Academy of Financial Studies (MILODA)
Past Directorships/ Positions Held	Ministry of Finance - Director General Customs (Actg.) - Director General Trade and Investment Policy Department - Director General Public Enterprises Department - Director General
Other Information	-
Number of Shares Held in the Bank as at 31 December 2018	-

Name of the Director	Mr. Sriyan Cooray
Directorship status together with special comment if any	Independent/Non-Executive Director
Date of Appointment to the Board	10 August 2018
Date of Last Re-election as a Director	-
Length of Service as a Director	4 months
Membership in Board Sub Committees	Integrated Risk Management Committee Audit Committee
Skills/ Experiences/ Qualifications	Fellow of the Chartered Institute of Management Accountants UK
Present Directorships with Other Companies/ Positions	-
Past Directorships/ Positions Held	Ford Rhodes Thornton & Company - Audit Executive 1984-1987 Speville M & W Limited. - Financial Controller 1987 - 1990 HSBC Sri Lanka Administration Executive 1990 - 1992 Manager Retail Banking 1992-1994 Financial Controller 1994 - 2007 Chief Operating Officer 2007 - 2018
Other Information	-
Number of Shares Held in the Bank as at 31 December 2018	-

Name	Ms. Shehani Ranasinghe
Directorship status together with special comment if any	Company Secretary
Date of Appointment to the Board	N/A - Appointed as the Company Secretary of the Bank in 2012
Date of Last Re-election as a Director	N/A
Length of Service as a Director	N/A - (Length of service at the Bank 25 years)
Membership in Board Sub Committees	N/A
Skills/ Experiences/ Qualifications	Attorney - at - Law (Hons) of the Supreme Court of Sri Lanka, A Notary Public, Commissioner for Oaths, Bachelor of Arts (Hons) Degree - University of Colombo
Present Directorships with Other Companies/ Positions	-
Past Directorships/ Positions Held	-
Other Information	Ms. Ranasinghe was formerly attached to the Legal Department of the Bank, where she gained experience in Corporate Banking, Financial Law, Investment Banking and Legal Advisory services during her career. 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
Number of Shares Held in the Bank as at 31 December 2018	N/A

THE LEADERSHIP TEAM



- 01 | Mr. Dimantha Seneviratne
- 02 | Mr. Buwaneka Perera
- 03 | Mr. Sanjaya Perera
- 04 | Mr. Deepal Akuretiyagama
- 05 | Mr. Niran Mahawatte

- 06 | Mr. Indika Ranaweera
- 07 | Ms. Nirmala Rayen
- 08 | Mr. Chandrasiri Hewapattini
- 09 | Ms. Ruwani de Silva
- 10 | Mr. Sanjaya Senarath



- 11 | Ms. Shehani Ranasinghe
- 12 | Ms. Melody Wickramanayake
- 13 | Ms. Shanti Gnanapragasam
- 14 | Mr. Rajeev Munasinghe
- 15 | Ms. Ishani Senaweera

- 16 | Ms. Manique Kiriella Bandara
- 17 | Ms. Suvendrini Muthukumarana
- 18 | Mr. Damitha Silva

THE LEADERSHIP TEAM

01 Mr. Dimantha Seneviratne

Director / Group Chief Executive Officer

Please refer page 26 for the profile.

02 Mr. Buwaneka Perera

Senior Vice-President – Corporate Banking

Total working experience with length of service at NDB (as at 31.12.2018): Over 39 years of experience including 20 years with NDB

Experience prior to joining NDB: Banque Indosuez, Sampath Bank PLC and Deutsche Bank.

Exposure areas: Corporate Banking, Project Finance and International Trade

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

Other Information: Past president of the Association of Professional Bankers of Sri Lanka (APB).

Current Chairman of the Bankers' Technical Advisory Committee under Sri Lanka Banks' Association [SLBA]

Director – NDB Investment Bank Limited

03 Mr. Sanjaya Perera

Senior Vice-President – Personal Banking & Branch Network Management

Total working experience with length of service at NDB (as at 31.12.2018): Over 28 years of experience including 03 years with NDB

Experience prior to joining NDB: Nations Trust Bank PLC, Sampath Bank PLC

Exposure areas: Retail banking, SME Banking and Auditing

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 31.12.2018): Over 25 years of banking experience including 06 months with NDB.

Experience prior to joining NDB: HSBC Sri Lanka, Philippines, HongKong Regional office, Japan, Indonesia and Hattori National Bank.

Exposure areas: Banking Operations, Information Technology, Project Management, Process re-engineering.

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 31.12.2018): Over 26 years of experience including 17 years with NDB

Experience prior to joining NDB: Commercial Bank of Ceylon PLC and Deutsche Bank.

Exposure areas: Treasury, Asset & Liability Management and Market Risk

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

06 Mr. Indika Ranaweera

Vice President – SME, Middle Market and Business Banking

Total working experience with length of service at NDB (as at 31.12.2018): Over 23 years of overall experience with 20 years with NDB

Experience prior to joining NDB: Sampath Bank PLC, Central Engineering Consultancy Bureau

Exposure areas: SME Banking, Retail Banking, Network Management and Product Development

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. Nirmala Rayen

Vice President – Group Risk Management

Total working experience with length of service at NDB (as at 31.12.2018): Over 37 years of experience including 18 years with NDB

Experience prior to joining NDB: Citibank N.A, ABN AMRO Bank, N.V., ABN Bank N.V.

Exposure areas: Operations, Corporate Banking and Risk Management.

Professional qualifications: Associate Member of the Institute of Bankers Sri Lanka.

Other Information: Past president of the Association of Banking Sector Risk Professionals of Sri Lanka.

08 Mr. Chandrasiri Hewapattini

Vice President – Human Resources

Total working experience with length of service at NDB (as at 31.12.2018): Over 41 years of experience in HR, local as well as overseas, including 1 year and four months with NDB.

Experience prior to joining NDB: Unilever Sri Lanka, Nestle Lanka, HSBC Sri Lanka, Nations Trust Bank PLC and Saudi Investment Bank, KSA

Exposure areas: All aspects of Human Resource Management

Professional qualifications: Fellow of Chartered Institute of Personnel Management Sri Lanka (FCIPM) and Diploma in Personnel Management by NIBM Sri Lanka

Other information: Council Member, Institute of Personnel Management (IPM) Sri Lanka

09 Ms. Ruwani De Silva

Vice President – Group Audit

Total working experience with length of service at NDB (as at 31.12.2018): Over 23 years of experience including 17 years with NDB

Experience prior to joining NDB: Head of Audit at the ABN Amro – Colombo Branch, Audit and TAX units of Ernst and Young.

Exposure areas: Audit, Finance and Compliance

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).

Other Information: A member of the Inter Bank Association of Internal Auditors of Sri Lanka.

10 Mr. Sanjaya Senarath

Vice President – Marketing & Customer Experience

Total working experience with length of service at NDB (as at 31.12.2018): Over 30 years of building brands and overall marketing experience with over 7 years in NDB

Experience prior to joining NDB: Hutchison Telecommunications Pvt Limited, Sri Lanka Insurance Corporation Limited, Asian Alliance Insurance PLC, Eagle Insurance Limited, Keells Food Products Limited., Delmege Forsyth & Co Limited. Began Career at John Keells Holdings

Exposure areas: Marketing Management, Marketing Communications, Brand Management, Product Management, Sales & Distribution, Key Account Management, Digital & Social Media Marketing, Customer Service. Experience in FMCG, Retail, Insurance, Mobile Telecommunication and Banking.

Professional qualifications: B.Sc. in Financial Management from California State University, Long Beach CA, USA

Associate Degree from Santa Monica College, Santa Monica CA, USA, Chartered Institute of Marketing, UK.

11 Ms. Shehani Ranasinghe

Assistant Vice President /Company Secretary

Please refer page 31 for the profile

12 Ms. Melody Wickramanayake

Vice President - Legal

Total working experience with length of service at NDB (as at 31.12.2018) : Over 27 years of experience including 25 years with NDB.

Experience prior to joining NDB : Joined NDB in 1991 and thereafter left to obtain work experience in the Middle East during the period 2008 to 2010. Re-joined NDB in 2010 December.

Exposure Areas : Legal work relating to Project Finance, SME, Retail Banking, Agreements, Litigation and Specialized work including Mergers and Acquisitions, Company Secretarial and Compliance.

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

Other Information : Executive Committee Member of the Corporate Lawyers' Association.

13 Ms. Shanti Gnanapragasam

Vice-President - Shared Services

Total working experience with length of service at NDB (as at 31.12.2018): Over 36 years of experience in banking with over 3 years with NDB

Experience prior to joining NDB: Hatton National Bank PLC, Hayleys PLC, People's Bank, American Express Bank Limited, The Maharaja Organization Limited

Exposure Areas: Shared Services - Centralized Operations, Trade Finance and Business Process Re-engineering, Credit, Risk Management, Treasury Management.

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)

Other Information: Certified by ACI as a professional foreign exchange dealer

Certified by Omega Institute USA as a Credit Professional

CISI Diploma holder for Risk in Financial Services

14 Mr. Rajeev Munasinghe

Vice President - Information Technology

Total working experience with length of service at NDB (as at 31.12.2018): Over 20 years of experience including NDB

Experience prior to joining NDB: Union Bank of Colombo PLC, LB Finance, Next Sourcing Limited UK, Standard Chartered Bank Middle East & South Asia

Exposure areas: Information Technology, ERP System implementation and other aspects of IT

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

Other Information: Secretary to the Financial Sector Computer Security Response Team (FINCSIRT), Past Treasurer of the Banks' CIO Forum and Former Member of Security and Mobile Payment Guideline Committee for National Initiatives

15 Ms. Ishani Senaweera

Vice president - Organizational Change Management and Development

Total working experience with Length of service at NDB (as at 31.12.2018) - Over 24 years of experience with NDB

Experience prior to joining NDB if any - Ms. Senaweera joined NDB as a Management Trainee in 1995 as her first job after graduating, and has been with the Bank since.

Exposure areas - All round exposure in Human Resources and Talent management, Organizational Change Management, Corporate Banking and Project Financing

Professional qualifications - Master's Degree in Business Administration from the University of Wales , B.Sc. in Economics and Management from the University of London.

16 Ms. Manique Kiriella Bandara

Assistant Vice-President - Compliance Officer

Total working experience with length of service at NDB (as at 31.12.2018): Over 22 years of experience with NDB

Experience prior to joining NDB: Joined the Bank as a Management Trainee in 1997 immediately after taking oaths as an Attorney at Law.

Exposure areas: Legal - support and advisory in the areas of lending, investment banking , labour related investigations; Company Secretarial; Corporate Governance Framework; Anti Money Laundering

and Regulatory Compliance.

Professional qualifications: LLB (University of Colombo)

Attorney-at- law (Hons.) of the Supreme Court of Sri Lanka'

17 Ms. Suvendrini Muthukumarana

Acting Group Chief Financial Officer/ Assistant Vice president - Finance & Planning

Total working experience with length of service at NDB (as at 31.12.2018): Over 24 years of experience including 18 years with NDB

Experience prior to joining NDB: PricewaterhouseCoopers

Exposure areas: Corporate accounting and financial reporting, auditing and business assurance

Professional qualifications: FCA (Sri Lanka), B.Sc in Mathematics and Physics [University of Colombo]

Other Information: A member of Integrated Corporate Reporting Committee of the ICASL

18 Mr. Damitha Silva

Assistant Vice President - Digital Financial Services

Total working experience with length of service at NDB (as at 31.12.2018): Over 20 years of experience including 1 year and six months with NDB

Experience prior to joining NDB: Commercial Bank of Ceylon PLC and Nations Trust Bank PLC

Exposure areas: International Trade, Consumer Banking, Digital Banking, Remittances and International Operations

Professional qualifications: MBA with merit from the Postgraduate Institute of Management, University of Sri Jayawardenapura, Associate Member of the Institute Bankers of Sri Lanka, Reading for MPhil / Phd from University of Colombo

Other information: Participant of the Advanced Management Program conducted by the Cornell University - USA

SENIOR MANAGEMENT TEAM



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01 **Ms. Ishani Palliyaguru**

Assistant Vice President-Project Finance

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

22 years experience with 20 years in banking

02 **Mr. Amal Yapa**

Assistant Vice President-Corporate Banking

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

25 years of experience in Banking

03 **Ms. Camy Somasunderam**

Assistant Vice President-Cash Management

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

24 years of banking experience

04 **Mr. Ajith Senadheera**

Assistant Vice President-Leasing

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

31 years of experience in banking

05 **Ms. Shera Hassen**

Assistant Vice President-Privilege Select Banking

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

24 years of experience in banking

06 **Mr. K V Vinoj**

Assistant Vice President-Network Management, Product Development & Institutional Banking

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)

26 years of experience in banking

07 **Mr. Priyantha Gamage**

Assistant Vice President-Branch Operations

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

24 years of experience in banking

08 **Mr. Zeyan Hameed**

Assistant Vice President - Cards Business

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

25 years of banking experience in banking



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09 Mr. Kumar Gunawardana
Assistant Vice President-Administration and Services
39 years of experience in banking



10 Mr. Sunil Karunaratne
Assistant Vice President-Treasury
MBA (University of Western Sydney)
33 years of experience in banking



11 Mr. Damitha Samaranayake
Assistant Vice President-Treasury
AIB (Sri Lanka), ACI Dealing Certificate - Paris
24 years of experience in banking



12 Mr. Gehan Biyanwila
Assistant Vice President-Asset and Liability Management
CFA charter holder, ACI Diploma, ACI Dealing Certificate- Paris
22 years experience with 21 years in banking



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



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



15 Ms. Harshini Satharasinghe
Assistant Vice President-Credit
B.Sc.Agriculture (Sp) [University of Peradeniya] ,
MBA [Sri J'pura], Award in Risk in Financial Services
- Chartered Institute for Securities and Investments (CISI) -UK
22 years experience with 20 years in banking



16 Mr. Indika Tennakoon
Assistant Vice President - Retail credit
B.Sc (Physical Science), MBA (University of Colombo), MFE (University of Colombo)
26 years experience in banking

SENIOR MANAGEMENT TEAM



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17 Mr. Nilanga Gajaba

Assistant Vice President - Centralized Recoveries

MBA Cardiff Metropolitan University UK, PG Dip (Institute of Bankers)

26 years experience in banking

18 Ms. Dayani Algama

Assistant Vice President - Human Resources

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

27 years of experience with 21 years in banking



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19 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)

26 years of experience in banking

20 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

26 years of experience in banking



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21 Mr. Rivindu Nanayakkara

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

38 years of experience in banking

22 Ms. Ganga Wanigaratne

Assistant Vice President - Operations - Account Services & Credit Administration

33 years of experience in banking



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23 Mr. Lalith Fernando

Assistant Vice President - Information Technology

MBCS - CITP, MBA (University of Moratuwa)

32 years of experience with 22 years in banking

24 Mr. Chandana Guniyangoda

Assistant Vice President - Finance, Strategic Planning and Business Support

MBA B & F (PIM Sri J'pura), MAFE (University of Colombo), B.Sc. Business Admin (Sp) (University of Sri J'pura), FCA, ACMA(SL), ACBF (IBSL)

21 Years experience with 18 years in Banking

GROUP MANAGEMENT TEAM

UP NEXT: 
About the Bank



- 01 **Mr. Dimantha Seneviratne**
Director / 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

GROUP MANAGEMENT TEAM



- 05 **Ms. Prasansani Mendis**
Chief Executive Officer
NDB Securities (Pvt) Limited
- 06 **Mr. Senaka Kakiriwaragodage**
Managing Director
NDB Zephyr Partners Lanka (Pvt) Limited
- 07 **Kanti Kumar Saha**
Managing Director and Chief Executive Officer
NDB Capital Limited – Bangladesh

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

Please refer page 26 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 31.12.2018): Over 34 years of experience including 28 years with the NDB Group

Experience prior to joining NDB: Sampath Bank PLC and USAID

Exposure areas: Banking and Finance, Capital Market Operations

Professional qualifications: B.Sc. in Civil Engineering (First Class Honours) - University of Moratuwa

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

Other information: Former Chairman of the Colombo Stock Exchange (CSE) and Past Chairman of the South Asian Federation of Exchanges (SAFE), CEO of the Investment Banking cluster of the NDB Group and a Director of NDB Investment Bank Limited, NDB Securities (Pvt) Limited, NDB Wealth Management Limited, NDB Zephyr Partners Limited, NDB Capital Limited and Resus Energy PLC, Member of the Governing Council of the University of Moratuwa, Has been instrumental in introducing a number of innovative financial products to the country.

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

Total working experience with length of service at NDB (as at 31.12.2018): Nearly 25 years of experience including 16 years with the NDB Group

Experience prior to joining NDB: Vanik Incorporation Limited, Informatics (Private) Limited, Commercial Bank of Ceylon PLC -

Exposure areas: Banking and Finance, Capital Market Operations

Professional qualifications: BSc. in Physical Science (Second Class Upper), University of Colombo, MBA, Merit Pass, University of Colombo, Associate Member, 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)

Other information: Director - NDB Capital Limited (Bangladesh)

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

Total working experience with length of service at NDB (as at 31.12.2018): Over 29 years of experience including 10 years with NDB Group

Experience prior to joining NDB: HSBC - Colombo and Hong Kong, National Asset Management Limited (JV : Capital International, Singapore)

Exposure areas: Banking and Finance, Capital Market operations

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

Other information: Secretary, Sri Lanka Association of Securities & Investment Analysts

05 Ms. Prasansani Mendis
Chief Executive Officer
NDB Securities (Pvt) Limited

Total working experience with length of service at NDB (as at 31.12.2018): 31 years of experience including 27 years with the NDB Group (18 years of experience in the NDB Bank)

Experience prior to joining NDB: Ceylon Tea Services, Maharaja Group

Exposure areas: Accounting and Finance, Corporate Banking, Merchant Banking and Consulting, Housing, Leasing, Restructuring and Recoveries, Capital Market operations

Professional qualifications: B. Com. Special Degree from the University of Kelaniya, CIMA Passed Finalist

Other Information: Treasurer of the Colombo Stockbrokers Association (Current), Past Designations

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

Total working experience with length of service at NDB (as at 31.12.2018): Over 16 years of experience including 14 years with NDB

Experience prior to joining NDB: Virtusa (Pvt) Limited

Exposure areas: Investment Banking, Equity Management, Financial Analysis and Modelling, Project Financing, Advisory Services, Capital Market Operations and Portfolio Management

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 Chartered Institute of Management Accountants - UK

Other Information: Managing Director of NDB Zephyr Partners Lanka (Private) Limited, Director of JAT Holdings (Pvt) Limited, Director of Cleanline Linen Management Limited, Director of Idea Group Limited and Director of Consolidated Business Systems Limited

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

Total working experience with length of service at NDB (as at 31.12.2018): Over 27 years of banking experience including 4.5 years with NDB Capital

Experience prior to joining NDB: Prime Bank Limited Bangladesh, Global Corporate Bank in Citibank N.A., Bangladesh, Standard Chartered Bank Bangladesh

Exposure areas: Banking and Capital Markets

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

Other information: Member of the Board of Directors of NDB Capital Limited, Member of Bangladesh Economic Association.

ABOUT THE BANK

National Development Bank PLC is one of Sri Lanka's fastest growing banks, fortifying its position as a strong player in Sri Lanka's intensely competitive banking industry. The Bank's rapid growth in recent years has been driven by a bold transformation strategy, dynamic leadership and decisive management interventions which have afforded it a strong platform to capture emerging opportunities. The Bank's principal business activity is commercial banking and in its growth journey, it has gradually strengthened its position in SME, corporate banking and retail while sustaining its competitive edge in project and development financing. The Bank is powered by a capable and diverse team of 2,494 employees, who serve customers through a network of 108 branches in 22 districts (2017: 107).

The NDB Group is the only financial services group in the country offering the full spectrum of banking and capital market solutions, including investment banking, wealth management, securities trading and private equity management among others. The Bank is the largest entity within the Group contributing the majority of consolidated earnings. While a substantial part of the Group's operations is in Sri Lanka, we also engage in fee-based business in investment banking in Bangladesh through NDB Capital Limited and private equity in Mauritius through NDB Zephyr Partners Limited.

In 2018, NDB won the coveted 'Bank of the Year' Award by the Banker Magazine, UK and the 'Best Bank in Sri Lanka' by Global Finance Magazine, USA. Winning both these awards in one single year is a rare feat, and this is the first instance that a mid-sized bank achieved same in Sri Lanka. The Bank holds a credit rating of A+ (LKA) with a Negative Outlook from Fitch Ratings Lanka Limited.

Key Business Verticals

Retail, SME and Micro-finance

A range of investment, lending and transactional products supports the creation of enterprise and wealth.

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Commercial Banking and Project and Infrastructure Finance

We offer a gamut of products to support the growth of our customers; these include trade services, working capital financing and cash management solutions as well as project and infrastructure financing.

 132

Other operations

Treasury
 144

Investment banking
 149

Wealth management
 151

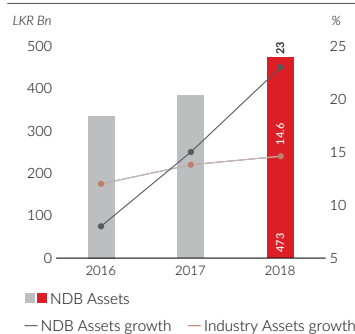
Stock broking
 152

Property management
 156

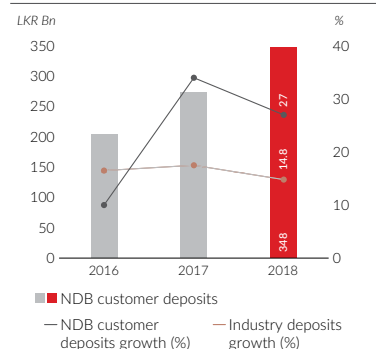
Charting Our Growth

NDB's asset and liability growth over the last three years has surpassed industry average, enabling the Bank to achieve deeper penetration across its key business verticals.

Assets Growth



Deposits Growth



Our Reach



108 Branches



141 ATMs and CRMs
Branchless banking via Mobile banking



Branchless banking via 71 branches



Online banking



Mobile banking

Our Team



2,494 Employees



39% Overall female representation



40% Female representation at senior management



5.3 Average years of service

Economic Contribution

Taxes to Government
LKR 5.2 Bn

SME Loan Portfolio
LKR 80 Bn

Retail Banking Loan Portfolio
LKR 62 Bn

Organisational Structure

NDB bank
Our Commitment. Your Success.

NDB
Capital Holdings ▲

NDB Capital Holdings Limited (99.9%)
Full service investment bank

NDB
Investment Bank ▲

NDB Investment Bank Limited (99.9%)
Investment banking

NDB
Capital Limited ▲

NDB Capital Limited (42.4%)
Investment banking

NDB
Wealth Management ▲

NDB Wealth Management Limited (99.9%)
Wealth management

NDB
Securities ▲

NDB Securities (Pvt) Limited (99.9%)
Investment advisory and securities trading

NDB ZEPHYR
PARTNERS ▲

NDB Zephyr Partners Limited (60.0%)
Management of private equity funds

NDB ZEPHYR
PARTNERS ▲

NDB Zephyr Partners Lanka (Pvt) Limited (100.0%)
Management of private equity funds

NDB
Capital Limited ▲

NDB Capital Limited (41.8%)
Investment banking

DHPL ▲

Development Holdings (Pvt) Limited (58.7%)
Property management

▲ Direct shareholding

▲ Indirect shareholding

Close to 40 awards won by the Bank and the Group from local and international awarding bodies.

Highlights

- ▶ Best Bank of the Year Sri Lanka as adjudged by the Global Finance Magazine USA
- ▶ Bank of the Year Sri Lanka as adjudged by the The Banker Magazine UK



Winner – Banking Sector at National Business Excellence Awards of the National Chamber of Commerce Sri Lanka

- ▶ Best Domestic Retail Bank of the Year as adjudged by the Asian Banking & Finance Magazine of Singapore
- ▶ Best Investment Bank of Sri Lanka (for the seventh consecutive year) as adjudged by the Euro Money Magazine
- ▶ Best Financial Services Group of Sri Lanka as adjudged by the Global Banking & Finance Review of UK

INVESTMENT CASE

Strong Track Record of Shareholder Value Creation

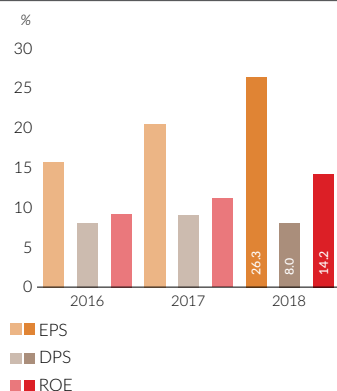
Shareholder returns as measured through EPS, DPS, NAVPS and ROE has recorded consistent growth in recent years. The Bank's share price closed at LKR 106.80 in 2018, lower than the closing share price of 2017, reflecting broad market sentiments, although the longer-term trends indicate positive returns.

The Group drives higher returns through,

- Efficient allocation of capital
- Astute funding strategy
- Enhancing digital capabilities across the Group
- Driving process efficiencies and improved productivity
- Investments in high-growth sectors

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Shareholder Returns



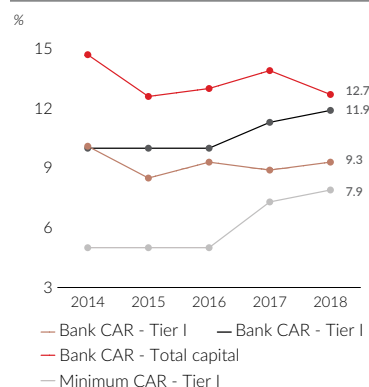
Resilient Business Model

The resilience of our business model enables us to safeguard the capital our shareholders invest in us and the deposits our customers entrust to us. Our business model is characterised by,

- Diversified business portfolio - by product, client segment, industry sector and geography
- Access to diverse funding avenues through strong ties maintained with funding institutions
- Strong capital position and adequate liquidity buffers
- Clearly-defined and communicated strategic agenda

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Capital and Liquidity Position



Strong Leadership Team and Governance Practices

- The Board of Directors represents a diverse set of skills and industry experience with entrepreneurial, corporate management and academic perspectives, thereby contributing the depth and effectiveness of discussions.
- The Bank's Leadership Team comprises highly capable professionals who are among the most sought after in the industry.
- Our robust corporate governance and risk management frameworks extend beyond regulatory requirements to embrace local and global industry best practice.

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Board Experience



Banking	6
Finance , Accounting & Management	9
Law	2
HR	1
IT	1
Public Policy & Public Administration	2
Investment Banking	1
Media	2
Insurance	3
Entrepreneurship	1

Penetration in High-Growth Segments

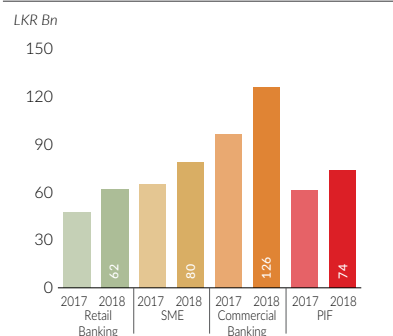
Partnering high-growth client segments will allow us to compete effectively, expand our market share and achieve scale in selected segments.

The Group drives higher returns through,

- Proven track record and deep industry expertise in project financing
- Increased emphasis on the SME/ Middle market segment
- Market leader in privileged banking
- Relationship driven approach to banking
- Ongoing investment in employee skill development, particularly front-line staff
- Investments in digitalisation to facilitate a better customer experience

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Segment Wise loan growth



Responsible Corporate Citizen

- First and only Sri Lankan organisation [as of date] to obtain the globally renowned EDGE Certification (Economic Dividends for Gender Equality) for gender equality in the workplace
- Stringent environmental and social assessment for loan facilities
- Ongoing investment in customer capacity building- particularly in promoting entrepreneurship and strengthening business management skills
- Organisation-wide commitment to reduce the carbon footprint of our direct operations

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KEY EVENTS OF 2018



The NDB Team celebrates the first working day of 2018

NDB Wattala Branch renovated to provide enhanced customer service

NDB's maiden Cash Recycling Machine (CRM) opens to public at Hemas Hospitals, Wattala

JANUARY

NDB launches NDB Business Banking, the proposition dedicated to SMEs, at Hilton Residencies

NDB hosts its bi-annual Investor Forum for the financial results of FY 2017

"Awakening the Force" - NDB hosts the annual Retail Banking Awards at Shangri-La Colombo.



MARCH



NDB is the official banking and leasing partner for Auto Vision -Motor Show 2018 exhibition held at BMICH.

"NDB hosts its North Western Region Business Banking clients to a cocktail at the Jetwing Blue, Negombo

NDB hosts its first Investor Webinar for the year to present Q1 2018 results

MAY

FEBRUARY



NDB Leasing enters into an agreement with United Motors Lanka PLC

NDB holds an all-night Pirith ceremony at the Bank's Head Office premises to invoke blessings on the Team

Kohetath Kalin Kohatath Kalin launches with attractive gifts for customers

APRIL

NDB hosts its customers to a cocktail at Hotel Galadari

Privilege Banking at NDB Kandy City Centre ceremoniously opened to the clientele

Second Privilege Banking Centre opening for the year at Pelawatte



JUNE



NDB relocates its flagship Head Office branch to No. 40, Nawam Mawatha, Colombo 02 with added services and amenities

NDB hosts its Corporate Banking clients to a cocktail at the Shangri-La Colombo

NDB celebrates Eid with its Islamic Banking customers at Ramada Colombo



NDB conducts “NDB Business Banking Forum” for Southern Province Exporters” at the Lighthouse Hotel, Galle

NDB extends its patronage to the annual get-together of the Monaragala District Chamber of Commerce Industry and Agriculture

NDB together with British Council recognizes 188 teachers who successfully completed the “English for Teaching” training program in an award ceremony

JULY

NDB Team carries out an environmental clean-up project in front of Mohandiram Ground – Negombo

NDB opens its 108th branch at Katugastota



SEPTEMBER



NDB GCEO accepts the Bank of the Year Sri Lanka 2018 award at The Bank of the Year awards held in London - UK

NDB opens its 13th and 14th CRMs at SPAR Supermarket, Pelawatte and K-Zone, Ja Ela respectively

NDB relocates its Ampara branch to a more spacious and a conveniently accessible location at No. 75, D.S. Senanayake Street, Ampara

NOVEMBER

AUGUST



NDB Investment Bank Sri Lanka, in collaboration with NDB Capital (Bangladesh), organize Sri Lanka's first ever investor forum “Ayubowan Bangladesh” to facilitate Sri Lankan corporates to venture into Bangladesh

NDB hosts its an Investor Webinar to present H1 2018 results to the investor and analysts community

NDB launches “Bank2U”, at the Old Moor Street and Pettah branches

OCTOBER

NDB Privilege Banking introduces Sharia compliant Privilege Banking branded as “Shareek - NDB Islamic Privilege Banking”

NDB Minor Savings accounts launches new campaign with the chance for the parents to win a tour to Singapore with their children

NDB GCEO accepts the Best Bank of the Year 2018 Award at Global Finance Awards held in Bali Indonesia



DECEMBER



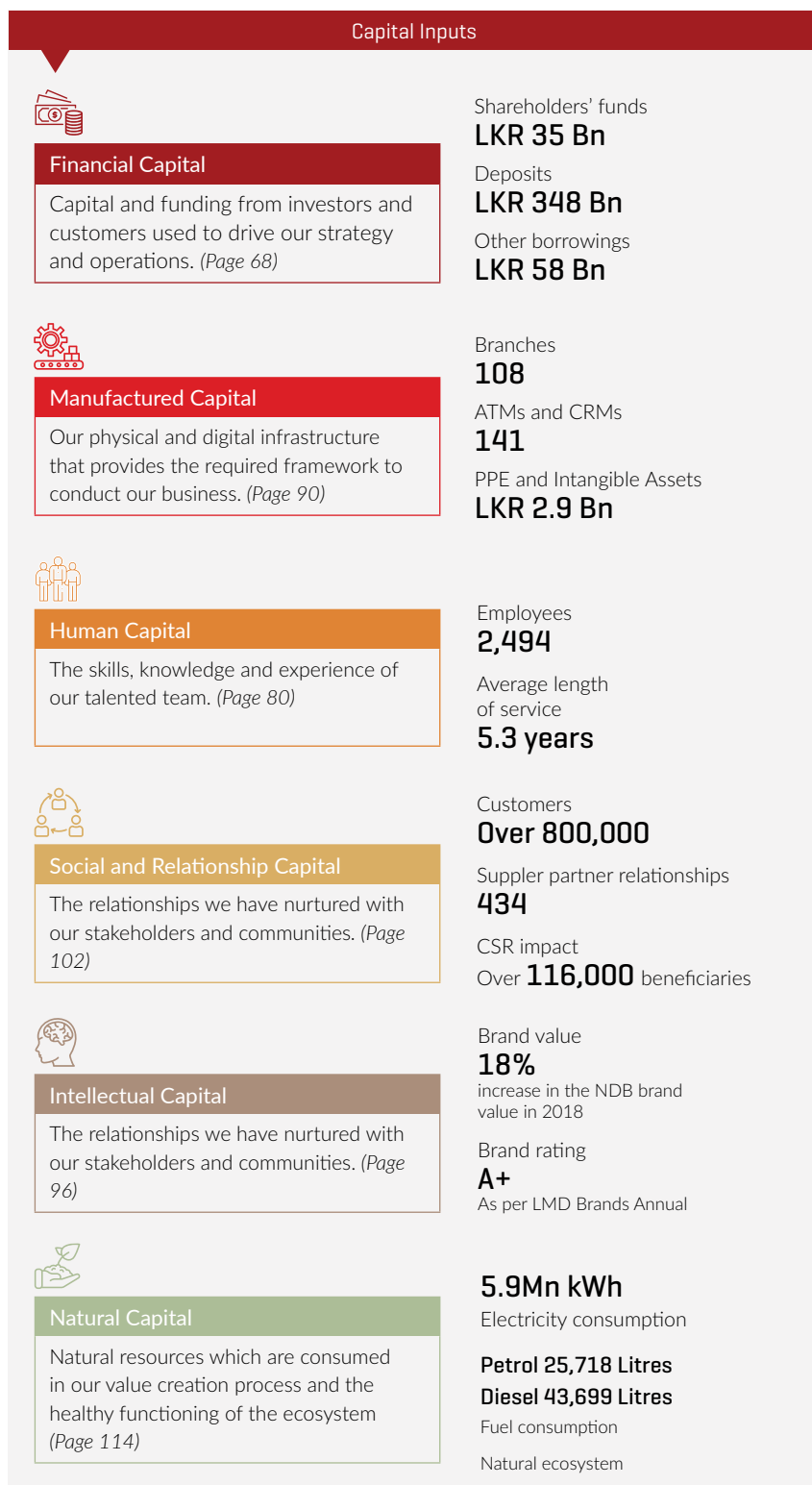
NDB minor savings account conducts the “Santa Comes Home” promotion

“Night of Empires” - NDB's Staff Recreation Club hosts the Annual Dinner Dance

NDB Goodlife Credit Card offers exciting discounts and promotions at over 250 partner merchants

STRATEGIC REVIEW

VALUE CREATION MODEL

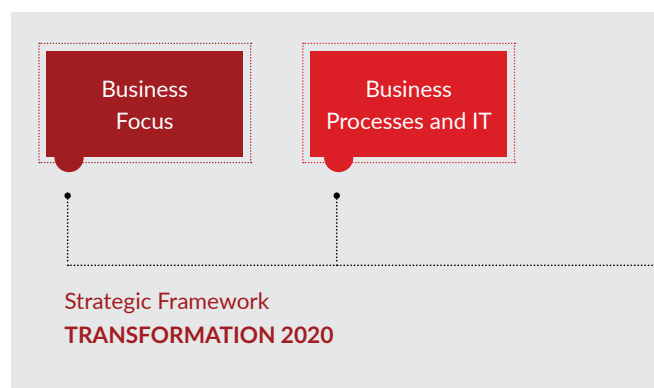


Vision

To be the driving force for a financially empowered Sri Lanka

Values

Integrity, Creativity, Excellence, Sincerity, Accountability



Key business lines and products

- Retail Banking including Private Banking (Pg 120)
- SME Banking & Micro Financing (Pg 126)
- Commercial Banking including Cash Management (Pg 132)
- Project & Infrastructure Financing (Pg 137)
- Islamic Banking (Pg 140)
- Refinance Operations (Pg 141)
- Treasury (Pg 144)

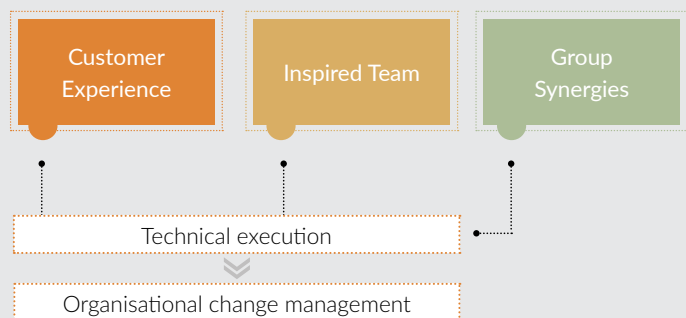
Capital market cluster

- Investment Banking (Pg 149)
- Wealth Management (Pg 151)
- Securities Trading and Investment Advisory (Pg 152)
- Private Equity (Pg 155)
- Property Management (Pg 156)

Corporate Governance (pg. 158)

Mission

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



Key activities and risks	
Activity	Risk exposure
Lending	Credit Risk
Funding	Funding and Liquidity Risks
Trading/Investments	Market Risk
Daily Operations People Management, Information, Technology, etc.	Operational Risk IT Risk
Regulated Industry	Regulatory Risk/Compliance Risk

and Risk Management (pg. 410)

Outputs and Outcomes

Shareholders

Asset and profit after tax growth of 23% and 28% respectively led to an EPS of LKR 28.44 and a net book value per share of LKR 166.41 Return on equity improved to 17.41% (2017: 16.27%). Maintained a healthy Balance Sheet, strong governance and proactive risk management practices.

(Page 68 for more information)

Customers

Gross loans and receivables to customers grew by 27% to LKR 353 Bn. Paid LKR 24 Bn as interest on deposits. Launched digital solutions, enhanced customer experience and maintained competitive pricing.

(Page 104 for more information)

Employees

Employee expenses of LKR 4.4 Bn Investment in training & development of LKR 28 Mn. Provided opportunities for career progression in a dynamic and challenging environment.

(Page 80 for more information)

Government and Regulators

Total taxes to the government amounting to LKR 5.2 Bn. Complied with all relevant laws, regulations and other guidelines.

Community

Invested LKR 22 Mn in CSR initiatives. Maintained mutually beneficial and cordial relations with all communities in which we operate.

(Page 111 for more information)

Environmental impacts

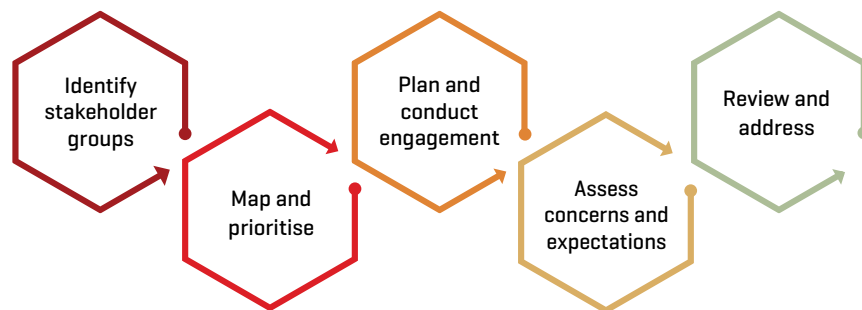
Generated a carbon footprint of 2,633 tCO₂e. Recycled 12,786 kg of waste paper Lending towards renewable energy, agriculture and other green initiatives.

(Page 114 for more information)

LISTENING TO OUR STAKEHOLDERS

We engage with stakeholders who we believe can impact our ability to execute strategy and/or impact our value creation. Our stakeholder engagement platforms are designed to ensure that we balance their competing interests and strive towards a multi-stakeholder approach in addressing challenges. We have identified and prioritised stakeholders for targeted engagement based on how the Group's activities impact them and the relevance of our strategy in addressing their concerns.

Our approach to stakeholder engagement is graphically illustrated below;



Importance of stakeholder group	Stakeholder profile	Method and frequency of engagement	Key topics and concerns raised	Our response and relevance to strategy
INVESTORS Investors are critical to our success as they provide the financial capital to sustain and grow our business	9,322 shareholders comprising State and private institutions and individuals Institutional shareholding 81% Public shareholding 79% - Potential investors - Multi-lateral funding agencies - Fund managers and stockbrokers - Investment analysts - Rating agencies - Financial media	- Annual General Meeting which is held annually in March - Quarterly investor webinars and bi-annual investor fora on publication of financial results - Investor road shows when required - Year-round meetings with investment analysts, stock brokers and media - Numerous publications including the Annual Report, quarterly performance updates, ongoing investor presentations, edited investor webinar transcripts 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	Transformation 2020 is ultimately aimed at expanding the Bank's Balance Sheet and strengthening its market position to generate superior stakeholder returns. We are committed to maintaining open and transparent relationships with our shareholders through the provision of accurate and timely information.  Business Focus <i>Investor relations</i>  78

Importance of stakeholder group	Stakeholder profile	Method and frequency of engagement	Key topics and concerns raised	Our response and relevance to strategy
EMPLOYEES The achievement of our strategy is primarily dependent on our employees, who drive innovation, growth and facilitate the customer experience.	• 2,494 employees • 39% female representation • 24% employees outside the Western Province • 17% of our staff have a tenure of over 10 years	• 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 such as those conducted by the Staff Recreation Club and the 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 'Inspired Team' pillar of Transformation 2020 seeks to nurture an engaged, motivated and performance driven team through enhancing internal communication, clarifying job roles and creating clear paths for career progression.  Inspired Team <i>Human Capital</i>  80
CUSTOMERS Customers are at the core of our value creation and understanding their needs and providing innovative, value-for-money and convenient solutions is essential for driving market share growth.	• We cater to individuals from entry-level to high net worth individuals, SMEs, corporates, public enterprises and micro businesses	• 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 pursued a customer acquisition strategy centred on direct to customer marketing, targeted promotions and ground-level engagement.  Customer experience <i>Social and Relationship Capital</i>  102 <i>Business line reviews</i>  119

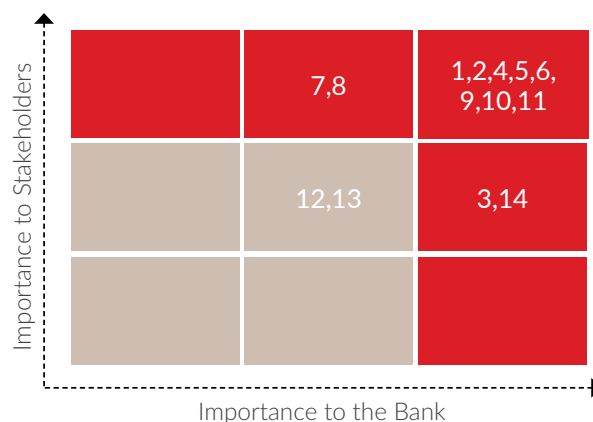
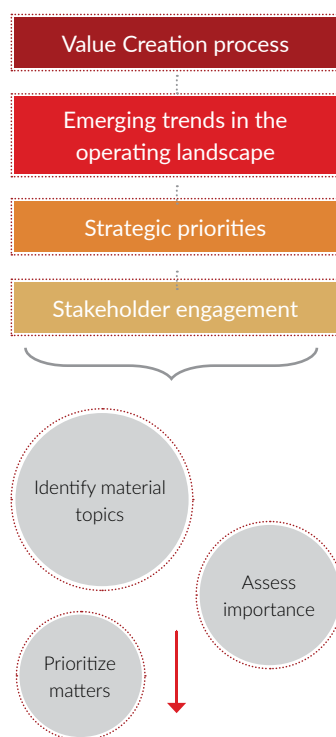
LISTENING TO OUR STAKEHOLDERS

Importance of stakeholder group	Stakeholder profile	Method and frequency of engagement	Key topics and concerns raised	Our response and relevance to strategy
SUPPLIERS AND BUSINESS PARTNERS Our partners are vital in ensuring uninterrupted and seamless services. Their social and environmental practices are also important to us from a sustainability and business ethics viewpoint	- Our supply chain comprises 434 suppliers who provide office equipment, IT hardware and software and other products required to conduct our operations. The Bank's suppliers are primarily local entities and include SMEs and corporates 35 correspondent banks that facilitate cross border transactions across the globe	- 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 <i>Social and Relationship Capital</i>  102
REGULATORS Regulators ensure a sound and efficient banking system in the interest of depositors and the broader economy	- The Central Bank of Sri Lanka is responsible for banking regulation and supervision and is our primary regulator - Other regulators/ government authorities include Securities and Exchange Commission, Colombo Stock Exchange and the Inland Revenue Department	- 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	We are committed in maintaining transparent and ongoing dialogue with the regulators to ensure compliance to all requirements and obtain clarifications on issues if required. A dedicated Compliance Department independently monitors adherence to all relevant regulatory and statutory requirements The Bank contributes to the development of policy, legislation and regulation through submissions of our comments and views on proposals and discussion papers. We also maintain resilient business continuity management processes <i>Risk Management</i>  175

Importance of stakeholder group	Stakeholder profile	Method and frequency of engagement	Key topics and concerns raised	Our response and relevance to strategy
COMMUNITY RELATIONSHIPS The sustainability of our business is inextricably linked to the community and environment in which we operate in and our business prospects rely on a strong and thriving community	The communities in which we conduct our operations in	- 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 impacts	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 <i>Social and Relationship Capital:</i>  102

DEFINING WHAT IS MATERIAL

The Bank's material topics are defined as those that could materially affect its ability to create value over the short, medium and long-term. These are selected and prioritised through a systematic process which involves analysis of market trends and stakeholder feedback and follows the strategy determination process. These issues and topics are directly or indirectly integrated into the daily management of our operations as part of our strategy or risk management practices. The material topics remain unchanged over 2017, although the relevance of certain topics have changed given industry and internal dynamics. These changes are clearly listed in the materiality grid given below. Where relevant, the topics identified have been mapped to those prescribed by the GRI Standards and the GRI G4-Financial Services Sector Disclosure.



Material topic and why it is material to us	Changes in materiality compared to last year	Topic boundary and any changes	Correspondent GRI topic and disclosures
1. Profitable growth Sustainable and profitable growth is essential in driving shareholder value and serving the Bank's purpose.	▲	Relates to the performance of the Bank and its subsidiaries and includes both the local and international operations.	
2. Operational efficiency Driving efficiencies and increased productivity through automation leads to effective cost management, transforming the experience of both internal and external customers.	▲	The internal operations of the Bank and its subsidiaries.	
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.	▲	Relevant to the Bank's key business clusters.	
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.	▲	The Bank's operations across all business sectors.	Employment (401-1, 401-2, 401-3) Diversity and equal opportunity (405-2)
5. Employee satisfaction Motivating our employees and nurturing a culture of in which they can thrive is vital in meeting our people objectives.	▲		Labour management relations (402-1)

Material topic and why it is material to us	Changes in materiality compared to last year	Topic boundary and any changes	Correspondent GRI topic and disclosures
6. Employee skill development The Bank's strategic aspirations compels the NDB team to be innovative, analytical and work towards a cohesive plan. Up-skilling employees to achieve this is also critical area of focus.	▲	Relevant to the Bank's employees.	Training and education (404-1, 404-2, 404-3)
7. Facilitating financial inclusion Providing access to affordable financing across the country enables the Bank to meet both its financial and sustainability objectives.	●	The boundary extends to the communities in which the Bank operates.	
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.	●	Relates to the Bank's island-wide network of customers.	
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.	▲	Relates to the Bank's internal processes and its customer experience.	
10. Responsible lending We are committed to preserving the rights of our customers and ensuring compliance to all relevant product and marketing regulations.	●	Relates to the Bank's primary services and how it interacts with its customers.	Marketing and labelling (417-1, 417-2, 417-3) Product Portfolio Audit (G4-FS6)
11. Customer privacy As risks related to cybersecurity and information systems intensify, preserving confidential customer data is a key priority for most Banks.	▲	Relates mainly to the Group's customers.	Customer Privacy (418-1)
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	●	Relates to the external boundary which includes customers, communities and the broader society.	Economic Performance (201-1, 201-2, 201-3) Market Presence (202-2)
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.	●	Relates to the Bank's direct operations and its environmental impacts through the lending portfolio.	Materials (301-1) Energy (302-1) Emissions (305-1, 305-2, 305-3, 305-4) Effluents and waste (306-2)
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.	▲	Relates to the Bank's external boundary, particularly the communities in operates with.	Local Communities (413-1) (G4-FS 13) (G4-FS 14)

▲ Increase in materiality compared to last year ● Constant in materiality compared to last year

STRATEGY AND RESOURCE ALLOCATION

TRANSFORMATION 2020

"Transformation 2020" (T20) which was formulated with professional input from the International Finance Corporation (IFC) and launched in mid-2017 continues to drive the Bank towards its strategic aspirations. The transformation involves a wide span of changes including the business focus, business processes, organizational structure, employee mind set and culture and has led to an acceleration in business performance along with significant improvements in growth and profitability.

In 2018, Transformation 2020 entered its second phase of implementation, with

emphasis on the "Group Synergy" vertical thereby working towards integrating the capital market cluster and the Bank as a provider of holistic and seamless services across both banking and capital markets. The vision of the One NDB Group within the Transformation 2020 strategy – Group Synergy vertical is "to be the most respected financial and capital market services group in Sri Lanka in the next two years and replicate this position in the South Asian Region within the next five years". We hope to achieve this vision based on three strategic pillars, two of which are already elements of the overall strategy - an inspired team and customer experience, whilst the third pillar is focused on culture collaboration between the Bank

and the Group companies. Accordingly, the ONE NDB culture is now being extended across the Group comprising over 2,600 employees.

One of the key goals of Transformation 2020 is the achievement of a domestic systematically important bank status [D-SIB] with an asset base exceeding LKR 500 Bn by end-2020. Given the current performance of the Bank, it is evident that the Bank will achieve this stance well ahead of the set timeline. Accordingly, the Group has also devised its strategy for the five years' period from 2018 up to 2023, setting it on a strong trajectory of growth in to the future.

Transformation 2020



Technical execution

This involves the technical aspect of execution such as collaboration across various streams, systems and processes, follow up mechanisms, status reviews, identification of risks and risk avoidance, remedial actions to minimize the impact of risks, crisis management and other aspects related to the strategy. A dedicated Project Management Office under the leadership of a Senior Vice President of the Bank continues to be in place, to provide administrative, operational, advisory, strategic and governance support in implementing the transformation strategy from this technical aspect

Organisational change management

A dedicated Organisational Change Management (OCM) function was set up to ensure that employees received adequate support through the process of transformation. The OCM ensures that all staff members of the Bank understand, adapt and support the change that the Bank is undergoing in line with the strategy. Through OCM, all NDB Team members are clearly made aware of the Transformation 2020 strategy, what it intends to achieve, how targets are to be achieved and each

employee's role. Accordingly, a wide range of employee engagement initiatives were carried out from top management across all levels of the Bank to align all employees of the NDB Group to the strategic goals of Transformation 2020. OCM has also been instrumental in the nurturing of the ONE NDB Group culture, unifying and aligning the Bank's employees towards the overall goals set under the Transformation 2020 strategy.

RESOURCE ALLOCATION

Strategic pillars					
	 Business focus	 Business processes and IT	 Customer experience	 An inspired team	 Group synergy
Key objectives	Increase penetration in the retail and SME sectors while sustaining competitive position in the Corporate and Project Financing sectors.	Drive efficiency improvements and productivity through automation and strengthening digital capabilities	Enhance the customer experience through focus on quality of service, convenience and digital channels	Equipping the NDB team with the skills, attitude and values required to achieve the Bank's transformation	Integration of the Bank and capital market cluster as a single provider of seamless services across the Bank and its subsidiaries and strengthen the NDB Group's position as the only financial services group in the country.
Resource allocation and relevant capitals	- Deployment of increased human capital resources to the Retail/ SME sector - Ongoing investment in employee training and development  Human Capital  Financial Capital  Social and Relationship Capital	- Increased investments in IT capabilities - Employee training on productivity initiatives  Financial Capital  Manufactured Capital  Human Capital  Intellectual Capital	- Investment in training front-line staff on customer service - Ongoing investment in strengthening digital channels  Human Capital  Social and Relationship Capital	- Deployed increased resources towards employee engagement - Investment in up-skilling employees  Human Capital  Financial Capital	- On - going investment in aligning the Group towards one NDB culture - Seamless services to customer in banking and capital market products  Financial Capital  Human Capital  Social and Relationship Capital
Strategic initiatives in 2018	- Set up a dedicated middle market/SME business line - Client acquisition through targeted, direct to customer marketing - Reactivation of dormant clients	- Workflow solutions for several processes - Initiated Six Sigma-lean management - Process re-engineering - Focus on strengthening the IT infrastructure	- Streamlined the customer grievance handling process - Strengthening service levels at each customer contact point - Improving turnaround times and simplifying processes	- Enhanced engagement through communication, training and opportunities to interact with top management - Clearer job roles to drive increased internal equity	Culture collaboration across group companies
Measuring success	- Portfolio growth: - Retail sector: 30% - SME sector & micro: 23%	- Turnaround time for key processes - Revenue per employee: Increase of 16% - Pre-tax profit per employee: Increase of 9%	- Customer feedback scores - Customer retention	- Employee retention rate - Training hours per employee - Employee satisfaction	Cross-sell ratio
	 119	 90	 102	 80	 146

SUSTAINABILITY

AT NDB

As the Bank progresses towards achieving the status of a systemically important bank, we are cognisant of the role we can play in addressing certain socio-economic and environmental challenges faced by the country. As a responsible corporate citizen, we constantly strive to embed sustainability thinking and practices at every level of our operations. The Sustainability Policy provides clear guidance on the Bank's sustainability philosophy, strategy and objectives and a dedicated Sustainability Manager is responsible for ensuring the organisation-wide implementation of the same. Key pillars of the Bank's sustainability strategy and key highlights of the year are given below.

Economic sustainability



Objectives

- Ethical business
- Responsible lending
- Prudent risk management
- Processes and systems
- Research and development

- Promoting financial inclusion
📄 65
- Lending to infrastructure projects
📄 137

Environmental sustainability



Objectives

- Minimise carbon footprint
- Environmental literacy
- Promoting renewable energy
- Special CSR projects

- Environmental literacy projects
📄 112
- Employee volunteerism
📄 112
- Lending towards renewable energy projects
📄 116
- Environmental and social screening for project lending
📄 116

Social sustainability



Objectives

- Community relations (Strategic CSR)
- Employee relations
- Customer relations
- Supplier relations

- Strengthening the employee proposition
📄 80
- Community Engagement initiatives
📄 111

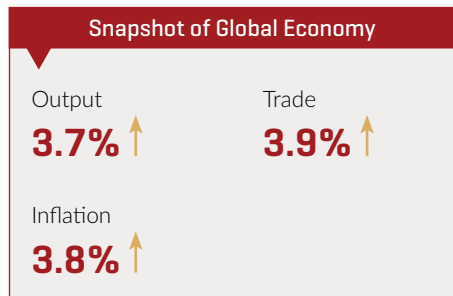
CONTRIBUTION TO THE SUSTAINABLE DEVELOPMENT GOALS

The United Nations' Sustainable Development Goals (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. All governments are expected to take ownership and establish frameworks for the achievement of the Goals in partnership with the private sector, civil society and all citizens. Sri Lanka too committed to the SDGs, and as an organisation NDB is exploring the Goals that are most relevant to our industry and ways in which we can contribute towards achievement of the Goals, as illustrated below.

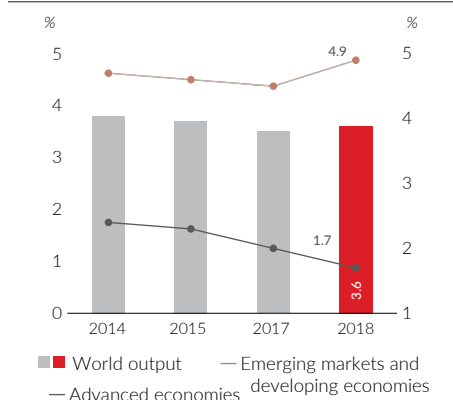


ECONOMIC AND INDUSTRY ENVIRONMENT

GLOBAL ECONOMY



World output growth



Global economic expansion in 2018 remained steady at 3.7% in line with last years' growth rate. Economic activity slowed somewhat following the growth momentum recorded in the second half of 2017 reflecting region and country specific factors. The EU region, particularly UK witnessed moderating growth stemming from political uncertainty and slower export growth. Global growth however, continued to be upheld by growth in the US economy which expanded by 2.9% benefiting from sizable fiscal stimulus. Emerging markets and developing economies also grew by 4.6% supported by domestic demand led growth and higher commodity prices.

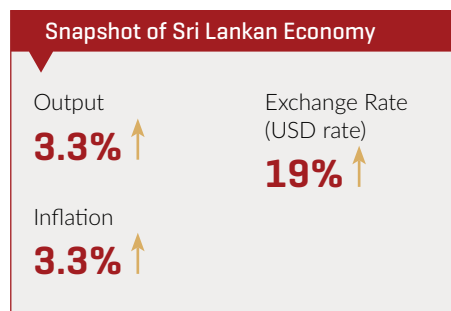
Escalating trade tensions, particularly between the US and its main trading partners and tighter credit market conditions in major markets resulted in a slow-down of global trade. Consequently, global trade growth moderated to 3.9% in 2018 compared to 4.7% in 2017. Meanwhile rising commodity

prices including rising oil prices during the year resulted in global inflation edging upwards during the year.

Financial conditions have tightened, particularly in the advanced economies. The Federal Reserve raised the target range for the Federal funds rate on four occasions during 2018 while The Bank of England raised its Bank Rate by 25 basis points in August 2018. The European Central Bank (ECB) too announced the winding down of its net asset purchases commencing October 2018. Consequently, most emerging market economies too witnessed a tightening of monetary policy in response to the ongoing monetary policy normalization in advanced economies, pressures on the exchange rate, reversal of capital flows and mounting trade tensions.

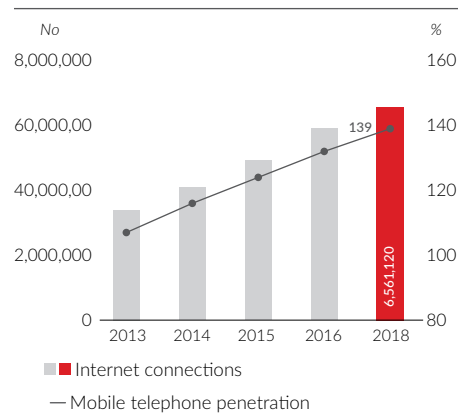
Outlook

The IMF has revised the global growth forecast for 2019 and 2020 downwards due to the negative impacts of the tariff increases in the US and China as well as softer momentum in the latter part of 2018. Accordingly, global growth is expected to clock in at 3.5% in 2019 and 3.6% in 2020. Key downside risks include an escalation of trade tensions and further tightening of financial conditions while policy consensus in resolving trade disagreements could lead to boosts in potential output growth.



SRI LANKAN ECONOMY

Connectivity



Sri Lanka's economic growth moderated to 3.3% in the first 9 months of 2018, reflecting a slowdown in industrial activities (+1.8%) against the backdrop of a subdued construction sector. The agriculture sector rebounded from its dismal performance in 2017 to expand by 4.3% as a result of improved weather conditions. Meanwhile the services sector too grew by 4.4% in the 9-month period due to significant expansion of the financial services sub-sector and wholesale, retail and other personal services activities.

Despite temporarily edging up in some months due to volatile food prices and administrative price adjustments, consumer price inflation remained subdued through much of 2018. Headline inflation based on CCPI decelerated to 3.3% as at the end of November 2018.

The Central Bank shifted from the tighter monetary stance adopted since the latter part of 2015 to a more expansionary policy, reducing the upper bound of the policy interest rates corridor in April 2018. With the gradual tightening of global interest rates however, a more neutral monetary policy stance was adopted towards the latter part of the year. In November 2018, the Statutory Reserve Ratio was reduced by 150 basis points in order to address the sustained rupee liquidity deficit in the domestic market. To maintain the Central Bank's neutral stance,

policy rates were raised rates by 50 basis points simultaneously. In response to the tightening of policy rates, market interest rates too witnessed an increasing trend towards the latter part of the year.

The Rupee experienced sharp depreciation in 2018, falling by nearly 15.9% against the US dollar during the year. Heavy foreign outflows due to broad-based strengthening of the US dollar in the global market saw the broad-based depreciation of regional currencies. Sri Lanka's position was further affected by political uncertainty in the last quarter of the year and a widening trade deficit. The combined impact of domestic and external developments resulted in significant pressure on the exchange rate.

Outlook

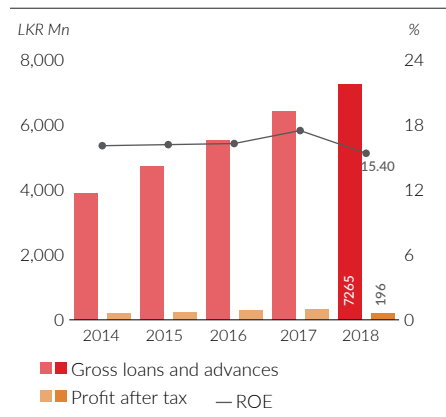
The World Bank forecasts Sri Lanka's GDP to grow at a moderate pace of 4% in 2019. Downside risks stem from the upcoming elections which could lead to fiscal slippage, cascading effects of global trade tensions and a 'wait and see' approach adopted by investors. On the other hand, policy reforms over the last 2 years have led to gains on the macro-economic front, as reflected by improved public finances and an effective monetary policy.

Snapshot of the Banking Industry

	2018	2017
Total Assets (LKR Tn)	11.8	10.3
Loans & Advances (LKR Tn)	7.7	6.4
Deposits (LKR Tn)	8.5	7.4
Return on equity (%)	13.2	17.6
Gross NPL ratio (%)	3.4	2.5
Liquid asset ratio (DBU %)	27.6	31.3

BANKING SECTOR

Banking Sector Performance



Source: CBSL

*up to third quarter

Sri Lanka's banking sector experienced a challenging year in 2018, as moderating economic conditions and deteriorating asset quality affected profitability. The sector's total assets grew by 14.6% in 2018, compared to a growth of 13.8% in 2017. Loans and advances grew by 19.6% during the period, supported by increased lending to the private sector and state-owned enterprises although lending to the Central Government decreased significantly during the year. Growth moderated in the latter part of the year reflecting the government's macro-prudential measures, weaker investor sentiments and political instability in the last quarter of the year.

The banking sector expansion continued to be funded mainly through deposits. Deposits grew by 14.8% y-o-y during the year. Reflecting the shift to term deposits due to higher interest rates, the CASA ratio decreased to 32% at the end of 2018 compared to 34.2% as at the end 2017. Banking sector borrowings meanwhile increased to LKR 1.8 Tn, at a rate of 9.7% over 2017.

Challenging economic conditions led to deterioration in credit quality during the year. The Sector's Gross NPL ratio increased to 4% by 2018 from 2.5% as at the end 2017 due to relatively slow economic growth and increasing pressure on disposable income. Banks have sought to tighten credit appraisals and strengthen recovery efforts to stem the deterioration of credit quality. Provision coverage declined to 57.4% from 69.9% in 2017 as new NPLs classified under the Special Mention Category do not require additional provisioning.

Net interest income (NII) expanded by 16% during the year, although profit growth was contained due to an increase in non-interest expenses and loan loss provisioning. Meanwhile the Inland Revenue Act No 24 of 2017 (IRA) which became effective from 1 April 2018 removed tax exemptions on several interest income sources further impacting bottom lines of the Banking sector. Accordingly, pre tax profit growth was moderate during the year. Return on equity (ROE) and Return on Assets (ROA) resultantly declined to 13.2% (from 17.6%) and 1.8% (from 2.0%) by end 2018.

The Banking sector remained resilient amidst domestic and external pressures, by maintaining capital adequacy and liquidity ratios well above statutory requirements.

ECONOMIC AND INDUSTRY ENVIRONMENT

Indicator	Trends in 2018	Impact on Banking Sector	NDB's Approach
GDP	GDP growth moderated during the year, mainly due to a slowdown in the industrial sector. The Agriculture and Services sectors performed well.	A slowdown in credit growth and an increase in impairments. *Up to August 2018	Strengthened collection and recovery efforts to curtail NPLs. Deeper relationships with existing clients to increase share of wallet for existing clients Cautious lending to selected industry sectors
Interest Rates	Despite an easing monetary policy stance, lending rates remained high for most part of the year.	NIM improved marginally during the year. However overall profitability of the sector deteriorated due to an increase in operating costs including non-interest expenses and impairment changes.	Increased focus on improving operational efficiency Strengthening fee-based income Greater focus on driving CASA Growth
Exchange rate	The Sri Lankan Rupee depreciated by almost 16% against the USD in 2018.	Regulations aimed at containing the foreign exchange outflow from the country including import restrictions.	Effective deployment of expertise and tools to generate new volumes whilst retaining market share and recording trading gains

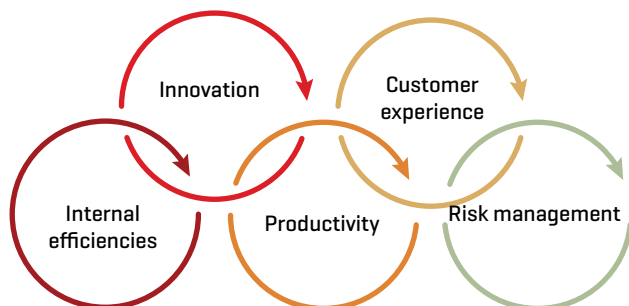
EMERGING INDUSTRY TRENDS

Changes in the operating landscape in which we operate has reshaped our competitive landscape and transformed the way in which banks view and create stakeholder value. These dynamics could present opportunities or adversely impact our ability to generate values in the medium to long term. The Bank's strategy formulation process followed an assessment of these dynamics, positioning NDB to capitalise on these trends while ensuring that the requisite governance and risk management structures are in place to minimise the impacts of emerging risks.

Emerging Trend

Digitalisation and disruptive technologies

The accelerated pace of change in technology is transforming numerous aspects of banking including how we interact with our customers, internal processes and human capital requirements. These changes have also heightened customer expectations on convenience and accessibility. Meanwhile technological disruption such as cloud computing, artificial intelligence and big data are reshaping our operating landscape and compel banks to enhance adaptability to remain relevant over time.



NDB's response

Significant investments in strengthening the Bank's IT infrastructure with the objectives of,

- (1) Providing a seamless customer experience
- (2) Migrating transactions to digital platforms
- (3) Creating a data-driven business

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Customer sophistication

Increasing connectivity and customer sophistication have led to customers increasingly seeking financial solutions which are personalised and offer instability accessibility. Banks which are well equipped to innovate and embrace the digital frontier are thus positioned to benefit from increasing connectivity by offering multi-channel solutions, more reliable back-end processes, an increasingly productive workforce and optimisation of business and operational models.

The Bank's approach encompasses transforming the customer experience to digital while maintaining the human touch of banking.

- (1) Bank2U: using mobile technology to take banking to the customer's door step
- (2) Strengthening the self-banking proposition
- (3) Phygital branch

EMERGING INDUSTRY TRENDS

Emerging Trend

Increased regulatory demands on governance and risk management

Globally and domestically, financial institutions have seen an increase in new regulations, aiming to ensure the soundness and stability of banks and protect consumers. The CBSL's approach has centred on establishing sound risk management systems, instilling good corporate governance practices, strengthening capital buffers and promoting financial inclusion. Increased regulation can at times result in greater complexity and higher compliance costs for financial institutions, some of which may impact customers through pass-on effects. Key regulations/policy changes in 2018 include,

- Restrictions on foreign currency borrowing limits
- Restrictions on issuing letters of credit for vehicle imports
- Maximum LTV ratios on credit facilities for vehicle purchase
- Increased cash margin on import of motor vehicles and consumer durables

Demographic changes

Demographic changes such as, growing middle class and an ageing population have significant implications for the banking sector. Incidence of poverty in Sri Lanka has continued to decline and the expansion of the middle class has resulted in shifting consumption patterns, with higher spending towards white goods, education, housing and healthcare. These shifts present opportunities for financial institutions to develop innovative product offerings to cater to emerging prospects.

Sustainability considerations

The rapid industrial and economic growth over the past two decades have come at a significant environmental cost and there is now mounting evidence to show that human consumption patterns could substantially affect the planet's sustainability. The impacts of climate change are being felt across the globe while socio-economic issues such as lack of access to employment opportunities, affordable housing, transportation, education and healthcare remains a global issue. Addressing these issues of social and environmental sustainability have emerged as global priority and all organisations including banks have a role to play in driving sustainable economic, social and environmental progress.

NDB's response

Dedicated compliance unit in place to ensure compliance with all relevant regulations, directions and guidelines.

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- (1) Pursuing deeper penetration in the retail segment
- (2) Capitalising on opportunities in the SME sector

- (1) Environmentally and socially responsible lending towards renewable energy, green technology, women's empowerment and rural development among others.
- (2) Emphasis on gender equality- both at the workplace and through our customer proposition
- (3) Ongoing focus on minimising the environmental impact of our operations

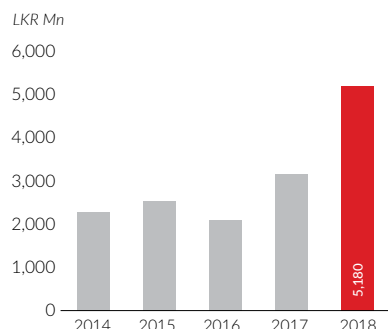
ECONOMIC CONTRIBUTION

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 Bank'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 Bank contributes to the government's tax revenue through VAT on financial services, NBT, Debt Repayment Levy, income tax, etc. The taxes to Government was LKR 5.2 Bn, an increase of 65% over the prior year. Over the last five years, the Bank's tax contribution has increased in line with growth and improving profitability.

Payments to Government



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 structures and through its role as an arranger for equity and debt issues and other transactions the Company continues to support capital market vibrancy and depth. Our subsidiaries involved in wealth management, securities trading and private equity management also contribute towards this cause.

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 underserved and vulnerable communities including women, farmers and entrepreneurs. Meanwhile the Bank directly contributes to the empowerment and socio-economic progress of thousands of needy families through its micro-financing arm.

Refinance lending:

LKR 8 Bn

Microfinance lending:

LKR 534 Mn

SUPPORTING ENTREPRENEURSHIP

The Bank has always 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

Presence
in a large
numbers of
sectors

Lending in
22 districts
across
all provinces

LKR 80 Bn
SME lending

LENDING TO RENEWABLE ENERGY PROJECTS

Lending to the renewable energy sector is a strategic priority for the Bank and is done through its Project and Infrastructure Financing (PIF) arm. NDB has approved facilities and funded numerous mini-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. Quantified below is the numbers of projects funded over the years.

Mini hydro projects: **33**

Wind power projects: **9**

Solar power projects from PIF: **23**

Other renewable energy projects : **3**

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;

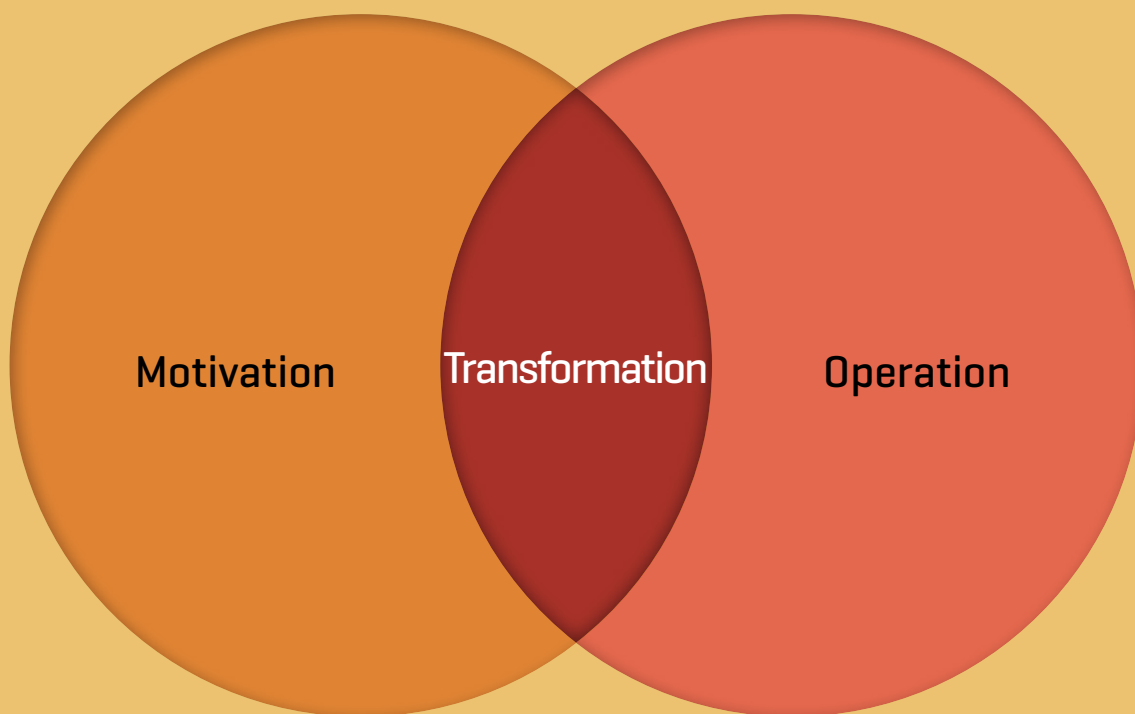
- Financial literacy programmes for women entrepreneurs
- Supporting women entrepreneurs through dedicated refinancing funding lines
- Promoting gender equality and nurturing a conducive work environment for women within the Bank
- The government's macro-prudential measures, weaker investor sentiments and political instability in the last quarter of the year.

ECONOMIC CONTRIBUTION

Depicted in the table below is how the Bank has distributed the economic value it has generated to the key stakeholders of employees, shareholders and other providers of capital, the Government and the community at large, over the last five years.

ECONOMIC VALUE ADDITION AND DISTRIBUTION

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



Management Discussion and Analysis

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Natural Capital **114** / Sustainability Assurance Report **118** / Business Line Reviews **119** / Group Companies **146**

FINANCIAL CAPITAL



Quality and adequacy of financial capital determines the Group's ability to effectively drive towards its strategic ambitions and generate sustainable shareholder value. We are committed to deploying our financial capital in a manner that aptly balances growth and risk considerations in driving financial performance and stability while generating superior returns to our shareholders, depositors and other fund providers.

PRIORITIES IN 2018

Targeted expansion in profitable segments

Driving CASA growth

Operational efficiencies

Capital management

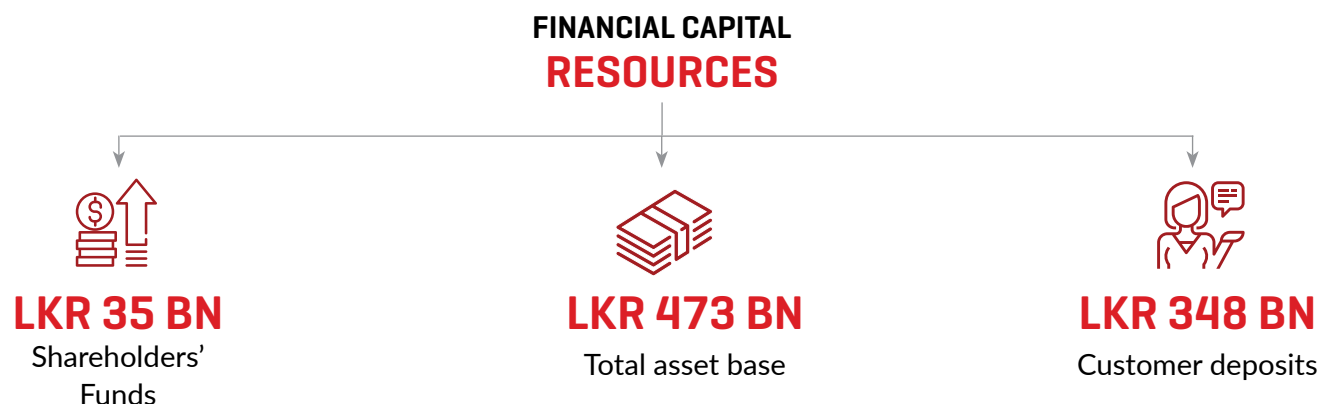
INITIATIVES IN 2018

Customer acquisition and deeper penetration in Retail and SME

Launch of several deposit products and innovative campaigns

Implemented work-flow solutions and BPR in driving efficiencies

Concluded a Rights Issue to strengthen the capital



VALUE ADDITION IN 2018

Profitable growth

- Record profitability with Net profit surpassing the LKR 5 Bn mark for the first time in the Bank's operating history
- 47% increase in consolidated profit attributable to shareholders at Group level to LKR 5.1 Bn
- 38% increase in Net interest income and wider NIMs
- Effective cost management

Shareholder returns

- Return on equity increased to 17.4%
- 34% increase in Group Earnings per share
- Declaration of a first and final dividend of LKR 8.00 per share for 2018

Strong balance sheet

- 27% growth in deposits which includes a 30% increase in CASA deposits
- Equity injection of LKR 3.4 Bn through a rights issue
- Access to long-term funding amounting to USD 110 Mn

FINANCIAL CAPITAL

FINANCIAL PERFORMANCE

Analysis of financial performance

The 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 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 recognize 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 balance as at 01 January 2018. The transition impact is arising predominantly due to impairment allowances for loans and receivables and other losses.

Total Operating Income

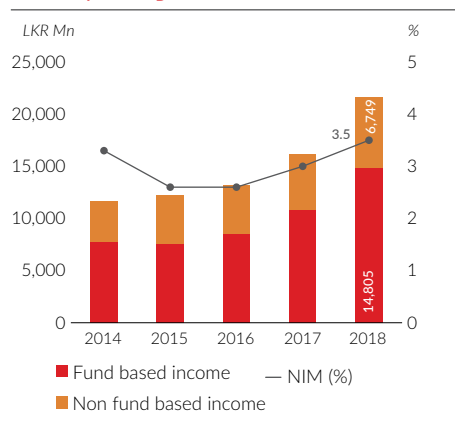
The total operating income of the Bank recorded an exceptional growth of 33% in 2018, over 2017 and analysed below is what contributed towards this growth.

	Bank				Group			
	2018 LKR '000	2017 LKR '000	Change LKR '000	Change %	2018 LKR '000	2017 LKR '000	Change LKR '000	Change %
Net Interest Income	14,804,640	10,750,114	4,054,526	38	15,103,729	11,086,327	4,017,402	36
Interest income	44,354,296	37,118,699	7,235,597	19	44,621,712	37,421,114	7,200,598	19
Interest expenses	29,549,656	26,368,585	3,181,071	12	29,517,983	26,334,787	3,183,196	12
Non Interest Income	6,749,125	5,401,895	1,347,230	25	7,449,529	5,596,645	1,852,884	33
Net fee and commission income	3,136,329	2,520,532	615,797	24	3,947,738	3,416,002	531,736	16
Net gains from trading	1,218,338	1,063,944	154,394	15	1,218,338	1,063,944	154,394	15
Net gains/(losses) from financial investments	(6,712)	8,935	(15,647)	(175)	56,194	97,155	(40,961)	(42)
Net gains from derecognition of financial assets	383,565	513,710	(130,145)	(25)	449,880	572,400	(122,520)	(21)
Other operating income	2,017,605	1,294,774	722,831	56	1,777,379	447,144	1,330,235	297
Total Operating Income	21,553,765	16,152,009	5,401,756	33	22,553,258	16,682,972	5,870,286	35

Fund based Income

Strong loan growth characterised by targeted expansion in high-yielding business segments enabled the Bank to record 19% growth in interest income to LKR 44.4 Bn. Meanwhile the increase in interest expenses was contained to 12% reflecting a stronger funding profile, timely re-pricing decisions and a 30% expansion in CASA deposits. The Bank's CASA growth is commendable given that high interest rates drive a shift in funds towards time deposits. Overall, the Bank's Net Interest Income (NII) grew by an impressive 38% to LKR 14.8 Bn compared to LKR 10.75 Bn in 2017. Despite the prevalent highly competitive interest rate environment the Bank widened its Net Interest Margin (NIM) to 3.46% in 2018 (2017: 3.0%) reflecting efficient funding strategies and increased contributions from the Retail and SME segments.

Total Operating Income and NIM



Non fund based Income

Fee and commission income increased by 24% to LKR 3.1 Bn and the expansion in fee and commission income during the year was supported by the deeper penetration in the Retail and SME sectors, expansion in trade finance, as well as digital platforms such as cards, etc., as the Bank pursued concerted efforts to drive transaction migration to digital channels. Fee and commission income contributed 46% to the Bank's non-interest-income during the year. Meanwhile at Group level fee and commission income increased by 16% and includes fee related income from the capital market cluster.

Net gains from trading amounted to LKR 1.2 Bn during the year, reflecting foreign exchange gains from spot and forward contracts. Meanwhile unrealised/ realised gains on financial investments amounted

to LKR 377 Mn, which was primarily due to movement in interest rates coupled with effective balance sheet management.

The increase in Other operating income of 56% to LKR 2.0 Bn was partly due to translation gains on the valuation of retained profits held in foreign currency. Healthy growth in NII coupled with 25% growth in non-interest-income resulted in the Bank's operating income widening by an impressive 33% to LKR 21.6 Bn during the year. Fund and fee based sources contributed a respective 69% and 31% to operating income. At a Group level total operating income increased by 35% to LKR 22.6 Bn.

Impairment Charges

	Bank				Group			
	2018 LKR '000	2017 LKR '000	Change LKR '000	Change %	2018 LKR '000	2017 LKR '000	Change LKR '000	Change %
Impairment charges on individually significant loans	2,827,052	586,488	2,240,564	382	2,827,052	586,488	2,240,564	382
Impairment on collective loan portfolio	770,069	662,238	107,831	16	770,069	662,238	107,831	16
Impairment charges on investments	(16,112)	9,829	(25,941)	(264)	167,737	41,572	126,165	303
Total impairment charges on loans and receivables and investments	3,581,009	1,258,554	2,322,455	185	3,764,858	1,290,298	2,474,560	192

The Bank's impairment charges for loans and other losses increased by 185% to LKR 3.6 Bn comprising individual impairment of LKR 2.8 Bn and collective impairment of LKR 770 Mn. The increase in individual impairment reflects repayment pressures experienced by our customers given the moderating economic conditions and precautionary and prudent provisions for selective individually significant facilities based on a futuristic model compared to the incurred loss model adopted previously. Meanwhile collective impairment for the year increased by 16% reflecting the Bank's strong portfolio growth during the year.

FINANCIAL CAPITAL

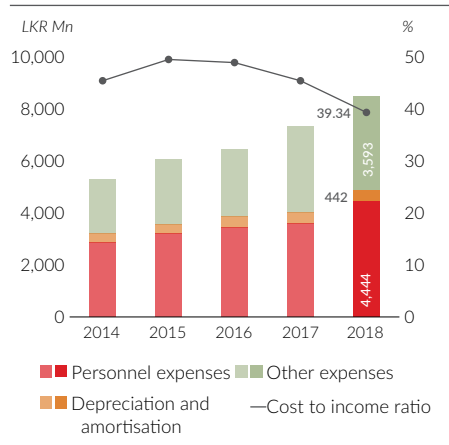
Cost Management

	Bank				Group			
	2018 LKR '000	2017 LKR '000	Change LKR '000	Change %	2018 LKR '000	2017 LKR '000	Change LKR '000	Change %
Personnel expenses	4,443,795	3,611,339	832,456	23	4,898,398	4,024,851	873,547	22
Depreciation & amortization	442,169	423,248	18,921	4	508,895	477,699	31,196	7
Other expenses	3,592,763	3,311,448	281,315	8	3,959,287	3,698,385	260,902	7
Total expenses	8,478,726	7,346,035	1,132,691	15	9,366,580	8,200,935	1,165,645	14
Cost to income ratio (%)	39.43	45.48			41.53	49.16		

The Bank's strategic emphasis on driving productivity and process efficiencies through automation is reflected in the consistent improvement in its efficiency ratio; the cost to income ratio declined to 39.3% in 2018 (2017: 45.5%) and is among the best in the industry. Total operating expenses increased by 15% to LKR 8.5 Bn and comprises personnel expenses (+23%), depreciation and amortisation (+4%) and other expenses (+8%). The increase in personnel expenses is due to an increase in headcount in driving business growth as well as revisions to remuneration structures, which in turn are expected to strengthen retention levels over the long term. The moderate increase in other expenses is commendable given the strong volume growth during the year and is a reflection of process improvements and efficiency enhancing initiatives which include implementation of workflows, business process re-engineering and transaction migration to digital platforms.

At a consolidated level operating expenses increased by 14% to LKR 9.4 Bn driven by personnel expenses (+22%), depreciation and amortisation (+7%) and other expenses (+7%).

Cost Management



As per section 66 (2) of the Inland Revenue Act, No. 24 of 2017 and the subsequent clarifications received from the Department of Inland Revenue, in finalizing the Income Tax liabilities of the Bank, relevant to the previous years of assessments during the year, the Bank computed the deferred tax asset on impairment as at 31 December 2018. Accordingly, the deferred tax assets amounting to LKR 1,084 Mn has been recorded to the Statement of Profit or Loss during the year. The deferred tax asset on impairment allowance on the transition impact on the adoption of SLFRS 9, amounting to LKR 687.9 Mn has been recorded through equity as an opening balance adjustment in the Financial Statements.

Taxation

The Bank's tax contribution to Government comprises VAT on financial services, NBT, Debt Repayment Levy [DRL], income tax, etc. The total tax charge for the year increased by 23% to LKR 3.9 Bn during the year. The imposition of the DRL with effect from 01 October 2018 and the increase in VAT on financial services VAT were the key drivers. Financial services increased by 40% whilst income tax increased by 8%, given the Bank's stronger profit performance.

The effective tax rate of the Bank was 41.56% in 2018 and compares with 42.3% of the prior year.

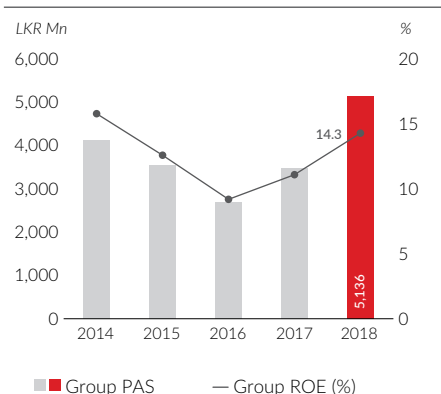
Profitability

	Bank				Group			
	2018 LKR '000	2017 LKR '000	Change LKR '000	Change %	2018 LKR '000	2017 LKR '000	Change LKR '000	Change %
Profit before Tax on Financial Services	9,494,029	7,547,420	1,946,609	26	9,421,820	7,191,740	2,230,080	31
Tax on Financial Services	2,173,521	1,547,450	626,071	40	2,173,521	1,547,450	626,071	40
Income Tax Expenses	1,772,116	1,648,341	123,775	8	1,972,312	2,211,987	(239,675)	(11)
Profit After Tax	5,548,392	4,351,629	1,196,763	28	5,275,987	3,432,303	1,843,684	54
Profit Attributable to Shareholders	5,548,392	4,351,629	1,196,763	28	5,136,168	3,489,752	1,646,416	47

The Bank achieved record profitability during the year delivering a operating profit before tax of LKR 9.5 Bn- the highest in its operating history and an increase of 26% compared to the previous year. This was supported by a 44% increase in the core banking profits to LKR 9.1 Bn. Meanwhile Profit After Tax surged by 28% crossing the LKR 5.0 Bn mark for the first time in the Bank's history to record LKR 5.5 Bn during the year. The strong performance of the year attests to the inherent soundness and effective implementation of the Bank's strategy and has positioned the Bank as an impactful entity in the banking industry.

At a Group level PAS grew by 47% to LKR 5.1 Bn during the year; the contribution from group companies was impacted during the year by the subdued conditions in the debt and equity markets which directly affected the performance of the capital markets cluster.

Group PAS & Group ROE



Return on Equity

Return on equity (ROE) also increased during the year as the Group continued to deliver on its shareholder commitments. The Bank ROE of 17.41% compares with 16.27% for the previous year, whilst the Group ROE for the year was 14.26% in 2018 compared to 11.09% the year before. This is discussed in detail in the Shareholder Returns section on page 78.

FINANCIAL CAPITAL

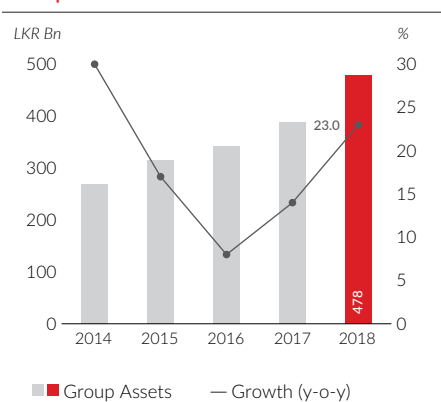
FINANCIAL STABILITY

	Bank				Group			
	2018 LKR '000	2017 LKR '000	Change LKR '000	Change %	2018 LKR '000	2017 LKR '000	Change LKR '000	Change %
Total assets	472,911,930	383,073,042	89,838,888	23	478,428,210	388,645,438	89,782,772	23
Loans and receivables to other customers - (Net)	344,203,289	274,029,448	70,173,841	26	344,276,363	274,078,788	70,197,575	26
Customer deposits	347,511,223	273,369,023	74,142,200	27	347,169,564	273,041,417	74,128,147	27
Shareholders' funds	34,998,042	28,737,835	6,260,207	22	39,012,446	33,012,227	6,000,219	18

Assets

The Bank's robust asset growth of 23% (or LKR 90.0 Bn) to LKR 473.0 Bn was fuelled by strong loan growth and an expansion of the investment portfolio given improved funding during the year. At Group level total assets amounted to LKR 478.4 Bn an increase of 23% compared to the previous year. NDB's gross loan growth of 27% (a quantum growth of LKR 74.6 Bn) is the result of broad-based expansion across all key business verticals with targeted expansion in selected market segments such as Retail and SME verticals. Growth was achieved through proactive engagement at branch level which led to customer acquisition, deeper relationships with existing customers and investments in our brand. Loans and receivables net of impairment allowances accounted for 73% of the asset composition in comparison to 72% for the previous year. The Commercial Banking segment recorded portfolio growth of 31% while Retail and SME, including micro financing grew by a respective 30% and 23% during the year. Please refer business line reviews on page 119 for further information.

Group Assets



The Bank's investment portfolio comprises of investments held primarily for liquidity purposes. Access to long-term funding and strong deposit growth led to an inflow of funds which facilitated the loan expansion during the year with the balance being maintained for liquidity purposes. Accordingly placements with banks increased to LKR 15.2 Bn while other investment avenues remained relatively unchanged compared to the previous year.

Return on Assets

Demonstrating effective utilization of assets, the Return on assets ratio [ROA] of the Bank improved to 1.3% from 1.21% in 2018. The Bank has seen a consistent growth in its ROA, and would strive to improve the ROA in line with the Bank's strategic aspirations.

Asset Quality

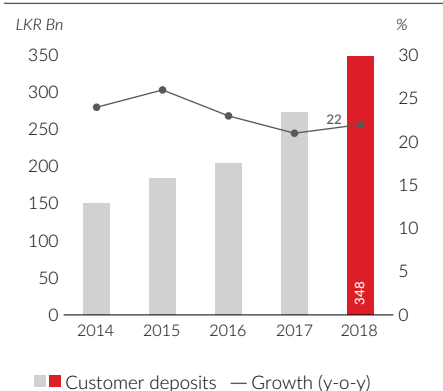
Given the challenging operating landscape the Bank together with its industry counterparts, witnessed a moderation in asset quality during the year. However, the Bank has been relatively less affected given its stringent credit appraisal mechanisms, growth in selective segments and proactive collection and monitoring efforts. Resultantly the Bank's gross NPL ratio increased to 2.85% in 2018 (from 1.83% in 2017) although well below the industry average of 3.4% during the year. Overall provision coverage on a regulatory basis amounted to 30.5% as at 31 December 2018.

Capital and Funding

Strong deposit growth, an equity injection through a rights issue and access to long-term funding at competitive rates strengthened the Bank's funding profile during the year. Total liability growth was 24%, upheld by deposit growth of 27% to LKR 347.5 Bn attesting to the Bank's strengthening deposit franchise. Despite an industry-wide decline in the CASA ratio the Bank maintained it at 22% while growing the CASA base by 30% (absolute increase in CASA of LKR 18 Bn) during the year supported by unique customer engagement initiatives, the launch of several new savings products and focus on 'NDB lthuru Karana Maga' a platform inculcating savings habits among customers. Resultantly deposits accounted for 79% of total liabilities and the Bank's loans to deposit ratio was 101.7% as at 31 December 2018.

In 2018 the Bank also secured a rupee facility equivalent to USD 35 Mn from the International Finance Corporation and USD 75 Mn arranged by Commerzbank AG at competitive rates supporting business growth and strengthening the funding profile. Resultantly the Bank's exposure to credit lines and institutional borrowings amounted to 17% of total liabilities during the year.

Customer Deposits and CASA



Capital Adequacy Ratios

	Bank		Group	
	2018	2017	2018	2017
Common Equity Tier 1 capital ratio (%)	9.17	8.85	10.39	10.49
Total Tier 1 capital ratio (%)	9.17	8.85	10.39	10.49
Total Capital ratio (%)	12.63	13.89	13.62	15.18

The Bank also strengthened its capital position with a rights issue in the last quarter of 2018 netting LKR 3.4 Bn. As a result the Tier 1 capital ratio for the Bank and the Group was 9.17% and 10.39% respectively [minimum requirement – 7.875%] while the total capital ratio [minimum requirement – 11.875%] stood at 12.63% and 13.62% respectively as at end 2018. The Bank will be required to further augment its capital position given the implementation of the BASEL III guidelines, adoption of SLFRS 9 and its anticipated transition to a domestic systemically important bank. We are currently pursuing alternative funding avenues in further strengthening our capital position. The Bank has announced to the Colombo Stock Exchange, its plans to issue five year Basel III compliant, Tier II, listed, rated, unsecured, subordinated, redeemable debentures with a non-viability conversion, to raise LKR 5 Bn, with an option to raise a further LKR 1.5 Bn.

FINANCIAL CAPITAL

Liquidity

Amidst the strong business growth, the Bank maintained its liquidity position well above the required minimum ratios, during the year. The Bank's liquidity ratios are given below;

	Bank		Group	
	2018	2017	2018	2017
Regulatory Liquidity				
Statutory Liquid Assets (LKR'000)	93,997,616	77,506,348	NA	NA
Statutory Liquid Assets Ratio (Minimum Required -20%)				
Domestic Banking Unit (%)	20.87	22.13	NA	NA
Off-Shore Banking Unit (%)	24.48	24.01	NA	NA
Liquidity Coverage Ratio (%) – Rupee (Minimum Requirement -90% (2017 - 80%))	168.74	214.35	NA	NA
Liquidity Coverage Ratio (%) – All Currency (Minimum Requirement - 90% (2017 - 80%))	215.99	154.50	NA	NA

Credit Rating

In February 2019, Fitch Ratings Lanka Limited announced its rating action affecting the rating of the Bank, whereby the Bank's national long term rating was affirmed at A+ whilst the Outlook was revised to Negative, the key driver being the continued pressure on NDB's capitalization, which has been well accounted for, in the Bank's strategic priorities for capital and funding plans, as explained above.

Basel II compliant subordinated debentures were affirmed at A[lka], whilst the proposed Basel III debenture issue [as explained above] was also assigned A[lka].

PERFORMANCE OF GROUP COMPANIES

The Bank's unique group structure comprises entities engaged in capital market activities [the capital markets cluster] as well as property management. During the year the performance of the capital market cluster moderated due to the subdued capital market conditions and an increase in impairment charges on investments. The property management subsidiary delivered a strong performance supported by an increase in revenue from external customers and revaluation gains.

Please refer page 146 for further information

Dividends

The Bank declared a first and final dividend of LKR 8/- per share, comprising a cash dividend of LKR 1.50 and a scrip dividend of LKR 6.50 for the year ended 31 December 2018.

This compares with a total dividend per share of LKR 9/- comprising a cash dividend of LKR 4/- and a scrip dividend of LKR 5/- per shared for the prior year.

The dividend declared was in line with the internally set policy guidelines on dividend payments..

Financial Value Added

Financial Value Addition (FVA) is the excess value created over the required return of the Bank's investors who comprise shareholders and debenture holders. FVA is a measurement of profit distinct from that of financial profit.

Please find below, an analysis of how we have created financial value over the past years.

Financial Value Added

For the year ended December 31	2018	2017	2016	2015	2014
	LKR Mn	LKR Mn	LKR Mn	LKR Mn	LKR Mn
Invested Equity					
Total equity	34,998	28,738	24,745	22,701	22,238
Add : Allowance for impairment charges for loans and receivables and other losses	9,373	4,892	6,134	5,517	5,121
Total	44,371	33,630	30,879	28,218	27,359
Earnings					
Profit after tax and dividend on preference shares	5,548	4,352	3,170	3,511	3,418
Add: Impairment for loans and receivables and other losses	3,581	1,259	1,367	712	566
Less: Loan losses written off	-	(246)	14	(34)	(64)
Total	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)	13.20%	12.07%	11.94%	8.63%	10.24%
Cost of average equity	4,967	3,893	3,528	2,398	2,630
Financial value added	4,162	1,471	1,023	1,791	1,291

FINANCIAL CAPITAL

SHAREHOLDER VALUE CREATION

Investor Relations

As the providers of long-term equity capital and partners in our journey of growth, shareholders/investors are our key stakeholder group and our value creation efforts are targeted primarily towards generating value to them. We always strive to maintain open and transparent engagement with our shareholders, ensuring that they are fully aware of any material developments which could potentially affect the Bank's value creation efforts. Widely recognised for excellence in its investor relations, the Bank received the Gold award for Best Investor Relations at the CFA Sri Lanka Capital Market Awards for the third consecutive year in 2018.

The Bank conducts an 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 Annual General Meeting, one-to-one investor meetings, investor presentations, webinars, fora 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. Please refer page 462 for more detailed information on the Bank's Investor Relations.

SECURITIES IN ISSUE

- Ordinary shares
- Debentures
 - Listed rated unsecured subordinated redeemable debentures issued in December 2013
 - Listed rated unsecured subordinated redeemable debentures issued in June 2015

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	LK0207N00007
Bloomberg newswire code	NDB SL
Reuters newswire code	NDB.CM

What shareholders want to know

- Strategy execution 56
- Management capability 80
- Managing risks 175
- Shareholder returns 78
- Outlook 212

Shareholder returns

The Group continued to deliver on its shareholder commitments with Earnings per Share [EPS] increasing sharply by 34% to reach a record high of LKR 26.33, despite the increase in the number of shares following the rights issue. Dividend per Share [DPS] amounted to LKR 8.00 compared with LKR 9.00 per share in 2017. Net Asset Value per share clocked in at LKR 185.49 recording a drop of 1% due to the increase in the share base.

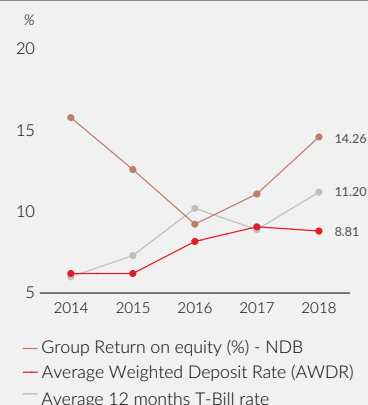
On an overall note, Total Shareholder Return, (measured as the change in share price and dividends received during the year) amounted to -16% during the year, mainly due to the 21.7% decline in the share price as discussed below.

+34%
Growth in EPS 

Return on equity

The Group's ROE for the year increased to 14.26% (2017:11.09%) outperforming the AWDR and one year treasury bill rate by a considerable margin. The Group's ROE also surpassed the industry average of 13.2% for the year.

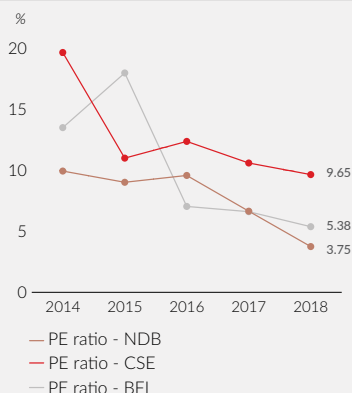
Return on Equity



Price Earnings ratio

Following the decline in share price, the Group is attractively valued at a PE ratio of 3.75 times, relatively lower than both the CSE and the Banking, Finance and Insurance sectors.

PE Ratio



Price to Book value

Price to Book value declined to 0.58 times from 0.71 times the year before following the drop in the share price during the year; the share remains attractively priced with the PBV being below 1 for the third consecutive year.

Share price movement

The Group's share price performance was subdued during the year, declining by 21.7% to close the year at LKR 106.8. We announced a rights issue in June and unfortunately the share price was negatively impacted during the initial rights issue date to its closing date. The share traded between a high of LKR 141.40 in February (adjusted price of LKR 133.86 for corporate actions) and LKR 90.90 in November (adjusted price of LKR 99.90 for corporate actions)

1.72%

total market turnover

No. of shares traded: **31,703**

Turnover: **LKR 3.45 Bn**

Average daily turnover:
LKR 14 Mn

% of total market turnover: **1.72%**

Market capitalisation

Market capitalisation declined by 4% to LKR 22.46 Bn due to the drop in the share price, compared to a 2% decline in the broad market.

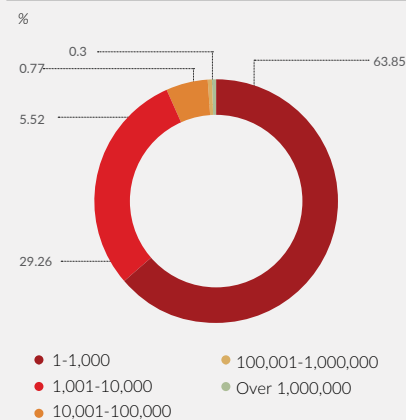
2.86% of BFI sector capitalisation and 0.79% of CSE market capitalisation

Shareholders' funds

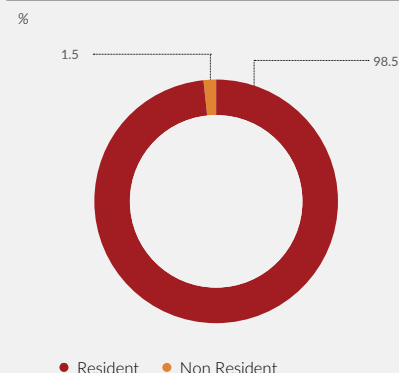
Strong profit generation during the year led to a 18% increase in shareholders' funds to LKR 39.01 Bn by end-December 2018. Following the rights issue, capital increased to LKR 6.47 Bn (from LKR 2.21 Bn) with the issue of 32,854,055 shares. A scrip dividend during the year also added 5,977,357 shares to the stated capital.

Shareholding structure

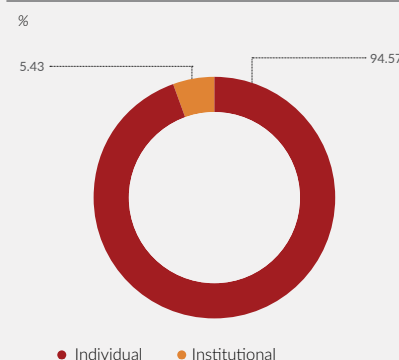
Distribution of shareholders



Resident/ Non-Resident Shareholding



Individual/Institutional shareholding



HUMAN CAPITAL



The Bank's ambitious aspirations in realising its transformational journey can only be made possible through the collective efforts of our most valuable resource, our team. We are powered by a team of highly-competent and motivated professionals who are empowered to drive their teams to deliver results. We are an employer of choice and draw strength from the diversity, tenacity and agility of the NDB team.

PRIORITIES IN 2018

Create internal and external employee equity

Enhance engagement to drive organisational change

Digitising the workforce

Organizational Change Management

INITIATIVES IN 2018

Streamlined job evaluation and job banding with increased clarity on roles

Introduced flexible hour working options

Refined remuneration structures

Strengthened employee communication

Automation of HR processes

HUMAN CAPITAL RESOURCES



2,494

Total
Employees



39%

Female
Representation



85%

Generation
Y Employees



5.3

Average length of
Service in years

VALUE ADDITION IN 2018

Creating a conducive work environment

- Over 200 organisational change management programmes
- Over 3,000 staff interactions
- Year-round activity calendar



Attracting talent

- 744 employees added to Team NDB
- 72% between the age of 21-30
- 20% from outside the Western Province



Up-skilling employees

- 127 training programmes held
- 41 hours of average training per employee
- Investment in training: LKR 28 Mn



Rewarding and recognising employees

- Total expenses on a behalf of employees: LKR 4,444 Mn
- 487 promotions

Building diverse teams

- First Sri Lankan organisation to obtain the 'EDGE' certification for gender equality
- 39% overall female representation rate
- 40% female representation at senior management level



HUMAN CAPITAL

CAPITAL INTERDEPENDENCIES/ LINKAGES

HUMAN CAPITAL



Intellectual Capital +

Developing employee skills contributed towards enhancing the Bank's intellectual capital base



Social and Relationship Capital +

Employees facilitate the Bank's external engagement and play a vital role in nurturing meaningful stakeholder relationships



Financial Capital +/-

Over the short term, investment in employee engagement, development and recruitments, could pressure financial capital. Over the long-term however, the capabilities of our team will be a key factor in enhancing financial capital



Manufactured Capital +

The Bank's investments in digital infrastructure and process automation will lead to improved productivity/ efficiency



Natural Capital +

An increase in the headcount results in higher usage of natural resources

MANAGEMENT APPROACH

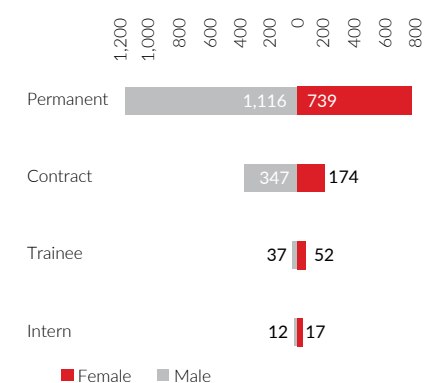
All aspects related to people management are governed by a comprehensive suite of policies and standards which ensure the equitable treatment of all employees. The policy framework and the Bank's HR practices in general are extended beyond the legal requirements to embrace industry best practice. The policies in place cover aspects such as recruitment, training and development, performance management, compensation and benefits, industrial relations, occupational health and safety and administration matters. Employees are also governed by a Code of Conduct which outlines the professional and ethical conduct that is expected of employees including general conduct, competence, confidentiality, handling of material information and conflicts of interest among others. The Human Resources Department is responsible for implementing the Board's HR strategy and strives to continuously improve the employee value proposition.

TEAM NDB

Our talent pool comprises 2,494 employees who live our corporate values, facilitate the customer experience and drive our strategic aspirations. Diversity is a core strength of our team and we have strived to create a team

that is balanced in terms of gender, age and ethnic representation. More than half of our employees are located at the Bank's Head Office while the others operate in our island-wide branch network, categorised into eight regions. Permanent employees account for 74% of our cadre while contract employees (21%) are engaged in sales-oriented jobs and non-critical functions. The Bank also provides employment opportunities for interns and trainees. All employees are engaged on a full-time basis.

Employees by contract and gender



Employees by location and gender

Location wise	F	M	Grand Total	F (%)	M (%)
HO- Colombo	561	759	1,320	43	58
Region 1 - Colombo	76	124	200	38	62
Region 2 - Greater Colombo	78	87	165	47	53
Region 3 - Southern	40	91	131	31	69
Region 4 - North Western	79	116	195	41	59
Region 5 - North Central	39	97	136	29	71
Region 6 - Central	58	88	146	40	60
Region 7 - Uva Sabaragamuwa	13	75	88	15	85
Region 8 - North East	38	75	113	34	66
Grand total	982	1,512	2,494	39	61

The Bank does not currently track recruitments by contract and region. We hope to disclose this indicator next year.



OUR HUMAN CAPITAL STRATEGY IN 2018

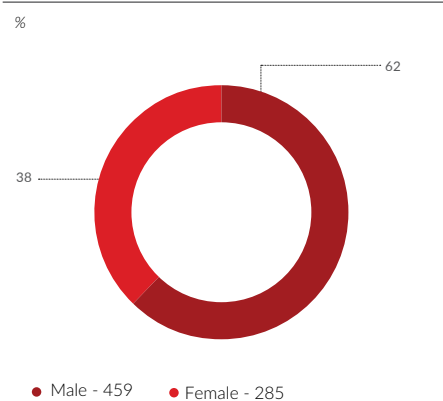
Our human capital strategy aims to develop and retain a competent and energetic team that is motivated to deliver superior client experiences and results. Given the shifting competitive landscape, we believe these attributes will enable us to penetrate our target market segments and build a client-focused organisation. Strategic priorities for 2018 are listed below and discussed in detail in subsequent sections.

TALENT ATTRACTION

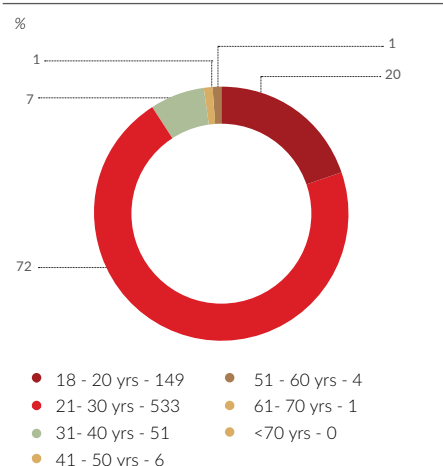
The Bank's reputation as an employer of choice, offering unique development opportunities has enabled us to attract and retain top talent, despite the increasing competition for skills in the industry. In 2018 we added 744 employees to our team primarily to drive increased penetration in the retail and SME segments. The Bank's recruitment processes are guided by a recruitment policy that is transparent and leaves no room for any form of discrimination. In order to nurture a strong pipeline of talent, and improve retention, employees are encouraged to apply for internal vacancies as much as possible. Several unique recruitment initiatives were carried out during the year;

- **Stafftraction** - a referral program allowing employees to recommend prospective recruits to the Bank
- **Winfest** - the first of its kind encompassing a "career fair" and a "career concert" aimed at attracting 'Y' generation recruits while strengthening the Bank's employer brand. Winfest was a blend of education and entertainment for the aspiring youth and featured successful entrepreneurs who commenced their career as sales personnel.
- **Regional recruitment drives** to attract school leavers and sales personnel

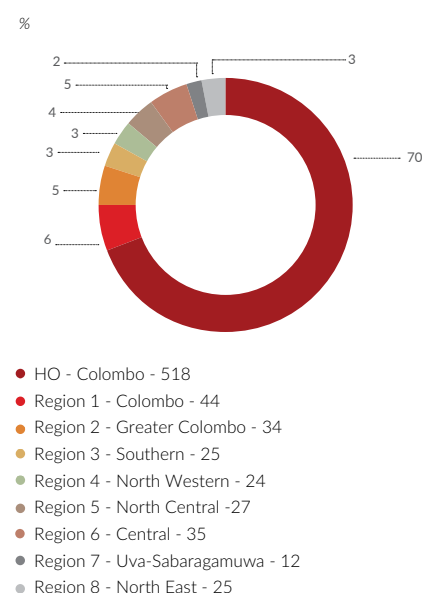
New Recruits by Gender



New Recruits by Age



New recruits by Region

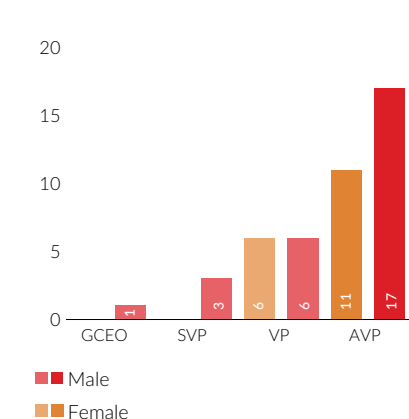


HUMAN CAPITAL

In creating regional employment opportunities, the Bank is committed to recruiting employees from the locality which is defined as the eight regions in which the Bank operates. Information on the senior management (The Leadership Team and Assistant Vice Presidents) recruited from these significant locations of operations are given below;

Category	Female	Male	Grand Total	Female %	Male %
Group Chief Executive Officer		1	1	0	100
Senior Vice President		3	3	0	100
Vice President	6	6	12	50	50
Assistant Vice President	11	17	28	39	61
Senior Management Staff Total	17	27	44	39	61

The Leadership Team by Gender



EMPLOYEE ENGAGEMENT

The Bank's unique organisational culture is an important factor in driving performance, and we strive to foster a culture in which employees can thrive. This is facilitated through numerous formal and informal engagement platforms which allow employees to put forward their suggestions, engage with the Senior Management Team, build a sense of camaraderie and share in the Bank's success.

Camaraderie, togetherness and team spirit are fostered through the events organized by the Staff Recreation Club (NDBSRC). The calendar of events organised for 2018 by the NDBSRC includes celebrating religious events of all religions such as Vesak, Ramadhan, Thai Pongal, Christmas, staff trips including families, NDB kiddies party and the annual NDB dinner

dance. NDB believes strongly not only in engaging the employees but their families as well since we strongly believe that the family nucleus itself will go towards producing a happy and engaged NDBer.

The HR department also organizes welfare programmes to all staff. Several such programmes for example are seminars on skilful parenting and Health and well being. In addition to seminars, a programme aptly titled as 'Young Talent Within' is organized annually to recognize the academic and extra – curricular achievements of the children of the employees. NDB not only considers the employees but take one step further and recognize the achievements of the children as well.

The Bank also ensures to recognize its employees for the special skills and commitment they have shown in non – job related areas as well. Thus, a recognition programme is organized annually on a grand scale to appreciate and reward the commitment shown by the NDBSRC members, NDB Toastmasters, our very own NDB "Skillart" music group and the talented photographers of the Bank. In the same programme, employees who represented the Bank in the mercantile arena and brought glory to the Bank through their achievements are also recognized.

CREATING THE ONE-NDB CULTURE

The success of Transformation 2020 is largely dependent on the tenacity and ability of our team to embrace change. Over the last two years we have invested considerable time and effort in driving this organisation change and



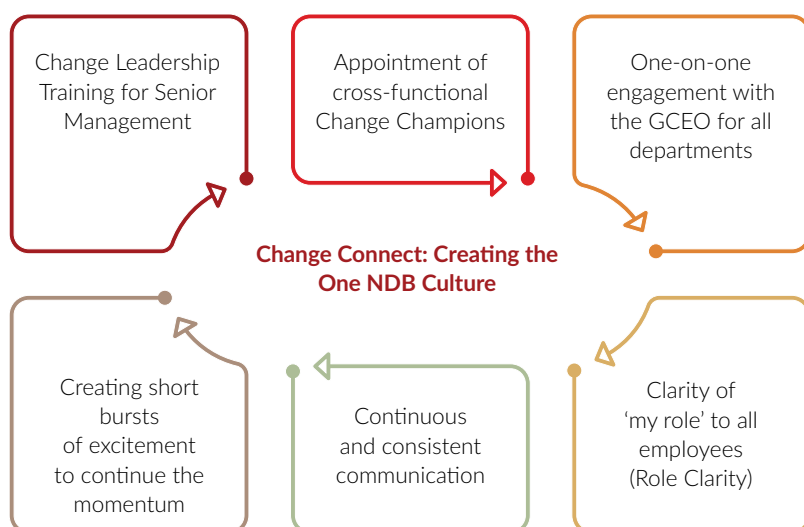
>> **Young talent within:** recognize the academic and extra – curricular achievements of the children of the employees

nurturing a culture of goal congruence. These efforts have now come to fruition, leading to attitudinal and behavioural changes across the organisation with each employee clear his/her role in achieving the Group's strategic aspirations. The Organisational Change Management initiative was led by a dedicated team which worked with cross-functional teams across the Bank. Key initiatives carried out included the following;

- **Communication Strategy:** We reviewed the Bank's communication strategy and designed innovative and exciting ways to deliver consistent and coherent messaging. An internal website named Transformation 2020, which was developed, designed and maintained by in-house talent and launched during 2017, continued its mission of being the repository of duly updated information during 2018 as well, in order to share the progress of the Transformation journey.

The website hosts a large amount of information, such as all staff email communications from the Group CEO, video recordings of the Group CEO and the CEO of the capital market cluster, other news items, etc., which help employees stay well abreast with the strategic developments taking place within the Group.

- **Change Readiness Survey:** In 2017 we obtained comprehensive feedback from employees regarding the organisational culture, readiness and ability of leadership to drive change and the overall employee experience, via a Change Readiness Survey. A large number of actions were initiated during 2018, in response to feedback received via the Survey.
- **Change Connect:** This is a comprehensive, Group-wide program aimed at driving, communicating, enabling and sustaining change through continued and proactive engagement. Key elements of Change Connect are illustrated below;



>> Change Connect Day in May 2018 brought together the 300 plus facility of trained Change agents to drive Transformation 2020

STRENGTH OF DIVERSITY

The Bank is committed to building a diverse and inclusive organisation, removing any barriers that stand in the way of equal opportunity. We believe that the diversity of our team should reflect the diversity of our customers enabling us to better understand and respond to their needs. During the

year the Bank obtained the prestigious EDGE Certification [Economic Dividend for Gender Equality], the leading and only global certification for gender equality at the work place. EDGE Certification is distinguished by its rigour and focus on business impact. Further, it is committed to help organizations create an optimal workplace for both women

and men, and benefit from it. (Please refer overleaf for further information).

The Bank's overall female representation rate was 39% while at senior management level the Bank has one of the highest rates at 40%; the Leadership Team comprises of 7 female employees. Meanwhile in 2018, 64 employees took maternity leave while 100% of them returned to work upon completion of their leave, demonstrating the Bank's commitment towards retaining female employees through flexible working arrangements that foster better work-life balance.

Designation	Average basic salary ratio, Female to Male	
	M	F
Senior Management staff	1	0.77
Management Staff	1	1.08
Executive Staff Total	1	0.96
Non-Executive Staff	1	0.97
Specialised Sales Force	1	0.96
Other staff	1	0.72
	1	0.85

Designation	Average basic salary ratio, Female to Male	
	M	F
HO- Colombo	1	0.86
Region 1 - Colombo	1	0.78
Region 2 - Greater Colombo	1	0.77
Region 3 - Southern	1	0.75
Region 4 - North Western	1	0.81
Region 5 - North Central	1	0.64
Region 6 - Central	1	0.77
Region 7 - Uva Sabaragamuwa	1	0.74
Region 8 - North East	1	0.80
	1	0.85

HUMAN CAPITAL

NDB obtains EDGE certification for gender equality



NDB emerged as the first Sri Lankan organisation to obtain the prestigious EDGE (Economic Dividends for Gender Equality) business certification standard, the only global standard for gender equality at workplace. The Certification follows a rigorous evaluation process and demonstrates the Bank's commitment towards promoting gender balance at all levels within the organisation. Following this certification, NDB joins an exclusive group of more than 200 companies in 50 countries and 23 industries world-wide which have successfully demonstrated their ability to create an optimal workplace for both men and women and reap benefits from it.

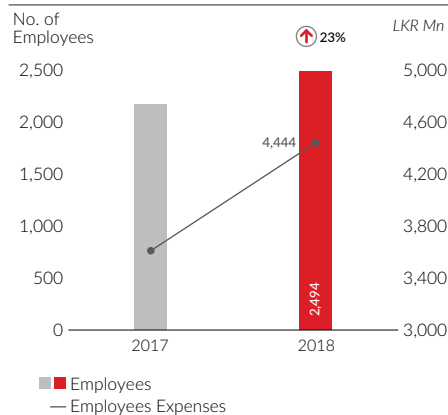
The Certification was issued after taking into consideration quantitative HR information, the Bank's HR policy framework and practices as well as feedback received from employees in a bank-wide survey conducted during the year.

The Certification has led to a clear and actionable plan for further improvement in gender equality by offering guidance on clearly measuring progress and providing a sustainable instrument to drive change based on transparency, accounting and recurring progress.

Obtaining this Certification further improves NDB's positioning not only as a "Women's Bank of choice" but also as an "Employer of choice"

PERFORMANCE MANAGEMENT

Employee Expenses



The Bank's performance management framework is designed to nurture a performance-driven culture through attractive and equitable compensation for all employees. Remuneration structures are unbiased and comprise guaranteed pay and performance-based variable pay. The annual performance appraisal serves as an effective tool in discussing self-

evaluations, areas for improvement and training needs. The GCEO directly communicates the principles of compensation, increments and variable pay details as well as aspects of the senior management's performance evaluation criteria to increase transparency regarding remuneration.

Efforts made during the year to streamline Job Evaluation & Job Banding have increased transparency and employees are clearly aware of their current job grade and opportunities for growth within the Bank. During the year, the Bank also engaged an independent third party to carry out a salary survey following which the compensation schemes were further refined to reflect market conditions and expectations. The details of employees who received regular performance and career developments reviews is given below;

	% of employees receiving regular performance reviews	
	Female	Male
Senior management	40	60
Management	30	70
Executive	33	67
Non-executive	45	55
Specialised sales force	21	79

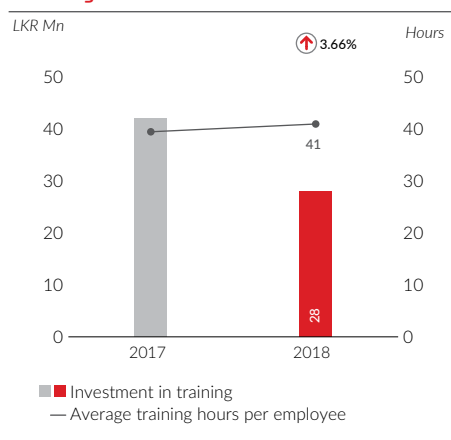
In addition to guaranteed pay, the following monetary and non-monetary benefits are provided to employees;

Guaranteed cash and allowances	Variable pay	Reimbursable expenses	Other perquisites	Subsidised loan benefits	Retirement benefits
- Fuel/travelling allowance - Leave pay/holiday allowance - Job specific allowances - Accommodation assistance - Weekend/holiday banking allowance	- Performance bonus - Sales incentives and overtime to eligible staff	- Professional and club subscriptions - Education assistance for employees completing MBAs	- Holiday bungalow/annual trip - Medical insurance schemes - Parental leave - Toast Masters club - Recreation club - Disability and invalidity coverage	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 prescribed by statute)

Of the benefits given 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.

TALENT DEVELOPMENT

Training record



Our employee development agenda is aimed at encouraging a culture of continuous learning and developing learning solutions that support the organisation's future skill

requirements. We offer a range of formal and on-the-job training opportunities which strengthen the quality of our human capital and contribute to the future employability of our people. Training needs are identified based on the organisation's strategic objectives and the training calendar is determined at the beginning of the year. A monthly training calendar is shared with staff members at the beginning of the month encouraging them to participate in the development process. We invested LKR 28 Mn in training initiatives during the year, which translated to 41 average training hours per employee.

Overviews of the training programmes conducted during the year are as follows;

Experiential learning



At NDB, we strive to provide a 60:40 breakdown between experiential on-the-job training and structured training

programmes. This standard was introduced for development in 2018. The initiative primarily targeted Trainee Banking Assistants and newly recruited sales staff. For Trainee Banking Assistants, the duration of the traineeship was 2 years, with the intention of equipping school leavers with valuable skills. The induction programme is conducted over a period of 20 days (1 month), and refresher programmes are conducted every three months. The training curriculum includes field challenges, providing hands on experience for new recruits to build team spirit and adapt to the ONE NDB culture in addition to exposure to outbound training.

Art-based learning



Art-based learning has gained increasing popularity in recent years, particularly in fostering creative thinking, promoting the development of new leadership models, and strengthening the employee skills in critical areas such as collaboration,

HUMAN CAPITAL

conflict resolution, change management, presentation/public performance, and inter-cultural communication. In order attract and retain millennials, NDB has introduced art-based learning platforms such as NDB Toastmasters Club and the 'SkilArt' Team; the Toastmasters club has helped enhance the oral communication skills and confidence of employees.

The 'SkilArt' Team is a collection of the Bank's musical talent, who perform at all the Bank's functions.

Recently a talent programme for the newly recruited Trainee Banking Assistants was organized to encourage young recruits to showcase their talent and foster a culture of camaraderie within the Bank.

Leadership development



Leadership development aims to enhance individuals to perform in leadership roles within the organization. Customised orientation programmes are designed for newly promoted staff to facilitate familiarity to all relevant aspects, policies and procedures. Accordingly, the CATALYST has been designed for the Associate & Deputy Managers, the SHIELD for Junior Executives & Executives and the CLIMB for Managers, Senior Managers & Chief Managers. This involves a half day field challenge where employees are exposed to a range of group activities and games to build up the rapport among cross functional teams.

The NDB Power Talk initiative is also a major knowledge sharing initiative for employees.

During the year Mr. Roshan Mahanama and Ms. Otara Gunawardana were invited as guest speakers to share success stories.

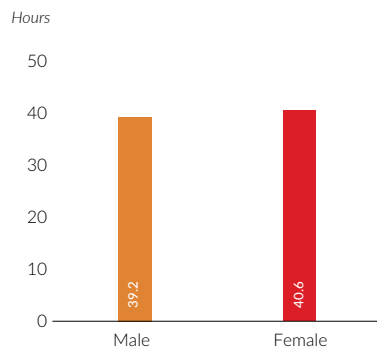
Empowering women in leadership



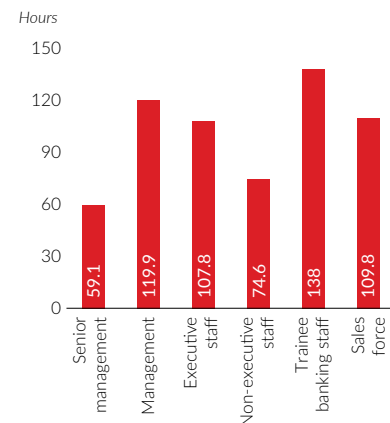
As an organisation which proactively promotes equality, female members of the Leadership Team are enrolled in the Women in Management program, providing them the opportunity to attend several Professional networking forums designed for career and business women. These include Corporate Mentoring Programs partnering with other organizations to develop and retain diverse talent pools.

In addition to the areas mentioned above, employees are given the opportunity to attend training programmes conducted by professional bodies such as the Institute of Bankers Sri Lanka (IBSL), Centre for Banking Studies (CBS) and CIMA Sri Lanka. The IBSL facilitated in-house Diploma and Certificate courses which have enabled growth and increased the employability of our team. Employees are also given the opportunity for overseas training, depending on the capability requirements of the Bank and the employees.

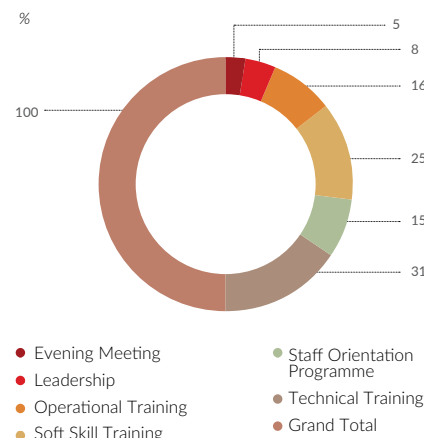
Average training hours



Average training hours by category



No. of training by type



A DIGITAL WORKFORCE

As the Bank increases its digital footprint both internally and externally, employees will be compelled to embrace new ways of working and develop skills that will ensure their relevance and employability in a digital world. To this end, the Bank has introduced the following:

- Process improvements and automation of several HR processes
- Engagement through digital platforms
- E-Learning platform: Provides the opportunity for employees to engage in training at their own convenience. Currently the platform has over 34 Modules ranging from soft skills, operational and technical matters and employee articles with almost 100% of employees fulfilling their learning requirements.

EMPLOYEE RELATIONS

The Bank strives to maintain an open culture and harmonious relations with all levels of staff. The GCEO and the top management conduct regular meetings with staff, one prime initiative being "Coffee with GCEO". The "Coffee with GCEO" is a unique initiative of the Bank which gives opportunities for employees of all grades to communicate openly with the GCEO on any work-related matter or any other matter that affects employees/ Bank. This forum has been very successful with employees who are in the front line and the process owners giving constructive feedback on how to improve the processes and the operational applications.

The Bank does not currently have collective agreements in place. Employees are given approximately two weeks of notice prior to significant operational changes, enabling us to maintain a high degree of employee satisfaction and motivation while implementing changes.

SUCCESSION PLANNING

During the year the Bank placed specific focus on nurturing a strong pipeline of talent through investments in succession planning. We are currently in the process of designing a competency model which will be used to define clear career paths for our leaders. During the year, 487 employees were promoted while approximately 67% of vacancies was filled through internal staff.

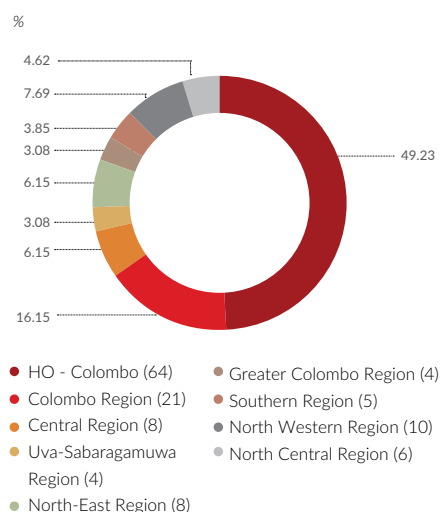
GRIEVANCE HANDLING

The Bank has a structured and clearly communicated grievance handling policy and framework for resolving employee grievances in a prompt and methodical manner. Grievances are treated with anonymity and resolved with minimum delay. The purpose of the grievance policy of the Bank is to help employees maintain a positive work environment with respect and responsibility towards each other. While the Bank will endeavour to provide such an environment, the employees may raise specific grievances or complaints, be it real or perceived.

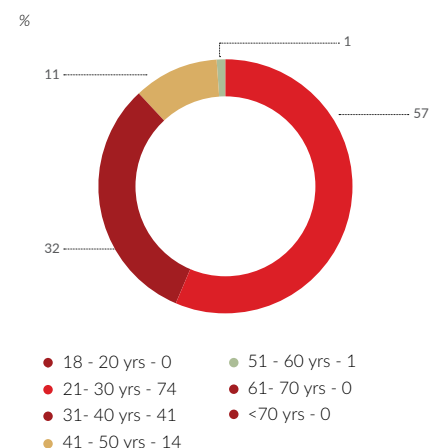
RETENTION

The Bank's unique employee value proposition characterised by opportunities for skill and career development, a high level of employee engagement and a conducive organisational culture has allowed it to maintain relatively good retention levels. During the year the Bank's overall retention rate was 2%, with the highest turnover stemming from the sales cadre, which is an industry wide phenomenon. Exit interviews are conducted by the HR Department at the point of resignation.

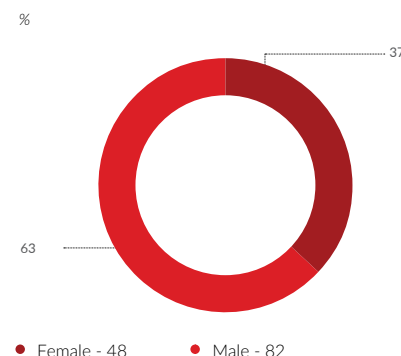
Resignations by Region



Turnover by age



Turnover by Gender



MANUFACTURED CAPITAL



The Bank's digital infrastructure comprising of our digital platforms, IT systems and software enable us to extend our reach in more innovative, efficient and relevant ways while our physical infrastructure such as our branch network will enable us to retain the vital human touch in our operations. Recognizing the critical role played by manufactured capital in our overall value creation process and future growth path, NDB places strategic significance in expanding and enhancing our manufactured capital.

PRIORITIES IN 2018

Focus on further strengthening our digital infrastructure

Driving customer engagement through digital platforms

Optimising our geographical reach

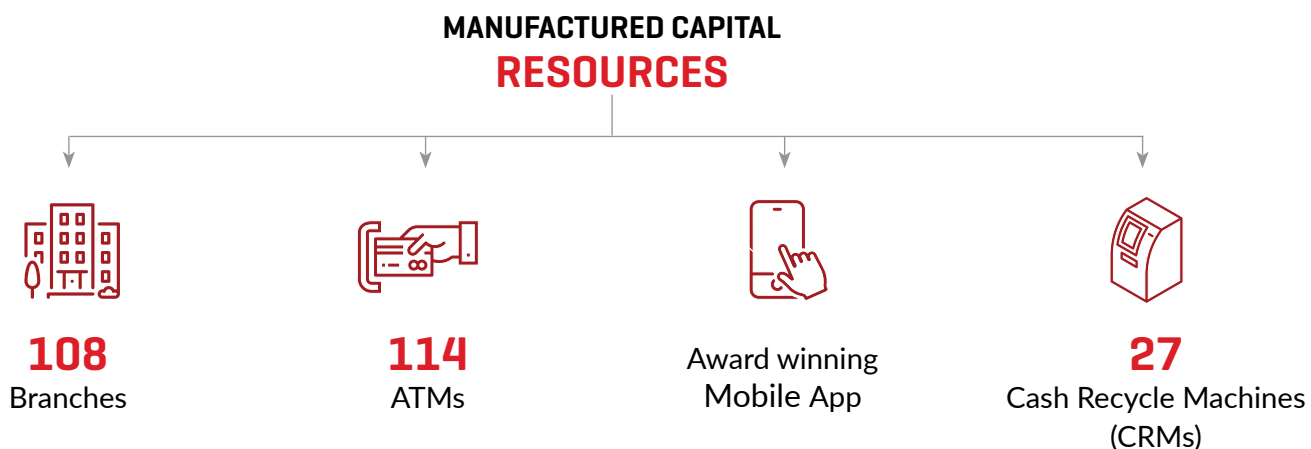
INITIATIVES IN 2018

Enhanced investments in digital infrastructure development

Branchless banking via 71 branches

Optimising the branch network

Implemented work-flow solutions



VALUE ADDITION IN 2018

Expanding the geographical reach

- Added 27 CRMs to the network
- Added 1 branch in Katugastota, Kandy
- Strategic relocation of 5 branches
- Establishment of three Privilege Banking Centres

IT infrastructure improvement

- Implementation of ESB (Enterprise Service Bus)
- Introduction of a high-end work flow solution for several processes
- Implementation of new Disaster Recovery System

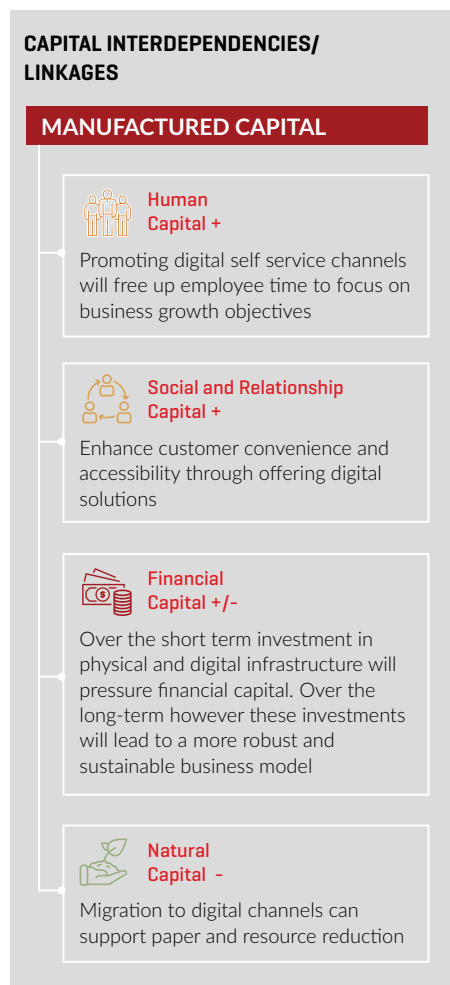


Greater Digital Penetration

- 69% transactions performed through digital modes
- Mobile banking: +51% growth in subscribers and 73% growth in transaction value
- Online banking: +67% increase in transaction value



MANUFACTURED CAPITAL



INVESTMENTS IN MANUFACTURED CAPITAL

New additions to property, plant & equipment and intangible assets, including software of the Bank amounted to LKR 942 Mn during the year. Investment in digital infrastructure also increased considerably during the year comprising primarily of processes automation costs, investments in strengthening digital, self-service platforms and IT security among others. Investment in physical infrastructure represented branch openings, relocations and upgrades.

PHYSICAL INFRASTRUCTURE

Management Approach

We continue to strategically expand our network of 108 brick and mortar branches and 141 ATM machines including 27 CRMs in order to widen our geographical foot print, facilitate penetration of the Retail segment and grow our CASA base. Meanwhile continuous improvements are carried out to the existing network in order to deliver on our customer value proposition of convenience and efficient and relevant banking services. Approximately 30% of our branches are relatively young (less than 5 years) offering considerable opportunities for further penetrating the mass market.

Expanding the geographical reach

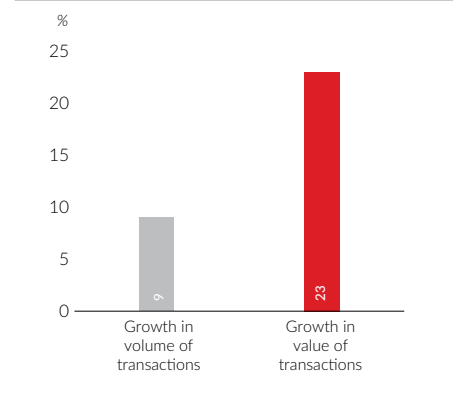
Our expansion strategy is based on selecting the most optimum locations that have the most significant impact. Physical expansion is also well coordinated with digital expansion. Accordingly, our strategic expansion during the year saw the addition of one new branch in Katugastota Kandy, relocation of five branches and establishment of three Privilege Banking Centres to serve high net-worth customers. In addition to strategically expanding our geographical footprint, we are also currently in the process of carrying out branch transformations to drive consistent customer experience while enhancing efficiency across the network. We also operate 13 fully-fledged branches and 15 ATMs/ CRMs in economically disadvantaged areas, demonstrating our commitment to inclusive banking. These branches are also an effective platform in driving our micro-

financing solutions to the grassroots of the economy.

ATM Network

Our customers can perform a variety of transactions conveniently through an island-wide network of 141 ATMs; which include 27 CRMs which possess the capability of cash withdrawals as well as deposits. The off-site ATMs/ Cash Recycle Machines are positioned in strategic locations, helping us to drive our digital proposition in semi-urban and rural communities.

ATM Transactions - 2018



DIGITAL INFRASTRUCTURE

Delivering on digitally enabled banking solutions is at the core of our growth strategy and the digital revolution in financial services has presented numerous opportunities to transform the way we conduct our business and the way we interact with our customers. In 2018, the Bank formulated a cohesive IT strategy aligned to its long-term business objectives; the responsibility for implementing this strategy lies with the Information Technology Department and the Digital Financial Services Unit (DFS).

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
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
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
Tissamaharama

Jaffna

Chavakachcheri
Chunnakam
Jaffna ●
Manipay
Nelliady
Thirunelveli

Kalutara

Aluthgama
Horana
Kalutara
Mathugama ●
Panadura

Kandy

Gampola
Kandy ●
Kandy City Centre ●
Nawalapitiya
Pilimathalawa
Katugastota

Kegalle

Kegalle
Warakapola

Kurunegala

Giriulla
Kuliyapitiya
Kurunegala ●
Narammala
Nikaweratiya
Wariyapola

Matale

Dambulla
Matale

Matara

Akuressa
Matara ●

Monaragala

Monaragala

Nuwara Eliya

Nuwara Eliya

Polonnaruwa

Hingurakgoda
Kaduruwela

Puttalam

Chilaw
Mahawewa
Nattandiya
Puttalam
Wennappuwa

Ratnapura

Balangoda
Eheliyagoda ●
Embilipitiya
Kahawatte
Ratnapura ●

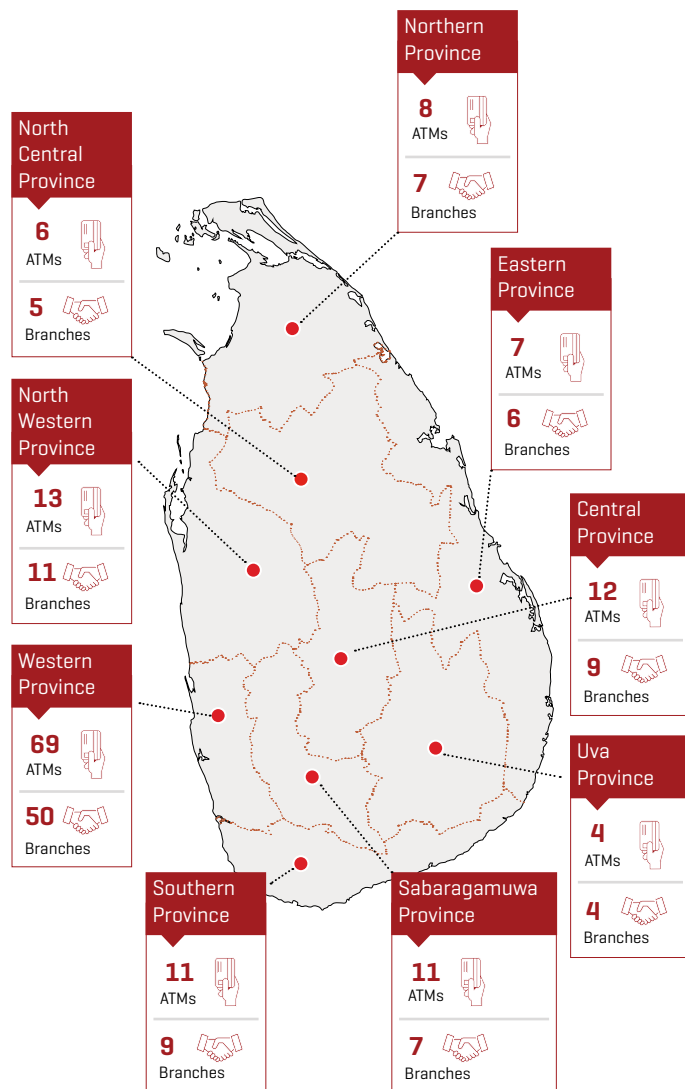
Trincomalee

Trincomalee

Vavuniya

Vavuniya

● 365 day Banking ● Regional Office
● Sunday Banking



* Number of ATMs are including CRMs

MANUFACTURED CAPITAL

Our Digital Strategy

NDB's digital strategy is centred on four main pillars aimed at transforming the experience of both the internal and external customer while facilitating the Bank's growth objectives. These pillars are (1) Process improvements (2) Business layer and digital banking and (3) Infrastructure and (4) Security. Implementation of the strategy commenced in 2018 and the Bank made significant progress in achieving its objectives during the year under review.

• Process improvements

High-end work flow solutions which simplified and improved efficiency of several critical functions across the Bank were implemented during the year. A centralised account opening process with document scanning was introduced using this platform, resulting in significant efficiency in mandates being scanned. A card opening workflow was also introduced with the capability to flow all documents through the system for relevant approvals. Meanwhile the Excess Approval system which was a critical function for the Bank also was fulfilled with a workflow.

• Business Layer and Digital Banking

The Bank has invested in strengthening its self-banking propositions to drive customer accessibility and convenience while freeing up branch resources to drive our business growth aspirations. Digital penetration (customer base vs. digital customer base which has a DFS offering via any one mode) increased to 39% in 2018 while 69% of the Bank's total transactions are now performed through digital channels. Meanwhile it is noteworthy that transactions conducted on the digital sphere surpassed the number of transactions performed through convention channels during the year. Key initiatives driving this migration are listed below;

(1) Cash Recycling Machines

A new generation of Cash Recycling Machines (CRMs) was deployed during 2018, with the maiden CRM opened for operations to the public in January 2018. As at end 2018, 27 CRMs have been established, and within the span of 12

months the Bank crossed CRM deposits worth LKR 4.3 Bn. We believe that NDB has the highest digital penetration for cash withdrawals within the industry. The new machines significantly increased the functionality and security of the network by offering customers the convenience of real time deposits in addition to cash withdrawals, balance inquiries and fund transfers.

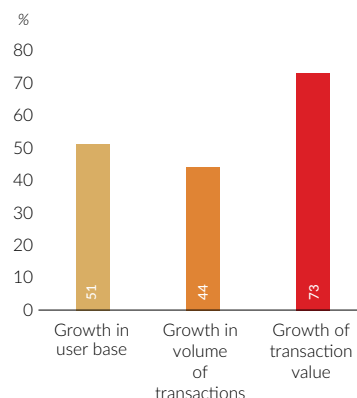
(2) Branchless Banking

Bank2U is NDB's flagship proposition on branchless banking. This unique service was launched in 2017, based out of 24 of our branches. We vastly expanded the service during 2018, to take this service to customers via 71 of our branches. Bank2U builds on the branchless banking/mobile banking concept; whereby the banking services are taken to the doorstep of the customer, as opposed to customers coming to the Bank. Bank2U predominantly targets individuals, SMEs, micro ventures and clusters within the community. It is instrumental in taking banking services to the niches and the ground level, whilst promoting financial inclusivity. Bank2U facilitates a range of transactions including account opening, cash deposits, cash withdrawals, cheque withdrawals, bill payments and mini-statement viewing. The proposition recorded exceptional performance during the year with growth in both volume and value of transactions.

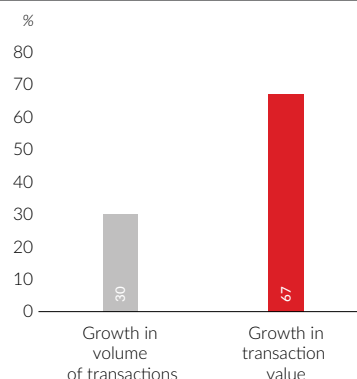


(3) Mobile and Online- Banking

Mobile banking performance - 2018



Online Banking Performance - 2018



>> Bank2U has reached the niche segments and is instrumental in promoting financial inclusivity

Our Mobile Banking solution gained significant traction during the year, recording a 51% growth in subscribers in 2018 and exceeding LKR 7 Bn worth of transactions during the period.

During the year we expanded our reach further by making the NDB Mobile Banking Application also available to sole proprietors and foreign mobile number holders. Meanwhile our online banking platform continues to show steady growth and continues to evolve with the changing needs of our customers.

An ESB (Enterprise Service Bus) was implemented during the year to support a plug and play strategy for ancillary systems which will also connect with the Core Banking platform. This allows efficient and secure connectivity with any product hosted outside the banking network and supports API Banking as well.

• Infrastructure

Back-end Hardware, Storage, Network and other related infrastructure was upgraded to support the upcoming changes in the software layer.

• Security

Given the intensifying threat of IT and cyber security risks, we have taken to strengthen employees and the infrastructure with current up-to-date policies and procedures to safeguard the Bank's most critical data assets. Plans are in place to operate a Security Operations Centre (SOC) within the Bank to monitor and mitigate all risks related to security.

Customer experience

From a customer's perspective, our goal is to leverage on digital capabilities to provide seamless customer interactions by re-imagining the customer experience and redefining convenience. A key initiative in this pillar was the launch of a digital branch in early 2019 allowing customers to perform a range of transactions using technology branded NDB NEOS this model will be rolled out across the island and will combine the

convenience of technology with the human touch. We will also focus on upgrading our mobile app with emphasis on User Interface and User Experience (UIUX).

• NDB NEOS

On 31 January 2019, NDB opened its first Phygital proposition dubbed as NDB NEOS, with a view to provide customers a new paradigm in banking convenience where the physical presence of bank staff is coupled with a truly digitized experience. This adds value to the customer's banking journey by ensuring human interaction for a personalized service in advisory while leveraging on sophisticated, state-of-the-art technology to deliver comprehensive information and high quality customer support some of them being first time innovations to the local banking industry namely; a comprehensive interactive digital platform connected to multiple devices, pad bot based queue management system, paperless account opening through interactive devices, wide digital screens with all information, and totally paperless transactions processing; most importantly the successful implementation of RPA (Robotic Process Automation). All of the ground work related to the successful implementation of this branch was done in 2018.

NDB's smart and efficient deployment of digital capabilities in delivering financial services covers a wide spectrum of our valued customers, may they be at the heart of Colombo or in any other part of the country, bringing them convenience and an enhanced experience in banking.

WAY FORWARD

In 2018 we initiated plans to strengthen the Bank's technology foundation and 2019 will see many of these plans come to fruition with significant investments in strengthening the digital infrastructure. Key investments for 2019 include upgrading the core banking system as well as Treasury, Cash Management, Leasing and Pawning systems and a new digital layer to support the Bank's rapid growth.

A new Disaster Recovery System with a more robust Business as usual (BAU) operation was also implemented.

92%

Digital withdrawals

28%

Digital deposits

69%

of transactions performed through digital channels



>> Say hello to the future at NDB NEOS located at Colombo Fort

INTELLECTUAL CAPITAL



The Bank's intellectual capital consists of the collective skills, experience and tacit knowledge of our team, systems and processes, brand equity as well as our performance-driven, open organizational culture. Harnessing our intellectual capital through a culture of collaboration across our Group will increase our brand equity, enabling us to stand apart from our competition as we forge ahead with our T20 brand proposition of being a provider of holistic and seamless services across both banking and capital markets.

PRIORITIES IN 2018

ONE NDB Group Culture
Collaboration

Driving process automation
and efficiencies

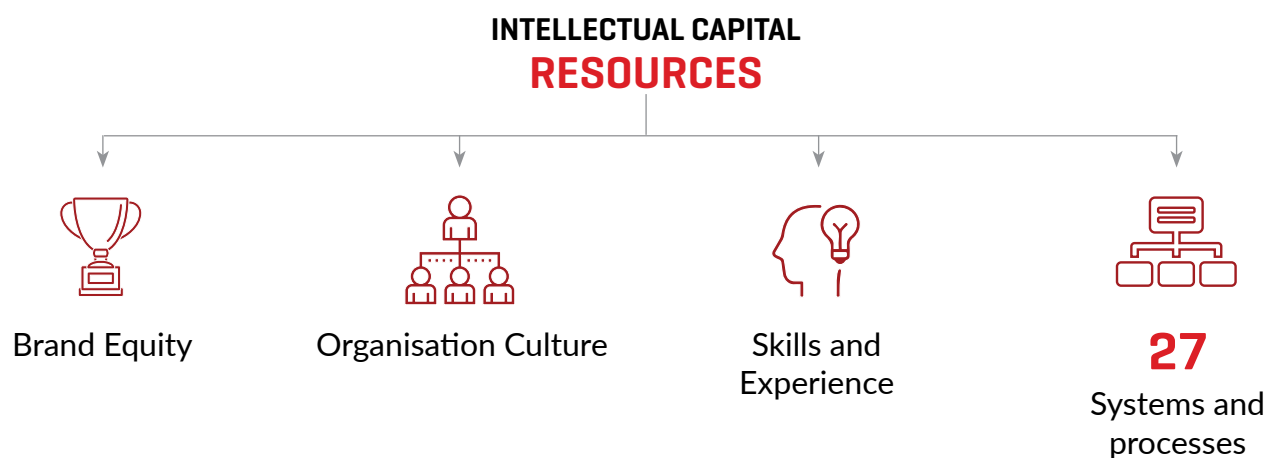
Driving brand recognition in
the retail segment

INITIATIVES IN 2018

Implemented workflow
solutions for several processes
such as account opening and
credit card approval

Direct to customer marketing
to drive brand recognition in
the retail segment

Setting up a dedicated Data
Analytics Unit



VALUE ADDITION IN 2018

Awards and recognition

- First mid-sized bank to win Best Bank in Sri Lanka – 2018 as adjudged by the USA Global Finance Magazine and Bank of the Year – Sri Lanka 2018 as adjudged by The Banker Magazine – UK in the same year.
- Close to 40 local and international awards

Building our brand

- Consistent improvements in top-of-brand awareness
- Among Sri Lanka's top 20 brands (LMD brand rankings)

IT infrastructure improvement

- Better customer experience and reduced turnaround times from workflow solutions for several key processes
- 25 productivity improvement tools and 6,000 man-hours saved through BPR

INTELLECTUAL CAPITAL



ONE NDB GROUP CULTURE

In 2018, Transformation 2020 entered its second phase of implementation focusing on the "Group Synergy" vertical aimed at integrating the capital market cluster and the Bank as a provider of holistic and seamless services across both banking and capital markets. An integral aspect of this integration involves creating a culture of collaboration between the Bank and Group Companies to achieve a singular "ONE NDB Group" culture across the entirety of the NDB Group.

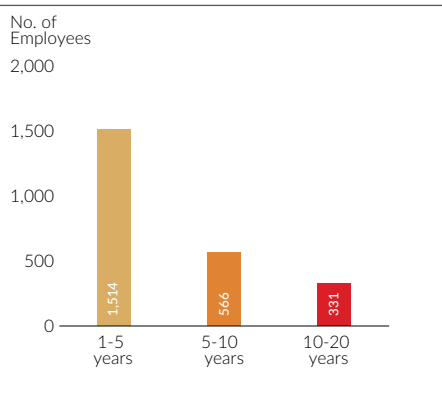
During the year the Organizational Change Management (OCM) function carried out a large number of initiatives aimed at aligning employees across the Group to the strategic goals of Transformation 2020. A series of Change Leader programs were conducted, involving the top management across the Group in a bid to align the leadership of the multiple group companies towards the NDB Group vision. These were followed by numerous initiatives such as pocket

meetings, Change Coach Programs, etc. for other employees. Culture Champions were also appointed to take the message of the new culture identity to every member of the Group (refer to page 84 for more information).

TACIT KNOWLEDGE, SKILLS AND EXPERIENCE

The diverse knowledge, skills and insights of our employees is core to sustaining the Bank's competitive edge. Furthermore, over 17% of our employees have been with the Bank for over 10 years, nurturing a unique base of intellectual capital which is passed across newer generations through a culture of mentoring, structured training programmes and on-going engagement. Harnessing this collective knowledge and skill base is an important aspect of the Culture Collaboration under the Transformation 2020 initiative.

Employees by years of service



SYSTEMS AND PROCESSES

Robust systems and processes and sound corporate governance and risk management practices are vital components of our intellectual capital since they safeguard the Bank's reputation and risk profile while providing guidance on conducting business throughout the organisation. Improving our processes and digital capabilities to drive increased efficiency and productivity is a key strategic pillar of our Transformation 2020 journey. To this end, several automation and digitization initiatives were implemented during 2018 as listed below;

- **Workflow solutions** for several key processes such as account opening, customer account modification and credit card approvals have considerably reduced turnaround times, improving the overall customer experience while enhancing accuracy and freeing employee time for more value adding activities.
- **System upgrades** were done to a large number of sub-systems, such as the Utility Bill Payment system, SLIPs remittance system and SWIFT system. Furthermore, launches of new products and propositions were facilitated through system capabilities and updated.
- **NDB corporate website** was revamped and relaunched with a fresh outlook and easy navigation
- **Six-Sigma Lean Management** was initiated through the formation of multi-functional teams across the organisation
- **Business Process Re-engineering:** Driven by the Bank's dedicated Operations Unit, several processes were reviewed and re-engineered during the year resulting in the introduction of 35 productivity tools and saving over 6,000 man days.

These efficiency and productivity enhancements have allowed the Bank to manage the significant increase in business volumes with only a marginal increase in employees in the support functions. It has also led to improvements in the front-to-back line ratios, enhanced the overall customer experience and supported stronger operational risk management.

BRAND



Our Commitment. **Your Success.**

NDB was among Sri Lanka's top 20 most valuable brands in 2018 as ranked by Brand Finance

As a bank with its roots in development banking, NDB commands strong brand recognition in the corporate segment. In line with the T20 aspirations towards achieving deeper penetration in the retail and SME segments, the Bank has in recent years focused on strengthening its brand presence amongst the masses. Numerous brand building initiatives in the past two years have resulted in substantial improvements in top-of-mind awareness. In 2018 strategic emphasis was placed on,

- **Direct to customer marketing:** Targeted marketing using alternative channels including SMS, e-mail and social media platforms as well as deeper customer engagement at regional and ground level.
- **Product and proposition enhancements** including Ithuru Karana Maga, Home Loan campaign Geyak Hadanna Gammak and Smart Agri Leasing by NDB Leasing among others. (Refer to page 102 for further information)
- **Promotions:** We carried out several unique and innovative promotions during the year including Avurudu Campaign "Kohetath Kalin Kohatath Kalin" and Santa promotion during Christmas.
- **Strengthening social media presence** through more active engagement across popular social medial platforms such as Facebook, Instagram, LinkedIn, YouTube and Twitter.

INTELLECTUAL CAPITAL

Social media platform	Purpose/Activities	Presence
 Facebook	Used targeting the mass market with quality content posted daily. All of the Bank's events campaigns and products are showcased here.	464,064 likes 463,261 followers
 LinkedIn	Used to attract talent through posting job vacancies and relevant press releases	14,299 followers
 Instagram	Targeting the millennial segment, the engagement consists of customised posts, videos and interactive stories on product promotions	2,825 followers
 Twitter	Publish details on latest product promotions and services	1,370 followers
 YouTube	Penetrating mass market through advertising	422 subscribers



>> An Instagram post sharing wisdom for life



>> The Bank conducted an attractive and impactful campaign on Facebook, in line with Ithuru Karana Maga, to encourage savings on all fronts

AWARDS AND RECOGNITION -

We continue to gain recognition at national, regional and international level as indicative from the numerous awards and accolades won during the year. 2018 was a key milestone for the Bank as it emerged the first mid-sized bank to win the two most prestigious international awards- Best Bank in Sri Lanka – 2018 as adjudged by the Global Finance Magazine of USA and Bank of the Year – Sri Lanka 2018 as adjudged by The Banker Magazine of UK in a single year. In total the Bank won 39 awards during the year for these awards are a validation of our brand as an impactful force in the financial sector of Sri Lanka.

Excellence in business aspects such as retail banking, SME banking and Project Financing as well as a host of other aspects such as IT, digital initiatives, CSR, investor relations, transactions processing, etc.

DATA ANALYTICS

With the Transformation 2020 strategy, we acquired a data driven culture where we understand and make strategic use of data and key insights they provide. This is in response to the pivotal role data can play and the mammoth potential it offers in today's information era. As a result, a dedicated Data Analytics Team was set-up. The Team's focus is on data mining, which helps establish trends and patterns of customer behaviour, preferences and inclinations across a wide range of products and services on offer. The findings of the Team are important in ascertaining whether the business and marketing initiatives are achieving the intended results, or whether corrective action is required.

Data Analytics also has enabled predictive analysis and provides important insights in to future course of strategic actions on new product developments, enhancements to existing product features, upgrades to services, etc. The Bank's promotional and advertising campaigns are now well streamlined with specific focus on the most relevant target segments, which have ensured maximum efficiency returns.

The knowledge and the insights of the Data Analytics Team play a critical role in driving the Bank's strategy and achieving its intended objectives.

LEGAL EXPERTISE

NDB's Legal Department comprises highly experienced and skilled team with an established track record for mitigating legal risks and maintaining the highest professional standards. The Department provides an integral service to the Bank in its operations, rendering effective legal assistance in the provision and preparation of legal advice and opinions, drafting and preparation of legal documents in the areas of granting financial facilities, services, special assignments and litigation. The Department consists of 19 in-house lawyers, who are provided ongoing opportunities for developing skills and capabilities. Several regional lawyers have also been appointed to handle legal matters pertaining to the branches.

The lawyers attached to the Legal Department efficiently handle all matters pertaining to the title evaluation of land, loan/ security documentation of SME, Corporate Banking, project loans, leases and drafting, negotiating and execution of all types of agreements including IT agreements, drafting formats of various banking products and providing legal advice to the Bank and to the branch network on day to day legal issues. All litigation including litigation relating to high value personal loans are also handled by in-house Lawyers as instructing attorneys whilst external counsel are appointed for litigating matters in Courts.

The Legal Department apprises and updates the Management with the latest laws and regulations applicable to banking as well as extends advisory services to the Board when consulted. The Senior Officers of the Legal Department also conduct training sessions on legal matters to Branch Officers on a regular basis. During the year, the Department revisited and revised the Bank's title policy to ensure alignment to business.

SHARED SERVICES

Driving operational and process efficiencies is an important element of the Bank's T20 strategy and the Shared Services unit benefits from a unique base of intellectual capital, which has allowed it to effectively drive these changes. These improvements have enabled the Bank to keep pace with the increasing business volumes, expanding branch network and anticipated future growth. In addition to the process improvements mentioned above, the Unit is also engaged in a joint special project with the Customer Contact Centre to migrate the customer base from printed statements to e-statements, as our contribution to the Bank's green initiative.

Attesting to the Unit's intellectual capital, the Payments and Settlements team was presented with the 2017 USD Straight Through Processing [STP] Excellence award from HSBC New York for the fourth consecutive year, and from Deutsche Bank New York, for exceptional quality of payment messages, for the second consecutive year. Our STP rate is said to be one of the best in Asia, maintaining a STP rate above 99%. All Operational units have put in place Service Level Agreements (SLA's) with all business lines, to maintain a high level of accuracy, efficiency and quality in processing.

SOCIAL & RELATIONSHIP CAPITAL



The relationships we have nurtured with our diverse stakeholders is a vital element of our competitive edge, underpinning our social license to operate and driving the creation of shared value across customers, communities and business partners.

PRIORITIES IN 2018

Enhancing service quality and customer experience

Multi-channel strategy

Driving meaningful change in communities

INITIATIVES IN 2018

Customer Service Survey conducted to identify service gaps

Relaunched a number of products, viz., Pawning, Vismitha, Salary Max and the unique savings proposition 'Ithuru Karana Maga'.

Active participation in industry forums

LKR 22 Mn investment in community engagement initiatives

SOCIAL & RELATIONSHIP CAPITAL RESOURCES



Diverse Customer
Base



434
Business Suppliers



Community
Relationships

VALUE ADDITION IN 2018

Customer value creation

- Total deposit interest amounting to LKR 24 Bn
- A number of products and propositions invigorated, including Ithuru Karana Maga
- Financial literacy program for 182 women entrepreneurs in Tissamaharama



Community value creation

- 13 community engagement projects with employee volunteerism
- English language training for 195 secondary school teachers, benefiting over 30,000 students
- Environmental literacy programme for over 4,400 school children



SOCIAL & RELATIONSHIP CAPITAL

CAPITAL INTERDEPENDENCIES/ LINKAGES

SOCIAL AND RELATIONSHIP CAPITAL



Financial Capital +

Driving long-term relationships with our customers will enable us to increase wallet share and enhance retention, contributing towards financial capital.



Natural Capital +

Preserving the environment is one of the Bank's CSR pillars and we conduct several ongoing programs to improve environmental literacy among school children



Intellectual Capital +

Our efforts to instill a culture of superior customer service will strengthen our base of organisational capital, sharpening the Bank's competitive edge.

CUSTOMER CAPITAL

The Bank serves a large base of retail, SME and corporate customers through a gamut of lending, investment and capital market services. Our customer value proposition is underpinned on treating our customers fairly and responsibly, providing innovative services which cater to their evolving needs together with excellent customer service.



Interactions

Engagement
Customer Service



Product portfolio

Relevant products



Responsible lending

Customer education
Customer privacy



Accessibility

Physical network
Digital channels with human touch

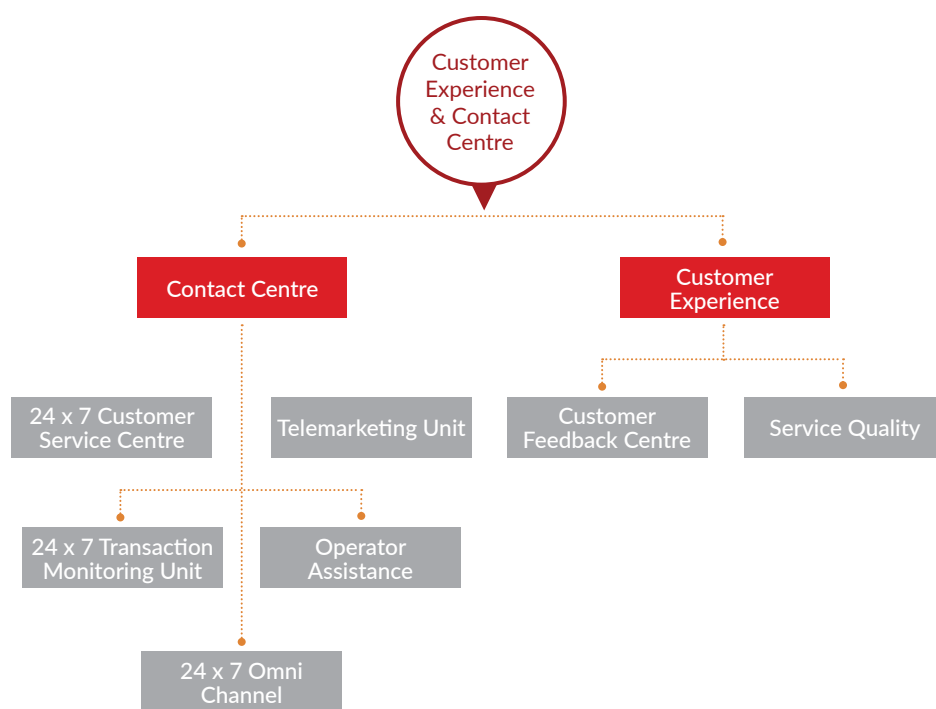
Customer Service

Among the Bank's key priorities for the year was driving superior and consistent service quality across all channels. In achieving this, 188 "service leaders" (covering key customer touch points and all departments) were appointed to drive the mindset change across the Bank and in adopting and aligning all staff towards a service excellence oriented culture. Service leaders were empowered with necessary tools and authority to continuously make service improvements through new service ideas and initiatives in order to uplift the service standards of the Bank. Formal training was provided and key performance indicators were put in place to ensure service goals of the Bank are met.

With the ultimate objective of strengthening and delivering a consistent service experience to customers at all touch points; 'Service Leap' initiative was launched by the Customer Experience team in collaboration with the HR Training & Development team. Accordingly, an internal and external customer survey was carried out covering all key customer touchpoints to identify gaps in service and design a standard operating procedure to ensure consistent service delivery.

The Customer Experience unit is responsible for overseeing and organizing every interaction between the Bank and the customer throughout the customer life cycle. The unit reviews the overall service quality aspects of key customer touch points, carrying out various quality surveys to measure the customer satisfaction levels.

Customers are provided numerous platforms to present their grievances including the Contact Centre, online channels and branches. Key Performance Indicators have been assigned to these touch points to ensure that service levels are in line with the customers' expectations. The Bank's agreed process for handling customer complaints is available on the Bank's corporate website (www.ndbbank.com).



Function	Role
24 x 7 Customer Service Centre	Handles all customer inquiries, card activation, lost card deactivation, the online Banking mail box, Facebook Messenger and contact@ndbbank.com
Telemarketing Unit	Focuses on revenue generation through cross selling and up-selling
Transaction Monitoring Unit	Responsible for safeguarding the card holders and account holders against any theft due to electronic card misuse, account takeover, etc. and monitors transactions 24 x 7 to identify any unusual transaction patterns

The Bank's complaints handling procedure is laid down in line with the Customer Charter set out by the Central Bank of Sri Lanka (CBSL). This function is managed by the Customer Feedback Centre team to ensure that the customer complaints received through all touch points are recorded in the Bank's complaint tracking system and are resolved within 10 working days.

The Bank has published its complaints handling procedure, service levels and the complaints redress process through the Financial Ombudsman on the corporate website (www.ndbbank.com) and the same is displayed at all branches in line with the CBSL guidelines.

SOCIAL & RELATIONSHIP CAPITAL

Performances against Customer Service KPIs for the year are as follows;

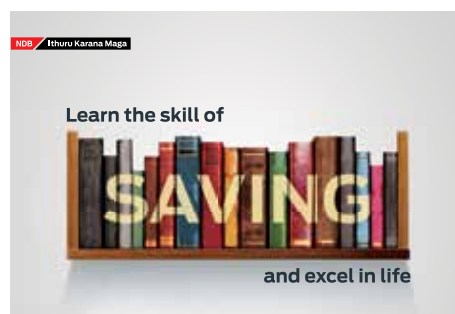
Indicator	Target (MOM)	Achievement 2018
Contact Centre		
Service levels of incoming calls	To maintain 80% or more	Achieved
Abandon Rate	To maintain below 5%	Achieved
Call quality effectiveness	To maintain at 80%	Achieved
Average Call Handling Time	=< 3mins per call	Achieved
Online Channels		
Online Banking (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

PRODUCT PORTFOLIO

The Bank offers a range of innovative and affordable solutions targeting the commercial, retail, SME and micro and project financing segments, as explained under each of the relevant Business Line Reviews in page 119.

Given below are highlights of some products and propositions which were invigorated during the year.

Ithuru Karana Maga



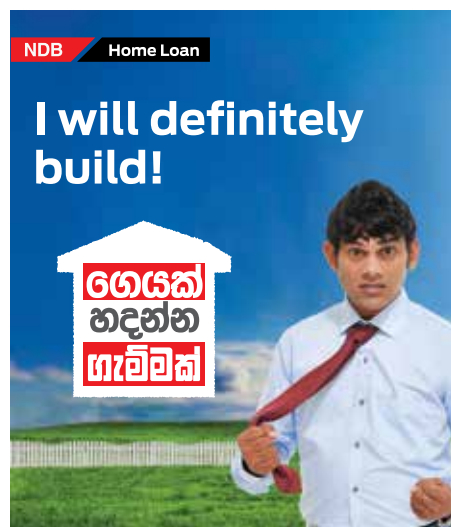
This initiative extends beyond mere monetary savings to nurture a savings culture with regards to time management, energy and natural resources among others. Specially trained savings coaches have been appointed at each branch to provide guidance to customers on developing savings habits.

Pawning



A key financing product for urgent financial needs of individuals providing financing for personal as well as for working capital financing cycle in agriculture, fisheries, etc., the Pawning product was re-launched in the ensuing year

Housing – Geyak Hadanna Gammak



A special home loans campaign which features a three-day loan approval mechanism and available to salaried employees, entrepreneurs and Sri Lankans working abroad, was carried out during the year.

Smart Agri Leasing

NDB introduced “Smart Agri Leasing” via NDB Leasing to support the vehicle requirements of customers involved in agriculture, poultry, fisheries, and animal base businesses. The product offers competitive interest rates and flexible repayment terms.



A new era in Agri Leasing dawns with NDB Leasing

Privilege Banking Centres



The Bank widened the geographical reach of its Privilege Banking proposition through opening three new Privilege Banking centres in Kandy, Galle and Pelawatte, thereby bringing the Privilege network to nine, in a bid to provide exemplary services to the Bank's Privilege clientele.

We also introduced Shareek - NDB Islamic Privilege Banking for the benefit of our Muslim customers.

Banking on Women



A major strategic pillar of the Bank's Transformation 2020 strategy was Banking on Women [BOW]. Under Transformation 2020 – Phase I, as a prelude to this strategic pillar, extensive research was done on the Sri Lankan landscape, by both the Bank and the IFC Team [which provided the Bank with professional input in the Transformation 2020 strategy], in understanding the aspirations of Sri Lankan women, the inclination for financial prosperity, barriers faced by women to enter

SOCIAL & RELATIONSHIP CAPITAL

and prosper in businesses and the availability of financing options for their empowerment in the banking industry. The results showed that despite more than 50% of the population of the country being females, their potential was not maximized in economic aspects. In response to this, the Bank commenced developing a business proposition dedicated to women and as an initial step, launched NDB Araliya – women's savings account in 2017.

Subsequent to this phase, BOW entered a second phase under T20 Phase II, and during 2018 the Bank conducted extensive preparations for a unique bundled proposition for the women's market, as an extension to the Araliya savings product. The bundle includes a loan facility, current accounts, credit cards and savings products, customized to the three distinct segments of female home makers, salaried females and female entrepreneurs. Preparation of Product Program Guides, devising marketing campaigns, staff training, etc. were all done during 2018, which led to the successful launch of the product in 2019, which is a truly unique offering, dedicated to empower the aspiring Sri Lanka women.

Responsible lending

The Customer Charter ensures that the terms and conditions applicable to our products and services are clearly understood by all customers. Relevant information such as interest rates on deposits, loans and exchange rates are clearly communicated to customers in all three languages. During the year under review, there were no instances of non-compliance to any relevant product and service information and labelling related or marketing communicated related regulation or other guidelines.

Customer privacy: As a bank we have access to customer's 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

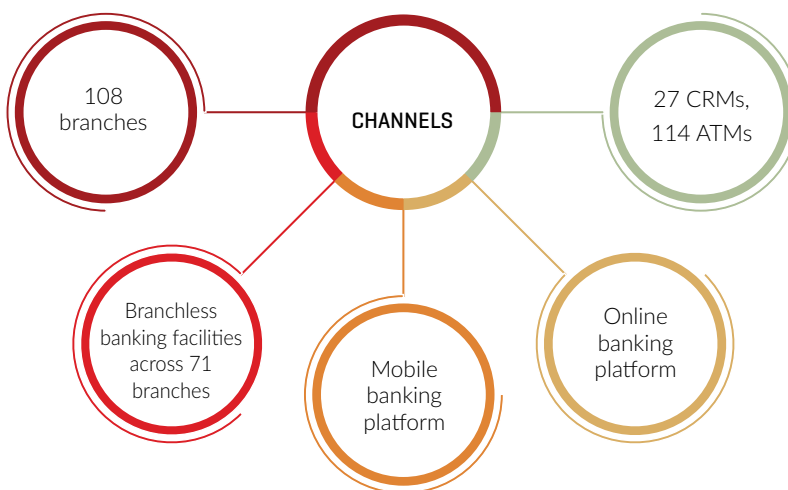
privacy is reinforced at all levels. There were no substantiated complaints pertaining to the reach of customer privacy or loss of customer data in 2018.

Customer education: NDB's ongoing financial literacy programmes are aimed towards strengthening financial discipline among our clients by providing guidance on investments, savings as well as basic training on accounting, book keeping and budgeting. Since our micro finance clientele primarily represent individuals who are new comers to the banking industry these programmes have been vital in improving financial management and discipline. We also conduct special programmes aimed at empowering women and strengthening our SME clientele as listed below;

- Financial literacy programmes
- Women empowerment programmes
- Exporter events for the SME clientele

Accessibility

In recent years we have focused on driving customer accessibility through a multi-channel strategy with emphasis on strengthening our digital platforms. This is expected to support increased acquisition of the millennial/young clientele while driving increased customer convenience and enhancing the overall experience. During the year, we made significant progress in converting our transactions to digital modes, whereby, the Bank achieved 39% of digital penetration in the customer base (customer base vs. digital customer base which has a DFS offering via any one mode) whilst 65% of the Bank's total transactions were performed through digital channels.



INDUSTRY NETWORKS

As one of the country's leading financial institutions with an extensive reach, we are cognisant of the role we can play in strengthening the entire industry through continuous engagement with peers and networks. Our employees are actively involved in numerous such forums and contribute their ideas and perceptions to the betterment of the overall industry.

External Entity/Forum	Bank's Level of Involvement
American Chamber of Commerce (Amcham)	The Bank continues to be a member of Amcham.
Association of Banking Sector Risk Professionals	The Bank's Vice President - Group Risk is a Committee Member of the Association. Further 3 members of the Risk Management Team continue to be members of the Association. The purpose of the Association is to promote fellowship, cooperation and knowledge, whilst undertaking studies and discussions in the area of Risk Management in Banking. They also collectively review regulatory directives and guidelines and coordinate with the regulators where necessary.
Association of Board/ Company Secretaries of Banks of Sri Lanka	This Association promotes knowledge sharing and professional development of Board/Company Secretaries across the country and the Bank's Company Secretary is the Assistant Secretary of the Association.
Association of Compliance Officers of Banks Sri Lanka	The Compliance Officer of the Bank is a member of the Association, which is an effective forum to discuss issues commonly faced by Banks when interpreting relevant laws, regulations, procedures and best practices. Practical solutions are discussed within the regulatory framework in order to overcome the challenges faced.
Association of Corporate Lawyers	A large number of the Lawyers in the Bank are life members or ordinary members of this Association. The Vice President – Legal is a member of the Executive Committee and actively participates at these meetings.
Banks Technical Advisory Committee	The Senior Vice President - Corporate Banking is the Chairman of this Committee, which is a sub-unit of the Sri Lanka Banks' Association. The main focus of this Committee is to promote a forum to discuss various complex technical and operational aspects of banking and to promote and maintain a robust banking environment with the support of the Sri Lanka Banks' Association (SLBA)
Biodiversity Sri Lanka (BSL)	Biodiversity Sri Lanka (BSL) is a national platform entirely owned and driven by the private sector, established to promote strong engagement of the corporate sector in biodiversity and environmental conservation in Sri Lanka.
Employers' Federation of Ceylon Limited (EFC)	As a member of the Federation, the Bank receives professional advice on legal and labour related matters when required. The Federation also appears on behalf of the Bank on Labour Department matters.
Finance Sector Computer Security Incident Response Team (FINCSIRT)	FINCSIRT is a specialized service unit that is responsible for receiving, reviewing, processing and responding to computer security alerts and incidents affecting banks and other Licensed Financial Institutions in the country. This is a forum functioning under the Sri Lanka Banks' Association, tasked with uplifting the level of technology governance across the banking sector, and is a joint initiative of the Central Bank of Sri Lanka, the Sri Lanka Computer Emergency Response Team and Sri Lankan Bankers Association; and is hosted under LankaClear (Private) Limited, the national payment infrastructure provider. The Bank's Vice President - Information Technology is the Secretary of the organization since the inception.
Information Systems Audit and Control Association (ISACA)	ISACA is an international professional association focused on IT Governance. Two members of the IS audit team are members of ISACA, while the title of Director – Enterprise Governance in IT of Board of Sri Lankan Chapter is currently held by the Manager - Internal Audit.
Institute of Bankers of Sri Lanka (IBSL)	The Bank obtains membership from IBSL for its staff and the Bank widely patronizes all IBSL hosted events/seminars etc. The Bank also reimburses costs of IBSL conducted banking exams across all levels of staff. To facilitate and deliver customized and off-the-shelf programmes which include Certificate courses, Diploma courses and other subject specific seminars. These are conducted exclusively for the Bank's employees in-house and at IBSL as required.

SOCIAL & RELATIONSHIP CAPITAL

External Entity/Forum	Bank's Level of Involvement
Institute of Internal Auditors of Sri Lanka (IIASL)	The Institute of Internal Auditors Sri Lanka (IIASL) Chapter is affiliated to the Global Institute of Internal Auditors Inc. (IIA Inc.) The objective of the IIASL is to uplift the standards of the internal audit profession in Sri Lanka and to train internal audit professionals. Three members of the Group Audit team continue to be members of the IIASL.
Integrated Corporate Reporting Committee of the CA Sri Lanka	The Assistant Vice President - Finance and Planning is an active member of the committee, which is committed to issuing implementation guidelines on Integrated Corporate Reporting to ensure the annual reports produced by corporate entities in Sri Lanka fulfils expectations of investors and other stakeholders.
Inter Bank Association of Internal Auditors of Sri Lanka	The Inter Bank Association of Internal Auditors is a forum that consists of the Chief Internal Auditors of public and private commercial Banks of Sri Lanka, where emerging trends of the Industry and related practices are discussed. The Head of Group Audit serves as a member in the committee.
International Information System Security Certification Consortium (ISC)2 of the United States	An officer of the Branch Network Management Department is a past president and a member of the Board of the (ISC)2 Colombo Chapter. (ISC)2 is the largest non-profit membership body of certified information security professionals worldwide, with members in more than 135 countries engaged in developing information security awareness, education and introducing best practices in the country.
Leasing Council of Bankers of Sri Lanka	The Bank holds membership of the Council and has representation in the Executive Committee of the council. The Leasing Council of Bankers of Sri Lanka contributes towards the professional development of bankers engaged in leasing, while focusing on the new innovative initiations for the development in the industry as a whole. Further the benefits of such initiative cascade down to the SMEs and small industries around the country.
Payment Cards Industry Association of Sri Lanka (PCIASL)	The Bank is a member of this Professional Industry Association. Its membership consists of all payment card acquiring and issuing financial institutions in the country. It is the industry voice dealing with industry issues with VISA Intl., MasterCard Int, Central Bank of Sri Lanka, Inland Revenue, Exchange Control, SLBA, LankaPay and the Payment and Settlements Department. The PCIASL has quarterly meetings and regularly takes up important issues with the respective institutions on behalf of the industry.
Sri Lanka – China Business Council	The Bank has been a member of this Business Council since 2014 and has built close ties with the Chinese business community during this period, through the Bank's Cash Management Unit.
Sri Lanka Forex Association	Bank's Treasury staff members are active members of this Association.
The Association of Professional Bankers - Sri Lanka (APB)	The APB functions with the vision of "The power of professionalism in banking in Sri Lanka" with approximately 1,200 members. There are approximately 60 members enrolled inclusive of the entire senior management of the Bank, above the grade of Assistant Vice President.
Trade Finance Association of Bankers	All permanent staff of the Bank's Trade Finance team are members of this Association, whose primary objectives are to share expert knowledge and engage with authorities on matters of concern to seek solutions. A senior member of the Trade Finance team of the Bank is the immediate past president of this important association while another senior member functions as the Editor of the official newsletter of the Association.

COMMUNITY RELATIONSHIPS

Our Approach to Corporate Social Responsibility

NDB adopts a strategic approach towards CSR, aligning the initiatives with national priorities, expectations of our stakeholders as well as the Bank's own social, environmental and economic objectives. The projects are aimed at driving meaningful change in the communities we operate in while strengthening our brand and nurturing relationships. We also work closely with Partners who have the expertise in implementing specific projects. The Bank's CSR initiatives can be categorised under the three main pillars of Education, Environment and Entrepreneurship and Financial Inclusion.

CSR Governance

The Bank's dedicated CSR committee comprising of senior cross functional staff members is responsible for the effective implementation and monitoring of all CSR projects. Initiatives are selected based on community needs, resource availability and project partners with relevant expertise. The objectives of the Bank's CSR agenda are as follows;

- Supporting the country's national sustainable development.
- Protection and conservation of the environment and natural resources.
- Employee volunteerism to inculcate responsible behaviour among our employees.
- Special projects carried out to serve specific community needs such as projects for disaster relief.

Progress in 2018

EDUCATION

'English for Teaching' project for Secondary English Language Teachers

Over 1000 teachers trained and 170,000 students benefited since 2012

Conducted in partnership with British Council since 2012, the 'English for Teaching' project for Secondary English Language Teachers is an activity-based training focussing on both 'Knowledge Enhancement' as well as 'Methodology'. The program has directly contributed towards enhancing the quality of English education across the country, enhancing the employment profile of school leavers joining the workforce. Key deliverables include,

- Empowering teachers to provide a higher standard of education
- Improving the delivery of the English language teaching in the classroom
- Enhancing communication skills in the classroom
- Systematically analysing grammatical patterns to both upgrade the teachers' existing language and to provide an understanding in teaching delivery

Year	Teachers	Schools	Students
2012	111	66	16,650
2013	179	87	30,283
2014/15	196	142	35,020
2016	200	162	30,299
2017	188	158	27,764
2018	195	164	30,529
Total	1,069	779	170,545

SOCIAL & RELATIONSHIP CAPITAL

ENVIRONMENT

Environmental Literacy Projects

4,420 students from 24 schools have benefited since the project commencement



>> Field Visit to Sinharaja -
Students of Victoria College, Jaffna

The project aims to raise environmental awareness through education with the objective of encouraging future generations to engage in the preservation of biodiversity, wildlife, habitats and natural ecosystems. Two parallel projects are conducted in partnership with strategic partners and includes excursions and class-room teaching programmes. Project details are as follows;

Project	Wildlife & Environment Conservation Project	Leaders for Sustainability
Strategic Partner	Wildlife & Nature Protection Society	Field Ornithology Group of Sri Lanka
Objective	Nurture a passion among the younger generation to contribute towards wildlife and environmental conservation	Empower the younger generation to protect and conserve Sri Lanka's rich biodiversity
Impact	4,300 students and 66 teachers from 18 schools completed the program	120 students completed the excursion to Sinharaja reserve

ENTREPRENEURSHIP

Ongoing workshops for women and micro-entrepreneurs

182 women entrepreneurs from Tissamaharama

The Bank conducts capacity building workshops for micro and women entrepreneurs. The workshops are targeted towards enhancing financial discipline and business management skills but also focuses on other aspects such as health and well-being, grooming and personality development; contributing to the overall socio-economic progress. During the year, we conducted a program for 182 women entrepreneurs from Tissamaharama.

VOLUNTEERISM

13 CSR projects under the pillars of Education, Environment and Entrepreneurship



>> Employee Volunteerism - Visit to Colombo -
West Ginnoruwa Junior School, Mahiyanganaya



>> Employee Volunteerism - North Western Region

Projects carried out included (but are not limited to)

- (1) School renovation, tree plantation and motivational development program at Halpe Madya Maha Vidyalaya with a beneficiary base of over 800 students.
- (2) Providing a 'Water Purification System' for Janajaya Vidyalaya Moratuwa benefiting 280 students.
- (3) Providing better sanitary standards for the students and teachers of Sri Jayawardenapura Balika Vidyalaya in Kotte.
- (4) Renovation of classrooms and the children's park at Aanaipanthi Hindu Ladies College and Government Tamil Maha Vidyalayam in Batticaloa.
- (5) Cleaning a section of the Negombo Lagoon border and raising awareness amongst the public on environmental conservation.
- (6) Partnering with RDA to plant 1,000 trees along the Southern Highway.
- (7) Enhancing school infrastructure of Bulugahatenna Maha Vidyalaya benefiting 394 students.
- (8) Construction of a workshop area for vocational training at Mo/Wellassa Subhagya Vidyalaya, Kumbukkana village, Monaragala.
- (9) Conducting workshops for farmers and their families in Kaluwila, Hidogama, a rural village in Anuradhapura.
- (10) Providing a unique solution to the villagers in Pokunuthenna, Udawalawa to overcome the human-elephant conflict, by installing an infra-red alarm system.
- (11) Upgrading library facilities of Welhella Kanishta Vidyalaya, in Galapitamada, Kegalle.
- (12) Conducting a two day e-waste recycling project amongst the community at Anderson Flats.
- (13) Upgrading the facilities of West/Ginnoruwa Junior School, Mahiyanganaya.

Addressing the human-elephant conflict in Pokunuthenna, Udawalawa



The human-elephant conflict has emerged as one of Sri Lanka's most pressing wildlife conservation issues with the elephant population dwindling to around 5000. The conflict is estimated to cause around 200-250 elephant deaths annually, claim 60-90 human lives and cause extensive crop and property damages.

In a bid to address this alarming issue, a passionate team from Business Banking, Administration, Middle Market, SME, Corporate Office and Marketing Departments of the Bank, embarked on a unique initiative to mitigate the human-elephant conflict in Pokunuthenna, Udawalawa. Conceptualised and designed by an NDB employee, we installed an infra-red alarm system to alert villagers of encroaching elephants and scare away elephants without hurting them. We also set up a fence of citrus trees and beehives along a stretch of 2 KM, preventing elephants from entering the village. This is the first time that this unique method was used in Sri Lanka and the success of these efforts was evident the very same day it was fixed. Towards late evening the alarm was activated signalling the encroachment of elephants; however, unlike previous instances the elephants did not enter the village but turned back and returned to the jungle, causing no harm to the villagers or to themselves. The initial results of the project have been extremely successful with over 100 families protected.

In ensuring the sustainability of the initiative, villagers were trained on how to operate the system. A qualified resource person was also engaged to train villagers on bee keeping and the NDB staff also made arrangements for the villagers to market the harvested honey, thereby assisting them in their livelihood.

NATURAL CAPITAL



With the implications of climate change being felt pronouncedly across the world, organisations are increasingly expected to contribute towards reducing emissions and addressing significant environmental risks. 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 lending practices.

PRIORITIES IN 2018

Enhance energy efficiency

Increase lending towards renewable energy and other environmentally friendly projects

Migrate customers to digital platforms

INITIATIVES IN 2018

LKR 6 Mn funding for environmentally-friendly projects

Recycled used paper

Environmental literacy for school children

NATURAL CAPITAL RESOURCES



5,857,158
KWh electricity
consumption



25,718 LITRES
Petrol consumption



Ecosystem



53,402 KG paper
consumption

43,699 LITRES
Diesel consumption

VALUE ADDITION IN 2018

Responsible lending

- Screened 1,312 loan facilities through our ESMS framework
- LKR 0.7 Mn funding for renewable energy projects]
- Lending towards bio-mass, waste to energy and mini hydro projects



Propagating good environmental practices

- Programmes to raise employee awareness on environmental conservation
- LKR 5.8 Mn investment in Environmental Literacy Programs for school children
- Environmental and social screening across the value chain



Energy consumption

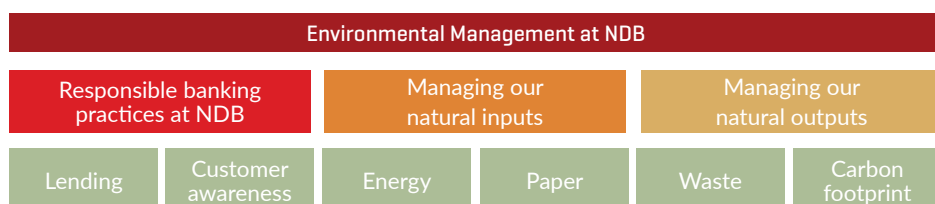
- 0.12% reduction in total electricity consumption
- 0.3% increase in carbon footprint



NATURAL CAPITAL

MANAGEMENT APPROACH

The Bank's environmental management framework clearly sets out the scope and key elements in managing its impacts on the environment. Our approach is centred on maintaining and enhancing our natural capital by managing resources efficiently and by Integrating environmental & social aspects into the credit evaluation process. With this lending towards green technologies, reducing dependence on fossil fuels and eliminating waste by reusing or recycling is carried out whenever possible.



IMPLICATIONS OF CLIMATE CHANGE

As an organisation with exposure to a wide range of industry sectors, the Bank is inherently vulnerable to climate related risks. In recent years Sri Lanka's agriculture sector has been adversely affected by erratic weather conditions including prolonged droughts, floods and an overall increase in temperature levels. These factors unfavourably impacted the entire agricultural value chain, and banks with significant exposure to the sector are likely to see some repayment pressures. While we are yet to quantify the impact such issues could have an impact on our operations, we are cognisant of the potential deteriorations in portfolio quality which could stem from the implications of climate change.

RESPONSIBLE BANKING

As a financial institution we believe the most impactful way we can contribute towards environmental sustainability is through our lending decisions. Since 2017, we have placed strategic emphasis on lending to the renewable energy sector, an industry which will allow the Bank to fulfil our commercial and environmental sustainability objectives. Accordingly, we provided funding for four types of renewable energy projects- hydro, solar, waste to energy and bio mass which has been estimated to eliminate 390,000 tonnes of CO2 emissions, roughly equal to the emissions of 83,000 passenger vehicles. We also offer concessionary funding for other environmentally friendly initiatives as listed alongside.

ENVIRONMENTAL AND SOCIAL SCREENING

The Bank adopts the precautionary principle when disbursing loans and developing new products. Due consideration is also given to environmental compliance and impacts when carrying out lending appraisals in accordance with a comprehensive Environmental and Social Management System (ESMS). For instance, we ensure that potential customers (particularly in the SME, Corporate and PFI sectors) have obtained the requisite Central Environmental Authority (CEA) approval and that environmental impacts are measured and mitigated. Accordingly, funding is only extended to businesses and projects that are built and conducted in an environmentally responsible manner. The ESMS also includes an Exclusion List which is a list of industries/practices that are detrimental to the environment & society and which the Bank is refrained from funding.

8R APPROACH TO SUSTAINABILITY

The Bank adopts the 8R approach to environmental sustainability which has enabled it to be mindful of the indirect environmental impacts of its operations while driving organisation-wide initiatives to optimise resources in its day to day operations.

- **Refuse** - Refuse transactions and decisions that could prove harmful to the environment.

The Bank's ESMS framework is an integral part of the Credit Policy and Credit Evaluation Process of NDB's long-term lending and considers the environmental and social risks of a business/project prior to lending. The framework also comprises of an exclusion list consisting of certain activities and/or industries which the Bank refrains from funding.

- **Reduce** - Reduce the utilisation of scarce resources

Digital platforms such as mobile/online banking and branchless banking as well as migration to e-statements have allowed our customers to partner us in resource conservation through reducing the use of paper and energy across the organisation.

With regards to our direct environmental impact, the Bank has introduced organisation-wide initiatives to ensure that energy consumption is tracked and minimised. Comprehensive energy audits are conducted allowing for the identification of high energy consuming sources. The Bank's key sources of energy are electricity which is purchased from the national grid and fuel. Energy consumption trends are given below;

For certain branches fuel consumption has been computed as an average

	2018	2017	Change %
Purchased electricity (kWh)	5,857,158	5,864,560	(0.12)
Fuel consumption			
- Petrol (litres)	25,718	23,055	11.5
- Diesel (litres)	10,463	9,049	15.6
Diesel consumption in generators (litres)	33,236	30,988	7.3

• **Reuse - Reuse waste materials without processing**

As a service organisation, our key material input is paper and organisation-wide efforts are in place to minimise the use of paper and encourage re-use and recycling. Employees are encouraged to use electronic platforms for communication, thereby minimising the need to print. We are committed to reusing stationary items such as files, A4 papers and envelopes whenever possible while all longer-term assets such as computers and furniture are donated to deserving institutions as and when the Bank upgrades such assets.

NON-RENEWABLE MATERIAL: PAPER

Year	Total Packs	Total weight (Kg)
2017	19,496	48,350
2018	21,533	53,401

• **Reuse - Recycle used materials**

The Bank has collaborated with Neptune Papers to recycle the waste paper that is generated from its daily operations. In 2018, 12,786 kgs of waste paper was sent for recycling which translated to savings of,



217 fully grown trees



22,439 litres of oil



51,144 kWh of electricity



406,339 litres of water



38 cubic meter of land fill



12,786 kg of carbon equivalent reduction of green-house gas emissions

• **Renew - Promote renewable energy**

The Bank has funded many eco-friendly projects such as, effluent treatment plants, resource efficient plant & equipment, compost manufacturing plants, solar panels & fences, ash removing plants, water purification plants, sewage treatment plants, machinery to manufacture paper from elephant dung, eco-friendly machinery and eco paper packaging. Total cost of eco projects funded by NDB during 2018 amounts to LKR 1 Bn.

• **Refine - Refine and build capacity of internal and external customers**

Environmental literacy program for schools: Conducted as an ongoing program this initiative aims to raise environmental awareness by investing in environmental capacity building, to sensitise, and train school children in diverse parts of the country and to empower students, teachers & principals to protect and add value to our environment which in turn contributes to social and environmental sustainability.

Key aspects of the program include,

- Overview of the Environment
- Present Status of the Environment
- Climate Change
- Be a Green Leader

Qualitative Impact - The project creates consciousness towards being a 'Green Leader', encouraging the students to be responsible for their actions and decisions, whilst adopting best environmental practices and influencing and encouraging others to conserve the environment and adopt environmental best practices.

• **Respond - Respond to the environmental needs of our nation**

As a Bank, we seek to address the critical environment-related issues faced by the country through developing responsible products and responsible lending practices which consider social and environmental risks. Meanwhile we continue to invest in driving product and process innovation through automation which mitigates the environmental impact of our operations. In propagating our environmental practices across the value chain, the Bank has also developed a Sustainable Procurement and Supplier Policy which sets out the economic, social and environmental screening criteria when evaluating suppliers.

CARBON FOOTPRINT

The Bank computes its green-house gas emissions (GHG) using the most recent version of the WBCSD/WRI Greenhouse Gas Protocol Accounting and Reporting Standard (2004) and calculation tools (2015). 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.

During the year the Bank's carbon footprint increased only marginally by 0.3% to 2,633 tCO₂e despite an increase in operational activity. Carbon intensity (defined as tCO₂e/LKR Mn of gross income) declined to 0.05 tCO₂e from 0.06 tCO₂e in 2017. Purchased electricity is the largest source of GHG emissions for the Bank.

tCO ₂ e	2018	2017	Change %
Scope 1-			
Combustion in mobile sources	91.23	86.21	5.8%
Stationary combustion	94.97	90.53	4.9%
Scope 2- Purchased electricity	2401.44	2404.47	-0.1%
Scope 3-Employee business travel	45.43	43.17	5.2%
Total	2633.07	2624.38	0.3%

INDEPENDENT ASSURANCE REPORT TO NATIONAL DEVELOPMENT BANK PLC ON THE SUSTAINABILITY REPORTING CRITERIA PRESENTED IN THE INTEGRATED ANNUAL REPORT- 2018

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- 2018 ("the Report").

- Reasonable assurance on the information on financial performance as specified on page 66 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 sustaining 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 06 February 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 2018.
- 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.

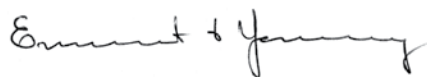
LIMITATIONS AND CONSIDERATIONS

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

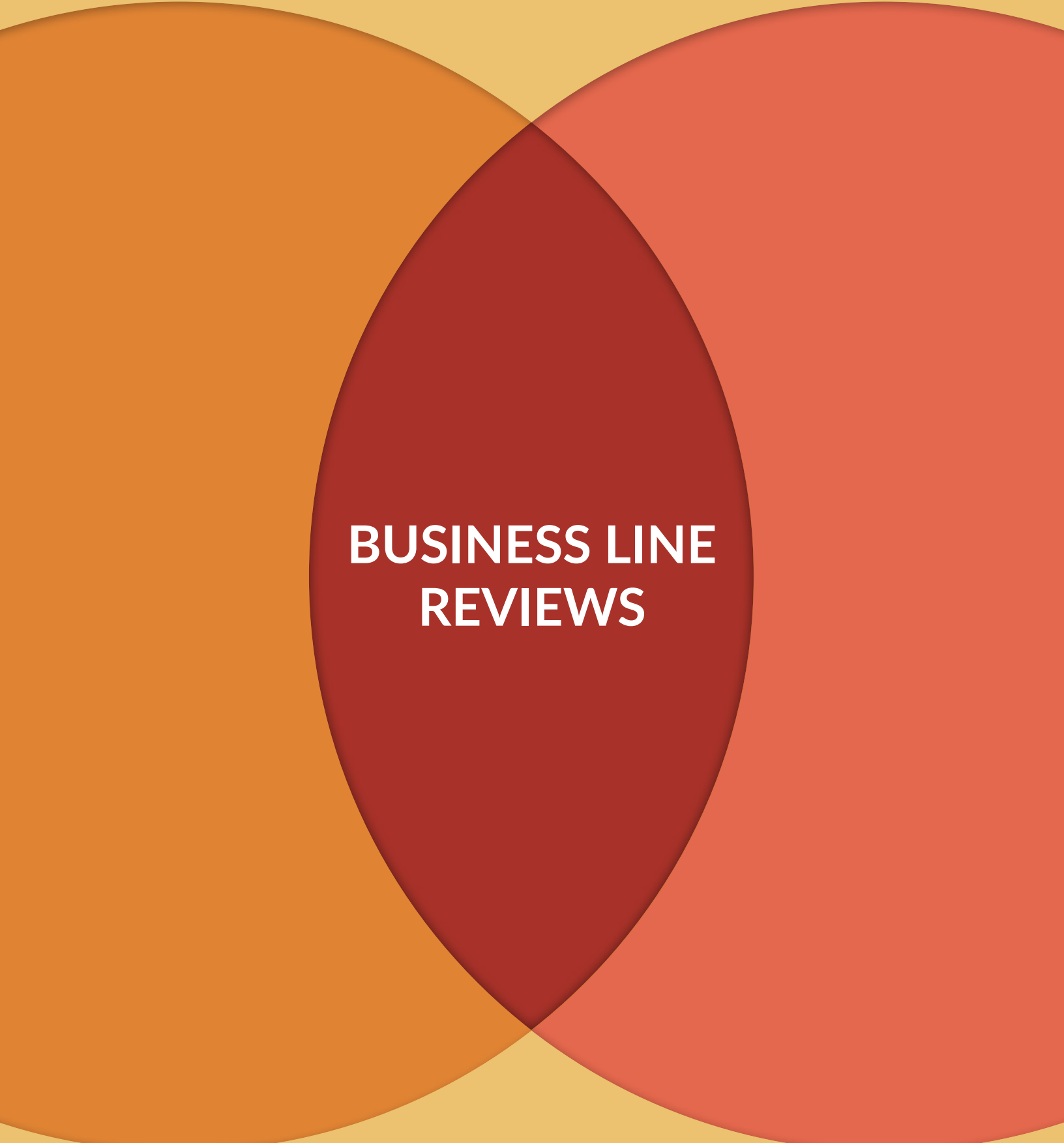
Based on the procedures performed, as described above, we conclude that;

- The information on financial performance as specified on page 66 of the Report are properly derived from the audited financial statements of the Company for the year ended 31 December 2018.
- 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 2019
Colombo



BUSINESS LINE REVIEWS

Retail Banking **120** / Privilege Banking **124** / SME Banking **126** /
Micro Financing **129** / Commercial Banking **132**
Cash Management Unit **135** / Project and Infrastructure Financing **137** / Islamic Banking **140**
Refinance Operations **141** / Treasury **144**

BUSINESS LINE REVIEWS

RETAIL BANKING

PERFORMANCE HIGHLIGHTS 2018

LKR Mn	2018	2017	Change %
Total operating income	4,949	4,058	22
Loans and receivables	62,167	47,660	30
Deposits	171,965	141,575	21

Value Creation/Impacts



Total operating income
LKR 4,949 Mn
[+22%]



A robust branch network
108



Approximately 47% of
employees deployed in the
branch network



Launch of new savings
concept: Ithuru Karana
Maga



Focus on customer
experience and
deepening relationships



Employee volunteerism
initiatives to preserve the
nature

Strategy in 2018



Business focus

Driving growth in CASA through
innovative products

Customer acquisition through direct
engagement at branch level



Business processes and IT

Introduced workflows for account
opening, credit card approvals and
customer service request management

Improvements to the core banking
system to drive increased efficiency and
automation



Customer experience

Faster turnaround times for credit card
issuances

Improved ambience in branches
to deliver a consistent customer
experience

Deployment of digital solutions for an
enhanced and convenient experience



Inspired team

Enhanced recognition to employees

Clearly defined career progression paths

NDB's long-term strategy is directed towards deepening penetration in the retail customer segment. A proactive and focused strategy in recent years has strengthened the Bank's position in the segment, supported by a value proposition centred on innovative products, a high level of customer engagement and superior customer service. In Retail Banking, the Bank offers an array of lending, investment and transactional banking products, catering to the lifestyle needs of its diverse clientele. The Unit contributes a respective 18% and 49% to the Bank's total loans & receivables and deposits.

Risks

Managing portfolio quality in challenging
economic conditions

Exposure to interest rate fluctuations and
impact on NIMs

Outlook

Driving CASA growth through innovative
products and customer engagement

Further expansion of the privilege banking
proposition

Introduced guidelines for consistent service
quality across the network

OPERATING ENVIRONMENT

Demand for credit remained strong particularly in the first half of the year, before tapering off towards the latter part of the year due to moderating economic conditions. Despite short-term slowdowns, the long-term outlook for retail credit remains positive given rising disposable incomes, increasing affluence and propensity towards the consumption of premium products. Meanwhile the prevalent high interest rate scenario saw depositors shifting funds to fixed deposits, rendering it challenging for the industry to grow its CASA base.

PERFORMANCE OVERVIEW 2018

The Retail Banking Unit turned in a year of strong growth, with its loans and receivables growing by 30%, well ahead of the industry. Expansion was supported by broad-based growth across home loans, credit cards, personal loans and other retail banking services. Portfolio growth was underpinned by strategic focus on client acquisition, targeted marketing and pursuit of cross-sell opportunities. Resultantly, the unit's operating income increased by 22% to LKR 4,949 Mn during the year.

Deposit growth of 21% also surpassed industry growth and reflects investments in customer engagement, as well as the Bank's improving deposit franchise. Mobilising CASA deposits remained a formidable challenge throughout the year with the persistently increasing interest rate differential between savings and fixed deposits and shifting customer inclinations towards high-yielding deposits. Retail deposits made a considerable contribution to the Bank's overall CASA base, which grew by 30% in 2018.

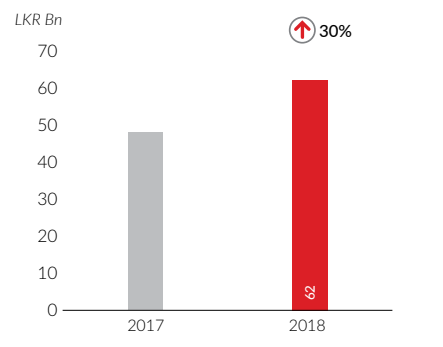
One of the Unit's key achievements during 2018 was the preservation of credit quality, despite an industry-wide influx of NPLs and strong portfolio growth. The Retail portfolio's gross NPL ratio of 2.5% as at end-2018 is amongst the lowest in the industry and attests to the robust risk management strategies adopted by the Bank. As a business segment which account for approximately one fifth of the Bank's overall loan portfolio, the healthy loan portfolio of retail banking

- Strong loan growth supported by customer acquisition and deeper relationships with existing customers
- Sound portfolio quality
- Focus on digitalisation and customer experience

Fast facts

has made significant contribution to maintain the overall NPL at healthy levels and thereby preserve profitability.

Retail Banking - Loans and Receivables



STRATEGIC REVIEW

Driving customer penetration

The Unit sought to drive customer penetration by engaging in numerous direct-to-consumer campaigns targeting the inactive clients. Through a year-round activity calendar branches also conducted promotions/customer engagement drives to acquire new customers. We also sought deeper relationships with existing clients through aggressively pursuing cross-selling and up-selling opportunities. A dedicated team was tasked with converting the base of "single-product customers" to "multi-product customers", encompassing the Bank's product portfolio and the Group's capital market services.

Deposit mobilisation

Retail deposits grew by 21% supporting the Bank's overall CASA growth of 30%, which is commendable given the persistently rising interest rate differentials between savings deposits and fixed deposits. Strengthening the CASA base is a priority of the Transformation 2020 strategy and the Retail Banking Unit leveraged on several innovative products launched in 2017 including the women-centric "Araliya" Savings account and the goal-oriented "Savings Planner". We also relaunched the 'Salary Max' and 'Vismitha' products during the year; the former is a unique one-month salary advance that can be credited to the customer's account within 15 minutes by calling our 24/7 Contact Centre while Vismitha provides a loan equivalent to 90% of the average balance of the account during the preceding 12 months offered at zero percent interest. The Bank also launched a CASA incentive scheme across the branch network and conducted numerous customer engagement initiatives and promotions to drive CASA growth.

BUSINESS LINE REVIEWS

PRODUCT PORTFOLIO

The Bank offers a range of innovative and affordable solutions targeting the commercial, retail, SME and micro and project financing segments.

Lending Products	Deposit Products	Other Products
Dream Maker Personal loans Housing Loans Education Loans NDB Leasing NDB Good Life Credit Card NDB Salary Max Advances NDB Aachara Loans NDB Solar Loans Pawning Vismitha Loans	Araliya Women's Savings Account NDB Children's Savings Account NDB Shilpa Savings Account NDB Savings Planner & Minor Savings Planner Certificate of Deposit NDB Vismitha Savings Account Big Saver/Real Saver/ Money Market Savings Accounts NDB Salary Max Current and Savings Accounts NDB Aachara Current and Savings Accounts Current Accounts Foreign Currency Deposits Fixed Deposits	NDB Debit Cards NDB Travel Pal Privilege Select – Banking Services to High Net-worth Clients Safe Deposit Lockers Remittances Bancassurance

Promotion Type	Name of Promotion	Description
External	Araliya Promotion	New and Existing Araliya Customers were given attractive gifts based on their deposit values in view of International Women's Day.
External/Internal	Avurudu Promotion	'Kohetath Kalin Kohatath Kalin', one of the first Avurudu campaigns initiated by a bank offers a range of gifts and vouchers during the Avurudu season.
Internal	Savings Planner	An inter branch competition offered cash prizes to branches that contributed to achieve the set targets.
External	Singapore Tour	The promotion offered a full expense paid trip to Singapore to all eligible minor account holders and a parent/guardian, with the option of a tour to Sentosa Island or Universal Studios
External	Santa Promotion	NDB Brings Santa Home! A successful and popular promotion conducted from 19 November to 14 December 2018. The promotion included a visit by Santa along with a gift during the Christmas season to all eligible minor account holders that deposited a sum of LKR 50,000/- or more in any NDB Minor Savings account during the promotion period.

Nurturing a savings culture - NDB "Ithuru Karana Maga"	The Bank relaunched 'Ithuru Karana Maga' in 2018, a unique initiative aimed at driving attitudinal and behavioural changes to nurture a culture of savings. The initiative extends beyond mere monetary savings to inculcate a broader savings culture with regards to time management, energy and natural resources among others. Savings Coaches have been appointed at each branch to engage directly with customers, supporting the mindset change which is required to nurture savings habits.

Retail assets

The Unit's loans and receivables grew by 30%, underpinned by the Bank's strong distribution channels. In terms of products, growth stemmed from personal loans, credit cards and housing loans. The personal loan product, 'Dream Maker' targeting salaried employees and professionals widened its market share during the year while NDB Housing loans also recorded robust growth supported by faster turnaround times and value-added offerings such as document support and title search. Credit cards also achieved commendable growth as the Bank achieved a significant reduction in approval times due to workflow implementation. A range of exciting credit card offers and promotions allowed for deeper penetration in this highly competitive segment. Leasing also performed well, making valid contribution to the overall retail loan portfolio growth, benefiting from the target marketing initiatives. The Bank also re-launched the Pawning product during the year considering the potential for growth.

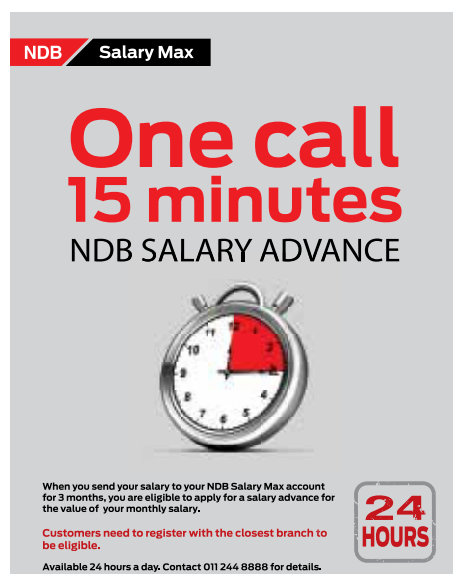


Strengthening digital capabilities

The Bank sought to leverage on its digital capabilities to drive improved customer experience as well as internal efficiencies. In strengthening our self-service channels, we installed 27 Cash Recycling Machines (CRM) and expanded our ATM cum CRM network to 141 during the year. Several workflows were also implemented during the year, such as credit card approvals, loan application processing and customer request service management leading to significant improvements in turnaround times. (pg. 90)

Customer experience and Service focus

In 2018, the Bank laid the foundation for ensuring a consistent customer experience across its network. Key initiatives included setting up a dedicated customer experience vertical, streamlining the customer complaint handling process and standardising and monitoring service quality across branches. The Bank intends to launch 'Service Leap' - a cohesive program aimed at transforming service levels through clearly defined operating guidelines and an employee mindset change. Service leaders who have undergone specific training have been appointed at each customer touch-point to facilitate this shift in mindset. A survey was also conducted at all touch-points for both internal and external customers to identify gaps and areas for improvement. (pg. 102)



BUSINESS LINE REVIEWS

PRIVILEGE BANKING

NDB is the market leader in the private banking segment, with its unique proposition 'NDB Privilege' [PRV] offering a holistic and innovative premium banking solution to high net worth individuals [HNWI]. At NDB, a HNWI is defined as any individual who maintains deposits in excess of LKR 5 Mn or an equivalent in foreign currency approved by the Central Bank of Sri Lanka with NDB, either in savings or term deposits. With a bid to further calibrate our offering to meet the precise needs of ultra-HNWI customers, NDB has on offer a further sub-segment titled as Privilege Select, for customers who would qualify with a deposits balance in excess of LKR 20 Mn.

PRV's competitive edge stems from tailor-made solutions, exceptional customer services and advisory services on wealth management and wealth enhancement, together with an unmatched range of services and exclusive benefits, including special rates. NDB's PRV product portfolio includes banking services as well as a wide range of capital market products, arranged via the NDB Group's capital market cluster.

NDB PRV accounts for the largest premium banking portfolio in the industry, with regards to the number of clients as well as the deposit base. Privilege Banking performed exceptionally well in 2018, achieving a 24% deposit growth and expanding its customer base.

STRATEGIC FOCUS

The key strategy of PRV adopted in 2018 was expanding our very strong PRV services predominantly based out of the PRV Centres in Colombo to cover the full country. In doing so, we opened three new PRV Centres in Kandy, Galle and Pellaawatte bringing the total PRV Network to ten. Furthermore, we appointed a dedicated PRV Relationship Manager [RM] to each branch with a PRV client base exceeding 100. In every other branch, the role of the Relationship Manager was enhanced to serve as the dedicated PRV RM. Each of the PRV customers are served by a primary RM, along with a back-up RM, who is well-versed with the customer needs to ensure exclusive, undisrupted and consistent services at all times. With this streamlined relationship mapping in place, every valued PRV customer of NDB is now better served

Services offered

- Portfolio management-money market savings, deposits, structured products
- Wealth management solutions, capital market products and equity management
- Offshore banking for foreign nationals
- Estate management and assistance
- Mortgage backed facilities
- Share backed facilities
- Deposit backed facilities
- Housing loans
- Leasing
- Islamic banking
- Privilege Family Banking [For the Privilege customer and immediate family]
- Special tariffs
- Branded and Customised cheque books, credit cards, debit cards, etc.

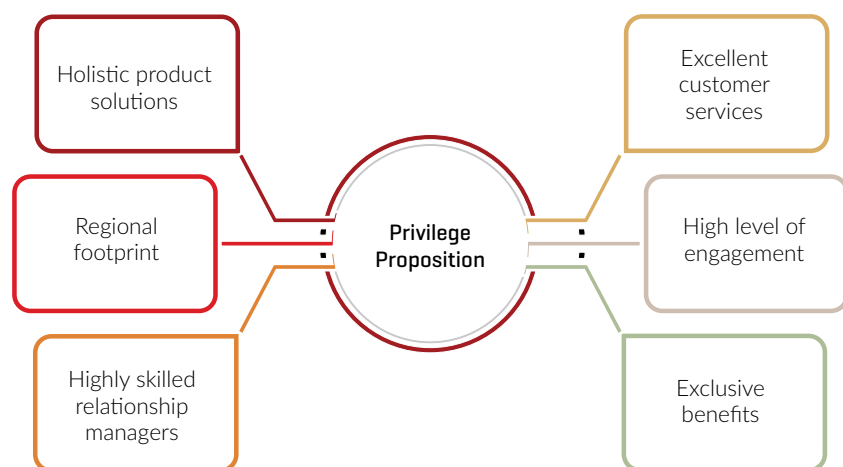


>> Our state of the art Privilege Banking Centre at Dharmapala Mawatha Colombo 07 is complete with many amenities

by a dedicated RM. It has enabled deeper engagement at regional level, facilitating client acquisition and personalised service.

The Bank also has a strong offshore presence in Privilege Banking particularly markets such as UK, Australia, USA and Canada.

Up-skilling the team was also a priority and during the year we provided intense training to Privilege Banking Relationship Managers. We also conducted several unique customer engagement initiatives during the year including dining experiences, movie nights and a networking session at Shangri La – Colombo 01. During the year we also widened the range of services offered and inaugurated our iconic Sharia compliant private banking services branded as Shareek - NDB Islamic Privilege Banking. We also offered an International VISA card with a priority pass and investment management solutions.



OUTLOOK

Over the short to medium term, we will focus on further strengthening our retail banking proposition to drive increased penetration. The Unit is also positioned to facilitate bank and group-wide synergies by offering personal banking services to individuals employed by our corporate and middle market customers. Driving growth in CASA through innovative product offerings and customer engagement is a key priority while deployment of digital solutions to enhance customer convenience, speed and security of banking services is an integral part of our strategy.

In the premium banking frontier, in response to our expanding customer base and enhanced transaction thresholds, deeper segmentation and further re-calibration of our offerings are planned, to ensure precise services catered to HNWIs.

BUSINESS LINE REVIEWS

SME BANKING

PERFORMANCE HIGHLIGHTS 2018 INCLUDING MICRO FINANCING

LKR Mn	2018	2017	Change %
Total operating income	4,501	3,695	22
Loans and receivables	79,904	65,089	23
Deposits	67,374	58,421	15

Value Creation/Impacts



Total operating income
LKR 4,501 Mn
(+22%)



Newly established SME
Sales Force



Process simplification
through automation



Total lending to SME and
Micro customers:
LKR 80 Bn



Lending to climate-smart
agriculture facilities

Strategy in 2018



Business focus

Market segmentation in SME Unit to
drive volume growth

Focus on the trade sector



Business processes & IT

Streamlined recovery and offer letter
issuing process



Customer experience

Expedited loan approval process for
SME segment resulted in improved
turnaround times



Inspired team

Employee training on customer service,
and product awareness

Clearly defined career progression paths

Strengthening its market position in the SME/Business Banking segment is a key priority under the Transformation 2020 strategy and the Bank has successfully captured growth opportunities in this sector through offering a holistic value proposition. Our inherent capabilities in development banking and deep understanding of industry dynamics has allowed the Bank to strengthen its position in the sector within a relatively short period of time. The segment achieved a respective 22% and 23% growth in revenue and loans and receivables during the year.

Risks

Preserving portfolio quality in challenging
economic conditions

Exposure to interest rate fluctuations

Outlook

Supporting SMEs while focusing on
preserving portfolio quality

Streamlining of the approval processes
through automation

Operating Environment

Sri Lanka's SME sector experienced yet another challenging year, characterised by prolonged droughts in certain regions, devaluation of the Sri Lankan Rupee, government restrictions on imports and the overall moderation in economic conditions. Despite an overall increase in crop production in 2018, global trade tensions together with geopolitical issues in key Middle Eastern markets led to a depression in tea prices, thereby impacting the tea sector. Meanwhile the devaluation of the Rupee and cash margins on imports directly impacted the trade and industrial sectors which are reliant on imports. These trends together with the moderating economic conditions led to stressed cash flows thereby impacting the debt repayment capabilities of the SME sector.

PERFORMANCE OVERVIEW 2018

The SME Unit achieved a 23% portfolio growth during the year, mainly due to the success of its segmentation strategy which allowed for a more efficient approval process. Operating income also increased by 22% supported by portfolio growth. Understandably there was a deterioration in portfolio quality, although the accretion of NPLs has been manageable.

STRATEGIC REVIEW

Segmentation strategy

Amongst the SME Unit's key achievements for the year was the successful segmentation of the business line into the 'middle market' and 'small' sectors, thereby allowing for more efficient deployment of resources in addressing specific customer needs. Previously the Unit had adopted the same criteria and mechanism for assessing all credit facilities resulting in the inefficient utilisation of resources. Through the new strategy the Bank adopts a centralised, product program driven framework for 'Small segment' businesses which has facilitated a substantial improvement in loan processing time. The middle market is served through dedicated regional business banking teams, thereby allowing for considerable volume growth. This focused approach has also enabled the

- Divisional restructure facilitated strong portfolio growth
- Accretion of NPLs at manageable levels
- Healthy deposit growth contributing to the Bank's CASA base

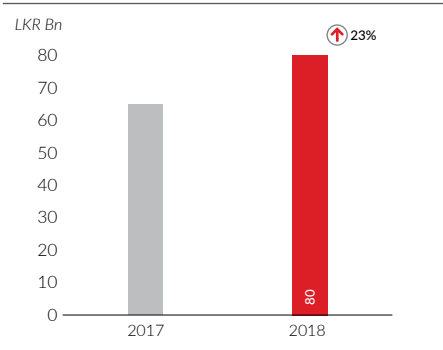
Fast facts

Unit to drive relationship-driven customer engagement, thereby strengthening wallet share in both assets and liabilities while enhancing fee based income.

Deposit drive

In its drive towards expanding its CASA base, the Bank launched two new current account propositions during the year within Business Banking, Business Star and Business Premier. The products feature bundled benefits including preferential rates on Letters of Credit, collection bills, telegraphic transfers, fee waivers coupled with free and branded cheque books. We also recruited a dedicated middle-market sales team to drive deposit mobilisation - a strategy which has so far proven successful.

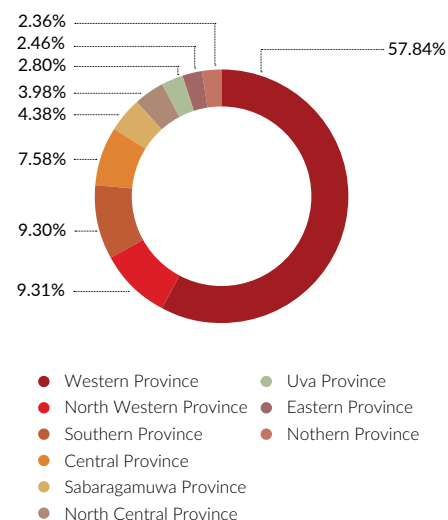
SME Banking - Loans and Receivables



Product map



Province-wise Composition of the SME Loan Portfolio



BUSINESS LINE REVIEWS

NDB Business Banking

SOMETIMES ALL WE NEED IS SOMEONE TO HOLD UP A LIGHT.

Who doesn't want a partner to help navigate the way forward? Welcome to Business Banking, NDB's new offering for medium and small business owners who are hungry for success.

With Business Banking, you have your very own Relationship Manager from NDB who will be your personal banking consultant, helping and guiding you to optimise solutions offered by the bank.

With a 30-year history of developing the nation, NDB now partners with Sri Lanka's entrepreneurs and commits itself to helping you realise your business dreams.

We mind your business.
You enjoy its rewards.

Call 011 244 8888 today!

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NDB bank
Our Commitment. Your Success.

>> Our support to SMEs is timely, tailor-made and empowering

Managing portfolio quality

The entire banking industry experienced an influx of non-performing-loans stemming from the SME sector as businesses faced increasing repayment pressure. In proactively managing this trend, the Business Banking Unit strengthened its line audit functions by setting up a dedicated centralised recovery unit and appointing regional recovery officers to manage NPLs. We also worked closely with our customers to offer flexible payment schemes with the objective of providing relief to customers experiencing stresses in their businesses. These measures enabled the Bank to record a relatively slower accretion of NPLs in comparison to its industry counterparts.

Responsible lending practices

In addition to supporting the country's SME sector which is the engine of economic growth, our lending to this segment contributes towards addressing several prevalent socio economic and environmental issues as presented alongside. The Bank also continues to raise employee awareness on propagating sustainable business practices among its SME clientele.

Utilisation of low cost funding lines from the Government and multilateral agencies allowed for lending at concessionary rates

Green financing initiatives

Lending directed towards empowering women

OUTLOOK

The Unit will adopt a cautious approach to growth in 2019, although market conditions are expected to stabilise to a certain degree given improving weather conditions and the anticipated expansion of the tourism and construction sectors. We will place strategic emphasis on maintaining portfolio quality through rigorous collection and monitoring mechanisms, streamlining the approval process and driving increased efficiencies through automation.

MICRO FINANCING

NDB forayed into micro finance in 2010, a sector which has enabled the Bank to meet its commercial objectives while directly contributing towards the empowerment and socio-economic progress of thousands of needy individuals. The Bank's capabilities in micro finance was recognised by the Asian Banking and Finance Retail Banking Awards 2018 where it was awarded the title Best Financial Inclusion Initiative 2018.

OPERATING ENVIRONMENT

Micro financing has been recognised as an effective tool in alleviating poverty and empowering the economically and socially vulnerable. Accordingly, the Government has placed policy emphasis on strengthening the sector and enacted the Microfinance Act No. 6 of 2016 as a regulatory framework to govern micro finance institutions and set up a Department of Supervision of Microfinance Institutions in the CBSL. However, 2018 presented numerous challenges for the sector given the weakening of the agriculture sector, over indebtedness in certain market segments and the challenging markets sentiments.

PERFORMANCE REVIEW

Micro finance recorded a 20% growth in its loan portfolio during the year supported by customer acquisition and entry into new segments.

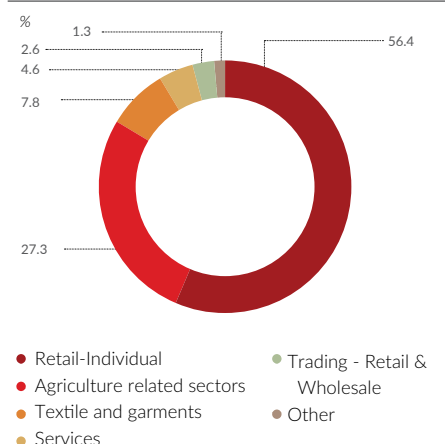
We continued to serve a wide spectrum of industries, the highest exposure being in retail business followed by the agriculture sector. Our presence is available right across the country, with 21% concentration of our portfolio in the Western province, where the majority of the overall economic activities of the country takes place.

Preserving the quality of the loan book is a typical challenge faced by micro financing businesses. Given the challenging market conditions experienced during 2018, we experienced an increase in the NPLs in this sector. However the increase was managed within target levels due to close monitoring and advisory support extended to our customers.

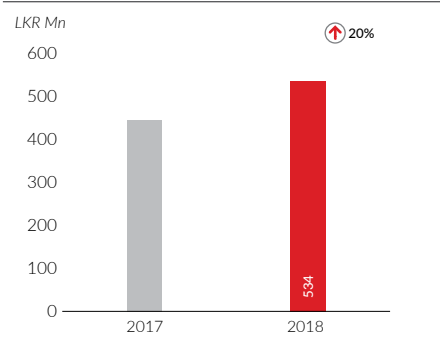
Strategic Priorities

- Preserving portfolio quality
- Lending to selected industries
- Capacity building and customer education

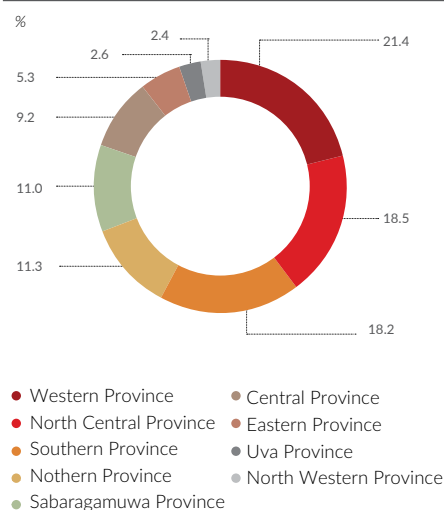
Sector-wise composition of Micro Finance Loan Portfolio



Micro Finance Loan Portfolio



Province-wise Composition of the Micro Finance Loan Portfolio



STRATEGIC REVIEW

During the year, the Bank reduced its exposure to the group lending scheme and sought to expand its portfolio targeting specific industry sectors. Accordingly, we increased disbursements to sectors such as tea, cinnamon, vegetable cultivation in Nuwara Eliya, supplier financing and fisheries in the Northern region. Strategic focus was also placed on strengthening collections through a centralised recoveries unit and a dedicated team for recoveries for micro finance.

Granting facilities for the Fisheries Industry

The Bank commenced lending to the communities engaged in fisheries in the Northern peninsular, particularly in Nelliady, Chavakachcheri, Trincomalee, Manipay and Akkaraipattu. Funding is directed towards the purchase of boats, boat engines and fishing nets among other equipment, directly contributing towards income generation and improving the living standards of these communities. In going beyond mere financial support, we also engage these communities through capacity building programmes including financial literacy.

BUSINESS LINE REVIEWS



. >> Our micro financing endeavour extend to a number of indigenous trades, such as mask making.



>> Fisheries is a beneficiary of our micro financing initiatives

Capacity building programmes

Financial literacy: We conducted a financial literacy programme for women entrepreneurs in Tissamaharama during the year, with a total participant base exceeding 200. The program aimed to strengthen financial literacy and provide entrepreneurial support to women engaged in the informal sector, offering guidance on business management and marketing.

Anthurium cultivation: The Anthurium flower is one of the most popular tropical cut flowers being grown commercially for exports as well as for the local market. The micro financing unit organized several Anthurium cultivation training programmes in the areas of Nawalapitiya and Minuwangoda .

OUTLOOK

The Unit will continue to empower the micro ventures within the economy and promote financial integration. The Banking on Women initiative will be a key priority for the segment as we intend to roll out a bundled offer comprising a savings account, loans and credit cards through the Araliya offering.

THE SUCCESS STORIES OF OUR MICRO FINANCE CUSTOMERS

A key factor of our success

“We commenced cement block production in 2013 and obtained the first loan of LKR 150,000/- from NDB which was used for working capital purposes to increase production volume. The second loan facility of LKR 300,000/- from the Bank allowed us to buy a new machine which can produce up to six blocks at a time. It was our dream to buy this second machine, as it would help us increase our production. We did not have the required capital, and NDB's loan made an immense contribution. NDB's continued commitment has been a key factor of our success and we are extremely thankful to the Bank for supporting us in our time of need”.

Mr. P T Lakshman Pradeep Sanjeewa and Ms. W K T Deepika of Tissamaharama



”

Extremely grateful for NDB's continued support



Ms. P. Subhashini set up a small scale tailoring business several years ago. In order to expand her business, she obtained a Divi Aruna micro finance facility from NDB which helped her to increase production capacity and provide employment to six workers. She obtained further facilities from time to time for working capital purposes and capacity development. She is extremely grateful to the Bank for its continued support.

Ms. P. Subhashini from Kotahena

”

Financial assistance at the time of need to expand my business

In 2006 Mr. W.K.D Shantha from Kudaoya, Nuwara Eliya commenced vegetable cultivation in a small scale. In 2013 he sought financial assistance from NDB to expand his business and obtained a loan of LKR 150,000/- under the New Comprehensive Rural Credit Scheme (NCRCS). He subsequently expanded his cultivated extend to 10 acres (from 0.5 acres) and the Bank gradually increased support to him providing cultivation loans up to LKR 750,000/-. The profits generated from his vegetable cultivation has also allowed him to commence passenger transport services by purchasing a bus. He maintains that NDB's support was pivotal in his success.

Mr. W.K.D Shantha from Kudaoya



”

BUSINESS LINE REVIEWS

COMMERCIAL BANKING

PERFORMANCE HIGHLIGHTS 2018

LKR Mn	2018	2017	Change %
Total operating income	4,568	3,654	27
Loans and receivables	126,410	96,844	31
Deposits	72,776	55,442	31

Value Creation/Impacts



Total operating income
LKR 4,568 Mn
(+27%)



Dynamic commercial
banking team



Improved processes in
Trade solutions



Expansion of loans to
customers
31%

Strategy in 2018



Business focus

Strengthened position in supplier/
distributor financing

Leveraging on existing customer
relationships to drive growth



Customer experience

Relationship driven portfolio
management has enabled high customer
retention



Inspired team

Ongoing training for relationship
managers

Opportunities for career progressions



Group synergies

Leverage on synergies with Project
Finance and NDB Investment Banking
cluster

A Bank with roots in development banking, NDB has over the years transformed itself to a Bank offering a strong commercial banking proposition, expanding its business both horizontally and vertically. The Commercial Banking Unit specializes in the provision of working capital solutions to large and medium sized corporate entities and benefits from a diverse team of dynamic professionals, a large network of correspondent banks, advanced technological capabilities and efficient process. The Commercial Banking Unit also plays a critical role in anchoring the Bank's overall performance accounting for 21.1% and 26% of banking, revenue and profit respectively.

Risks

Challenging credit quality amidst
moderating economic conditions

Intense price competition between the
banks

Outlook

Focus on consolidating portfolio while
managing portfolio quality

Pursue synergies within the Group
companies

OPERATING ENVIRONMENT

The year under review was a challenging one mainly due to subdued investor sentiments, droughts and political instability towards the latter part of the year and the sharp depreciation of the Sri Lankan rupee. On the external front, exports rebounded as a result of reinstatement of GSP+ preferential access to the European Union. Nevertheless, the gradually rising fuel bill and increased imports of vehicles and gold resulted in a wider trade deficit. Despite these short-term challenges the economy is poised for growth particularly given gains made on the fiscal front, policy impetus towards strengthening the exports sector and the government's ambitions to transform Sri Lanka to a trading and commercial hub. NDB has always sought to align itself with national growth strategies and we are keen to capitalise on opportunities presented by growing international trade.

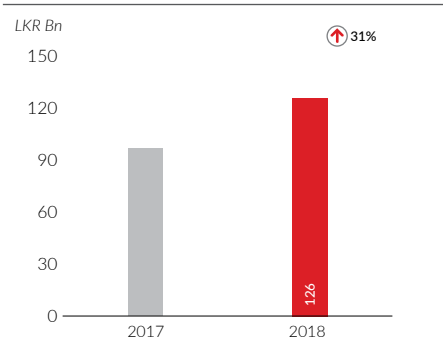
PERFORMANCE REVIEW

The Unit achieved strong volume growth with the credit portfolio growing by 31% in 2018 supported by focus on growth sectors of the economy and client acquisition. The Unit maintains a healthy composition of NII: fee income, whilst increasing its net interest margins. Ongoing focus on enhancing productivity and operational efficiency enabled the Unit to maintain its cost-to-income ratio as low as 22.9%. (2017 – 23.8%).

Overall profitability was however pressured by rising impairment charges as per SLFRS 9 guidelines. We leveraged on our strong customer relationships to closely monitor credit exposures and potential signs of repayment pressure. Despite an influx of NPLs, the Unit's credit quality remains relatively healthy with a gross NPL ratio of 1.56% (from 0.86% the year before) arising from efficient NPL management adopting customer specific strategies. This is attributed to stringent credit origination and collection mechanisms that allow the early identification of potential delinquencies. The Unit's deposit base increased by 31% to 72, 776 Mn during the year (2017- LKR 55,442 Mn). The CASA ratio was maintained at 33% (2017 – 29%) above the overall bank level, a commendable

achievement given the current economic backdrop and attesting the strength of the Unit's deposit franchise. Overall, the Unit's profit before tax for the year increased to LKR 2,449 Mn which amounted to 26% of the Bank's total profits with its highest ever assets and liability growth contributing significantly towards the Bank's CASA drive.

Commercial Banking - Loans and Receivables



STRATEGIC REVIEW

Business focus

The T20 strategy clearly sets out the Bank's aspirations of emerging as a systemically important bank by 2020 and the Commercial

Product map

Lending products
Term loans
Working capital finance
Trade services
Leasing
Cash management
Tradecard services

Banking Unit is expected to play a major role in this transformation. During the year under review the Unit's strategy centred on consolidating on its existing client portfolio, strengthening fee-based income and overall profitability while maintaining portfolio quality. In 2018 the year the Unit widened its industry presence and sought growth in the distributor and supplier financing sector. Our portfolio continues to be well diversified, with a balanced industry exposure as well as a justifiable mix of foreign and local currency loans.



>> Sanmik Natural Food [Pvt] Limited is a food processing company/exporter, which has prospered under NDB Commercial Banking Unit's financial assistance and guidance.

BUSINESS LINE REVIEWS

Relationship-driven portfolio management

The Unit's competitive edge is underpinned by its excellent customer service and relationship management, which has enabled it to retain customers despite intensifying competitive pressures. Our relationship managers undergo extensive training relating to product knowledge, customer servicing and interpersonal skills. This has resulted in the Commercial Banking Unit emerging as a Centre of Excellence within the Bank-nurturing skilled and high performing talent which is a distinctive strength of the business Unit.

OUTLOOK

Commercial Banking Unit's expansion strategy for 2019 will continue to mirror the key growth sectors of the economy with significant potential envisaged in tourism, logistics, construction and agriculture-related sectors. However, we will adopt a cautious approach to growth particularly given the rise in impairments seen in 2018. Enhancing contributions from non-borrowing fee-based income will also be a key priority in 2019 and we will continue to strengthen the presence in Distributor and Supplier financing and invoice discounting. These services are also expected to enhance the Unit's value proposition to customers by providing end-to-end business solutions to customers.

The Bank's competitive edge lies in Development Banking and this competency would be leveraged along with the Group partners under ONE NDB strategy in seeking client acquisition for Commercial Banking. Synergies with the Project Financing division and the NDB Investment Banking Group is expected to support our client acquisition and allow us to service the entirety of clients' financing requirements.

CASH MANAGEMENT UNIT

NDB has an established track record of over a decade in Cash Management, supporting its Corporate Banking clients in managing their Cash and Treasury transactions efficiently. The Cash Management Unit operates within the Corporate Banking division and serves 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 businesses community and collection and payments of capital market transactions.

- Achieved volume and transaction value growth in the corporate electronic banking platform
- Handled the largest share buy-back offer in Sri Lanka amounting to LKR 11.9 Bn
- LKR 4.0 Bn Debenture issue
- Cash management services delivered by a competent team

Fast facts

OPERATING ENVIRONMENT

Despite volatility in the economic and political landscape, the Cash Management Unit (CMU) continued to spread its wings across the business segments to capture market share and to grow its business amidst heavy competition among the local banks. Notwithstanding the ambivalent nature in the stock market, CMU was in a position to capture capital market transactions. CMU managed the largest share buy-back offer in the country (Janashakthi Insurance PLC) which amounted to LKR 11.9 Bn. Further, CMU completed the collection and settlement aspect of Hayleys PLC Debenture amounting to LKR 4 Bn.

PERFORMANCE REVIEW

CMU continued to deliver a healthy growth during 2018, recording an increase in transaction throughput volume via online banking. The volume and value of transactions routed through the corporate online banking platform 'eWindow' achieved a growth of 19% and 27% respectively in 2018 with a throughput value of LKR 95 Bn and a transaction output of 517,560 by end 2018. Amidst the competitive environment, CMU secured an 18% growth rate of client on-boarding for corporate online banking relationships. Onboarding remained relatively unchanged on the EPF and ETF settlement systems, a platform to which the Bank is a relatively new entrant.

The Chinese Desk continued to cater to the Chinese community and despite increasing competition we achieved customer acquisition and revenue growth, albeit at a slow pace. Meanwhile the liability arm recorded 35% growth in 2018 supporting the overall CASA and deposit growth of the Bank. The guarantee business also achieved substantial growth in fee income.

The CMU team which is well trained and experienced, extends exceptional services to our customers and has earned the status of a preferred bank for most of the Initial Public Offerings (IPO) and debenture issuances taking place in the market.

Value Creation



Profit after tax:
LKR 198 Mn



Customer deposit
growth by 35% to
LKR 30.9 Bn



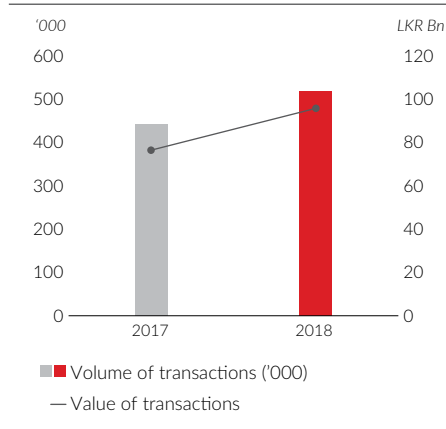
Expertise in cash
management system

Product Map

- Electronic banking systems and services for online payments and account information
- Web services
- System to system integration
- EPF and ETF platforms
- Corporate liabilities
- Cash backed lending
- Collection and settlement of capital market transactions
- Chinese desk
- Escrow services

BUSINESS LINE REVIEWS

Performance of the eWindow Solution



>> Our Chinese Desk, dedicated to Chinese clientele, is ably functioned by a Mandarin speaking Relationship Manager, with the Team providing speedy banking and advisory services

STRATEGIC REVIEW

The Unit's strategic priorities were aligned to the Transformation 2020 strategy and centred on growing the CASA base and fee income of the CMU and Chinese desk. We pursued aggressive penetration in corporate banking as well as the business banking and retail sectors. The Unit also sought to drive system improvements, paving way for transaction growth. We also enhanced the utility system framework for online real-time settlements, in order to strengthen the collection business of utility providers.

OUTLOOK

The Cash Management Unit will continue to focus on expanding the transaction banking business and the deposit base in 2019, positioning ourselves as the leading partner in Cash Management in line with the strategic aspirations of the Bank.

PROJECT AND INFRASTRUCTURE FINANCING

PERFORMANCE HIGHLIGHTS 2018

LKR Mn	2018	2017	Change %
Total operating income	1,446	1,040	39
Loans and receivables	74,141	61,082	21
Liabilities	5,774	1,739	232

Value Creation/Impacts



Total operating income
LKR 1,446 Mn
(+39%)



PIF Team strength
15 Members



Expertise in financing
cross-border projects



Focus on customer
experience and
deepening relationships



Contribution to a greener
planet through lending
to renewable energy
generation projects

Strategy in 2018



Business focus

Strengthening its position in the
renewable energy sector and
diversifying into financial services



Customer experience

Building long-term, mutually-beneficial
relationships with customers



Inspired team

Provided local and overseas training
opportunities

Relationship managers were given
overseas exposure through due
diligence for offshore projects



Group synergies

Pursue synergies with NDB Investment
Bank in a more structured manner

The Bank's established track record in development banking, together with its specialised knowledge, deep industry insights and long-standing customer relationships, have enabled it to build a strong reputation and excel in project and infrastructure financing. Our understanding of the dynamics of different industries and overseas markets together with the holistic value proposition which includes legal and advisory services has made NDB's Project & Infrastructure Financing [PIF] a preferred financial partner for companies seeking long-term financing. The Unit is a frequent recipient of awards and accolades and in 2018 won seven awards in total including the 'Best Project Finance Bank in Sri Lanka-2018' by the Global Banking & Finance Review, UK.

Risks

Managing portfolio quality in challenging
conditions

Cautious investor sentiments

Intensifying competitive pressures

Opportunities

Strengthening our position in the export
sector and offshore projects

Continued investments in the power and
energy sectors

Leverage on Group synergies with the
capital market cluster

BUSINESS LINE REVIEWS

OPERATING ENVIRONMENT

The Sri Lankan economy faced renewed challenges in 2018 emanating from global market developments, rising inflation, sharp depreciation of the local currency and the depleted capital markets. With a GDP growth of just 3.3% in the first nine months of 2018, most financial institutions faced challenges in achieving growth aspirations while witnessing a deterioration of asset quality. Industrial sector growth slowed to 1.9% in the nine months mainly due to a subdued construction sector.

PERFORMANCE REVIEW

The PIF Unit delivered healthy growth while managing its margins and maintaining portfolio quality, amidst operating in a challenging environment. The Unit maintained the growth momentum achieved in recent years by expanding its loan portfolio by 21% in 2018. Furthermore, over the last four-year period, the units loans have expanded at a compound annual growth rate (CAGR) of 23%. Smart profitability management also allowed the Unit to widen its net interest margin by 23% which contributed towards a record 39% increase in total operating income during the year.

The Unit was able to reduce its gross NPL ratio from 0.8% in 2017 to 0.3% in 2018. This attests the efficacy of the risk management practices in place including credit origination, rigorous follow-up and recovery mechanisms. Meanwhile effective cost management led to a favourable change in the Unit's cost to income ratio to a satisfactory level of 29% from 35% during 2017. Overall the Unit's profit before tax for the year increased by 85% to LKR 1,058 Mn supported by loan growth with satisfactory level of profitability. The Unit's lending exposures are well diversified allowing it to reduce concentration risks to a certain degree.

STRATEGIC REVIEW

Product portfolio

NDB's PIF Unit offers an unmatched array of solutions for infrastructure financing as listed below. The Unit has also played prominent roles in both local and

- Strong portfolio growth
- Recipient of seven awards during the year
- Reduced NPL ratio to 0.3%

Fast facts

international transactions by functioning as Lead Arranger, Facility agent and Escrow Agent. PIF also has the technical insights and competence to assist its corporate clients in complex transactions and propel them towards the next phase of development in their businesses. With over three decades of project financing experience and in-house engineering and legal expertise, NDB acts as both a financial and project partner in such projects, providing guidance on project management and legal aspects. The Unit has also leveraged on existing relationships to venture into overseas markets such as Uganda, Bangladesh and Cambodia, particularly for syndicated debt transactions, with lead arranger role.

Product map

Term Loans (in both LKR and Foreign Currencies)

Offering services as Arranger, Lead bank, Escrow Agent and security Agent in Syndications

Islamic Banking long term financing products (in both LKR and Foreign Currencies)

Project related Letters of Credit facilities

Leveraged Buy-outs

Structured debt facilities including Lease Rental Discounting facilities

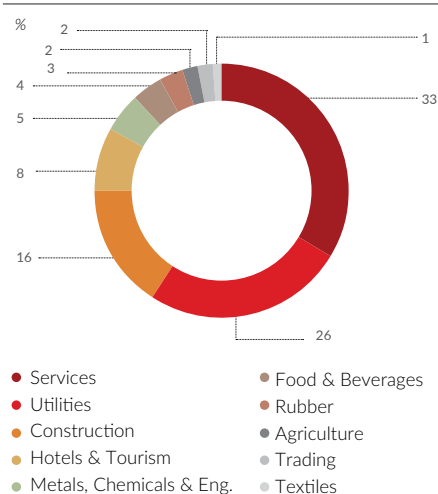
Lease Facilities for Corporates

Securitisation of Future Tea Sales

Securitisation of Lease & Hire Purchase Receivables

Investment in listed rated debentures and listed preference shares

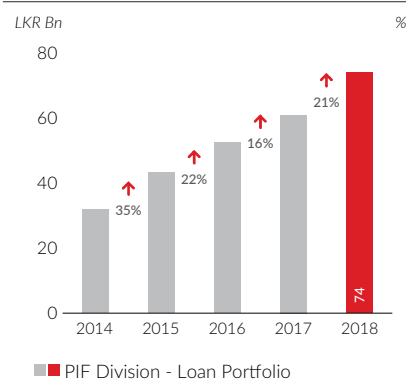
Sector-wise Composition of the PIF Loan Portfolio



Sector focus

The Unit sought further diversification of its portfolio by venturing into growth sectors such as financial services and power and energy, in line with Transformation 2020. We are cognisant of the role the Financial Services sector can play in fuelling economic growth through lending to enterprises and consumers and therefore placed emphasis on this sector. Meanwhile, given the Bank's long-term commitment towards financing renewable energy projects, the Unit continued to fund this lucrative sector which will allow us to fulfil both our commercial and environmental sustainability objectives while providing sustainable solutions to ever increasing demand for energy.

PIF - Five Year Loan Portfolio



Award-winning proposition

The Unit's continued success is primarily attributed to the competencies and experience of its team. For instance, the capabilities of our legal team in handling complex transactions is unmatched in the industry and has enabled us to strengthen our competitive edge in this segment. The Unit is a frequent recipient of numerous local and international awards and during the year it was awarded with seven awards including the prestigious 'Best Project Finance Bank of the Year' by the Global Banking & Finance Review Magazine, UK and the 'Best Domestic Project Finance Bank of the Year', for the fourth consecutive year by the Asian Banking & Finance Magazine, Singapore. The Unit also received triple awards at the Corporate & Investment Banking Awards 2018, a category which was introduced for the first time by Asian Banking & Finance Magazine, Singapore. (pg. 10)

Contributing to a greener economy

As a responsible corporate citizen, we are aware of the significant role we can play in contributing to socially and environmentally positive projects. A comprehensive environmental and social screening framework (ESMS) is in place to ensure that projects do not entail significant environmental/ social risks. We are also committed towards funding projects which meet both our commercial and sustainability objectives. For instance, the renewable energy projects such as wind power projects and mini-hydro power projects positively



>> PIF is a financing partner for a large number of mega-scale infrastructure development projects in Sri Lanka, including the landmark Colombo City Centre project

Key projects

Indirectly supported the growth of the local industries and domestic consumption through disbursing LKR 15 Bn to financial intermediaries to grow their loans and advances.

Provided financing solutions for the development of two 10 MW wind power projects in Jaffna peninsula. These projects made NDB the only Bank which has funded all the wind power projects in North and East provinces.

impact the environment, through avoidance of harmful emissions of gases such as Carbon Dioxide (CO₂), Sulphur Dioxide (SO₂) and Nitrogen Oxide (NO_x). In this light, the unit is keen on assisting these industries through structuring the financing mechanism which matches the cash flows of the projects.

OUTLOOK

With the currency depreciation and modest growth rate of the domestic economy, the corporate customers are likely to venture in to overseas projects which require diverse financing requirements. With the expertise and capabilities gained throughout the years, the Unit is well positioned to capitalise

on these emerging opportunities; both in financing overseas projects and acting as the lead arranger. We also hope to strengthen our presence in the export sector, which is expected to thrive following policy impetus from the Government. The speedy establishment of power and energy projects is critical in the expected demand supply gap in power by 2020. In this backdrop, we will continue to fund the sector, by leveraging on our expertise in financing energy projects.

Over the short-to-medium term, the prevalent high interest rate scenario may dampen investor sentiments. Moreover, as the country's financial sector matures, the availability of financing for corporate customers is likely to improve, leading to stiff competition from other financiers. That said, deep relationships we have nurtured with our customers, the expertise of our multi-disciplinary team and the industry insights including foreign exposure, makes us the preferred partner for organisations seeking long-term financing and we remain confident of our ability to capitalise on emerging market opportunities.

BUSINESS LINE REVIEWS

ISLAMIC BANKING

PERFORMANCE HIGHLIGHTS 2018

LKR Mn	2018	2017	Change %
Total operating income	376	208	81
Loans and receivables	10,777	5,193	108
Deposits	4,483	3,276	37

Priorities in 2018

- Expanding regional reach
- Customer engagement initiatives
- Widened services to the NDB Privilege customers

The Bank ventured into Islamic Banking with the launch of 'Shareek' in 2014 and within a short period of time has emerged as one of the top three players among the Islamic banking industry. Shareek is led by a team of skilled and experienced Islamic banking professionals and supported by two eminent Shariah scholars who provide technical and Shariah guidance. The Unit marked a major milestone during the year, winning the 'Deal of the year Silver Award' at the Islamic Finance Forum, South Asia 2018.

PERFORMANCE REVIEW

The Islamic Banking Unit (IBU) achieved a respective 108% and 81% growth in loans and receivables and operating income during the year, supported by its pursuit of cross sell opportunities across the other business verticals and an expansion of its footprint. Deposits also grew by 37% during the year as the Unit strengthened its deposit franchise and sought 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.

STRATEGIC REVIEW

The exceptional growth recorded by the IBU during the year was supported by the regional expansion of Islamic Banking services across the Bank's branch network. This allowed customer engagement at regional level, with the IBU partnering the branches in organising several awareness campaigns and promotional events. As part of the Transformation 2020 strategy, IBU will continue to support the extensive network of SME, middle market enterprises, larger local corporates and project financing clients.

In 2018 NDB Shareek also extended the Islamic Banking proposition to the Bank's Privilege customers [high net-worth customers], with the launch of NDB Shareek Privilege Banking, allowing us to tap into a previously untapped segment. IBU also launched the Mudarabah Minor savings Account during the year.

OUTLOOK

As the demand for alternative financial services are growing rapidly in the global arena, the outlook for NDB Islamic Banking Unit remains positive with numerous local and global opportunities to be pursued. Over the long-term we hope to set up regional centres to better cater to the growing demand and capture regional growth opportunities. We will also strive to create more visibility and enhance the Shareek brand through marketing campaigns and promotions.



Product map

○	Deposit products
	Mudarabah savings accounts
	Islamic current accounts
	Wakala deposits
	Mudarabah term investments
	Minor Mudarabah savings accounts
○	Financing products
	Ijarah leasing
	Wakala
	Murabahah – Import and Local
	Diminishing Musharaka
○	Services
	Monthly profit payments
	E-statements
	Mobile banking
	Internet banking
	Debit card
	Sweeping facility
	No minimum balance requirements

REFINANCE OPERATIONS

As a Participatory Financial Institution (PFI) NDB has the opportunity to partner with Government and non-governmental multi-lateral funding agencies in channelling funds towards selected sectors through refinancing schemes. These schemes are an extremely efficient way of injecting funding to preferential economic activities that have been earmarked for growth. The country's Financial sector can be a catalyst in the efficient disbursements of these funds due to their geographical reach, ground-level presence and industry expertise.

- Surpassed LKR 8 Bn in Loans
- Strengthened ties with Government and non-governmental sponsors
- Supported the Bank's sustainability agenda

Fast facts

STRATEGY AND PERFORMANCE REVIEW

Refinancing Operations delivered a strong performance in 2018, surpassing LKR 8 Bn in advances and driving penetration through the Micro, SME Middle Market and Corporate Banking units. The Unit ably contributes to the expansion of the Bank's middle market segment as concessionary funding lines available for SMEs have emerged as the most sought-after funding avenue in capital expansion plans due to the concessionary rates offered.

In 2018, we focused on strengthening the existing ties with the Government of Sri Lanka (GOSL) and non-governmental credit line sponsors. The Bank was successful in creating new partnerships with Governmental and multilateral donor agencies and accessing new funding schemes in order to fulfil the funding requirements of our customers. We ensure strict adherence to eligibility standards applicable to individual funding schemes while maintaining responsible lending practices. As a result, NDB Refinance has been accredited by GOSL and other donor agencies for highest performance among the Participating Financial Institutions for number of loan schemes namely SMELoC, SMILE 111 Revolving and E Friends 11 Revolving fund.

In 2018, in its capacity as a Participating Credit Institution (PCI) NDB operated several loan schemes sponsored/routed through Governmental and other donor agencies such as the Central Bank of Sri Lanka, Ministry of Industry and Commerce, Ministry of Finance, Planning and Mass Media and Asian Development Bank (ADB), Coconut Cultivation Board and International Finance Corporation (IFC).

A brief overview of the Performance of the Refinance Unit during the year 2018 is given below;

Name of the Scheme	Project Management Unit	Sponsor	Value of Loans Granted (LKR Mn)	No. of Loans
Saubhagya	Central Bank of Sri Lanka	Government of Sri Lanka	121	92
Small & Medium Enterprises Line of Credit. (SMELoC)	Ministry of Finance and Planning	Asian Development Bank	1,271	105
SMILE 111 Revolving Fund	Ministry of Industry and Commerce	Japan International Corporation Agency	144	25
E Friend 111 Revolving Fund	Ministry of Industry and Commerce	Japan International Corporation Agency	79	05
IFC	International Finance Corporation	International Finance Corporation	284	86
Jaya Isura	Ministry of Finance and Planning		217	05

BUSINESS LINE REVIEWS

- **Small & Micro Industries Leader & Entrepreneur Promotion Project III - (SMILE III Revolving Fund)**

This scheme is extended by the Ministry of Industry and Commerce and NDB has withdrawn nearly 20% of the total facility and granted, totalling to more than 200 facilities to date. The Bank once again emerged as the largest withdrawer among participating banks for this funding line.

- **ADB USD 100 and USD 75 Mn - Small & Medium Enterprises Line of Credit (SMELoC) - Executed by Ministry of Finance Planning and Mass Media**

Sponsored by the ADB, this line is channelled towards Small and Medium Enterprises in Sri Lanka with special focus on supporting women's entrepreneurial ventures, particularly those with no previous borrowing from a financial institution. During the year, the Ministry launched the second Phase of the SMELoC Additional Financing (SMELoC AF) earmarking USD 50 Mn for credit. The Bank received funds amounting to LKR 1 Bn under the credit component at its first and second allocation tranches.

SMELoC AF scheme also offers a complementary grant of USD 9.5 Mn by the name of We-Fi aimed at empowering women. To be eligible for the Grant the business should be owned or led by women. Under this Grant a sum up to 35% of the loan is being given back upon meeting certain criteria to be utilized to reduce the loan principal. Through this Grant we supported 10 clients in 2018 with a total Grant value of LKR 21 Mn.

DRIVING OUR SUSTAINABILITY AGENDA THROUGH REFINANCE OPERATIONS

The Financial sector has identified the crucial importance of aligning business practices and standards to environmental objectives and has sought to provide concessionary funding to encourage investments targeted towards addressing social and environmental problems. The Bank's status as a PFI therefore allows us to drive its sustainability objectives; for instance, the Refinance Unit has ably



>> The Bank joining the "Kapruka Ayojana" Credit Scheme with the Coconut Development Board of Sri Lanka.

supported the Bank's women empowerment aspirations, particularly with regards to supporting the 'Banking on Women' initiative.

NDB also continues to grant funding at concessionary rates under the green financing scheme and Environmentally Friendly Solutions Fund II (E-Friends II) Revolving fund. The primary objective of the credit scheme is to assist industrial enterprises by providing financial assistance for investments to mitigate environmental pollution and ultimately ensure compliance to national environmental regulations.

OUTLOOK

The Bank will continue to seek new funding lines, in driving both its commercial and sustainability aspirations. Accordingly, the Bank has already partnered with the International Finance Corporation (IFC) in executing a new loan agreement amounting to USD 35 Mn in order to facilitate capital expansion requirements in the Agriculture sector. This credit scheme has special incentives to the bank on granting credit for women entrepreneurs in the agricultural sector and investments in climate smart agriculture.

The Bank also signed a subsidiary loan agreement with the Coconut Cultivation Board to grant credit under the Kapruka Ayojana Credit Scheme, directed at supporting the country's credit coconut sub-sector. The Bank also partnered the credit scheme sponsored under the Agriculture Sector Modernisation Scheme implemented by the Ministry of Primary Industries.

Further, the Bank will grant loans under the Roof Top Solar Power generation loan scheme with a bid to promote the use of renewable energy. Under this scheme, loans are offered at 8% interest rate for both residential and commercial entities. This credit scheme is administered by the Ministry of Finance and Planning sponsored by the Asian Development Bank.

Trade Finance and Institutional Banking

The Trade Finance and Institutional Banking divisions provide cross-functional support to all business verticals through facilitating transactions and cross-border payments.

TRADE FINANCE

The Trade Finance unit delivered a year of strong performance, supported by the Bank's penetration into the SME sector, which presented numerous opportunities for volume growth. The Unit is one of the leading service providers in the market, offering excellent customer service and maintaining ISO standards. During the year the Unit also placed strategic emphasis on developing employee capabilities and sought to create a specialist trade team to share best practices within the organisation. Leveraging on the centre expertise, the Bank also extended its service to customers outside the Western Province. The Bank's extensive correspondent banking network and global partnerships for trade with IFC and ADB facilitate transactions to the furthest corner of the world.

INSTITUTIONAL BANKING

The Bank's widespread correspondent banking network gives it access to financial services in different jurisdictions and facilitate cross-border payment services to customers supporting international trade. Despite the subdued economic conditions both domestically and globally, Institutional Banking performed exceptionally well and sought to widen its international network with the addition of several new Relationship Management Applications (RMA).

Institutional Banking continued to focus on growing the Bank's International guarantee business in order to increase the Bank's fee-based income. Further, it has created a robust reputation among the corresponding banks as a trusted and reliable local entity for guarantee issuances. Further, the Institutional Banking Team closely monitors the operations of the Nostro/Vostro accounts to review and improve the benefits to the Bank by negotiating better terms with fee-based income and cost optimisation, streamline the accounts maintained and distribute the businesses to derive the best outcome.

Moreover, the Institutional Banking Team continues the review and renewal of the existing counter party limits, whilst enhancing the limits as and when required to facilitate the requirements of the trade and treasury departments. The Bank maintained its position as principal agent for Western Union operations and carried out various reward programs through the branch network and its sub agents in order to enhance inward remittances and increase customer loyalty.

TREASURY

PERFORMANCE HIGHLIGHTS 2018

LKR Mn	2018	2017	Change %
Net interest income	1,940	1,167	66
Foreign exchange income	1,218	1,064	15
Debt trading and other ALM operations	673	580	16

Priorities in 2018

- Mitigating potential interest rate and liquidity risks
- Driving the funding strategy for the year
- Generate new volumes from the FX Desk

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.

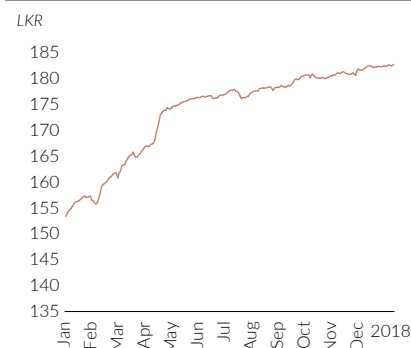
OPERATING ENVIRONMENT

Market conditions were volatile throughout 2018, characterised by the sharp depreciation of the Rupee, moderating economic growth and political instability towards the latter part of the year. The Rupee depreciation in excess of 19% coupled with LKR yield curve volatility in excess of 200 basis points saw investors dash for safety, sharply affecting investor sentiments. The anticipated slowdown in private sector credit growth was achieved towards the latter part of the year reflecting the Government's efforts to tighten monetary policy. However, economic growth also moderated to 3.3% in the first nine months of the year reflecting a weak industrial sector.

The Central Bank of Sri Lanka (CBSL) acting on providing economic stimulus relaxed monetary policy in April 2018 amid easing inflation and a successful sovereign bond issue of USD 2.50 Bn by cutting the SLFR by 25 basis points to 8.50% from 8.75%. The external environment remained un conducive due to several factors; US Federal Reserve continued its monetary policy tightening throughout 2018 with four rate increases of 25 basis points each. Escalating trade tensions between China and the USA coupled with trade sanctions implemented on several

countries by the Trump administration saw many regional and emerging market currencies take a heavy beating against the green back. Spill over effects were felt quickly in the domestic market as large foreign holdings exited the Sri Lankan market both from equity and Government debt securities markets. These dynamics coupled with political instability towards the latter part of the year resulted in the Rupee depreciating 19% against the US Dollar to end the year at LKR 182.90. The foreign fund outflows were further aggravated by the political uncertainty in the latter part of the year. CBSL acting accordingly, raised policy rates in November by 75 basis points on the SDFR and 50 basis points on the SLFR mainly to counter effects of the depreciating Rupee.

USD:LKR Rate



STRATEGY AND PERFORMANCE

Debt market volatility presented itself by way of a declining yield curve during the first two quarters of 2018 fuelled by the monetary policy loosening in April. Subsequent flight to safety approach adopted by foreign funds in the wake of a depreciating Rupee and US Fed rate hikes saw the yield curve rise steeply towards the latter part of the third quarter and early fourth quarter. The weakening Rupee provided relatively lower opportunities in comparison to the volatility experienced in previous years but bolstered the Bank's foreign reserves, yielding relatively high returns when converted to local currency.

PERFORMANCE REVIEW

The Treasury unit was a significant contributor to profitability during the year, accounting for 32% of the Bank's pre-tax profitability. The ALM desk was a key contributor to the Unit's earnings reflecting the team's ability to accurately predict market dynamics.

ALM Desk

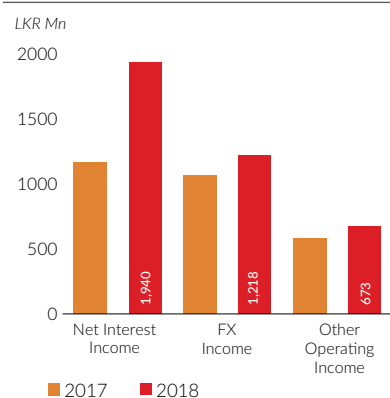
Long-term balance sheet management strategies implemented in previous years continued to pay rich dividends as the ALM desk continued to enjoy healthy margins. The desk continued to drive the business units with price guidance through its dynamic transfer pricing policy, thus positioning the Balance Sheet to yield the maximum margins from the mismatches. ALM operation yielded net interest income of LKR 1,940 Mn for 2018 which is a growth of 66% y-o-y. The LKR yield curve volatility enabled ample debt trading opportunities resulting in trading and other ALM gains of LKR 673 Mn.

FX Desk

The depreciation experienced for most part of the year set a challenging backdrop amid position limit sanctions and other measures imposed by the regulator to curtail further Rupee sliding. The FX desk utilised all

available tools at its disposal to generate new volumes from the market whilst retaining its existing market share to record trading gains of LKR 823 Mn. The sales desk provided in depth insight to its clients recording gains of LKR 396 Mn in 2018.

Treasury Performance Highlights



Product map

FOREX products

- FX forwards
- FX swaps
- FX derivatives
- Dual currency deposits
- FX options

Money market products

- REPOs
- Reverse REPOs
- Debt trading instruments

OUTLOOK

Large external debt repayments amounting to USD 4.5 Bn (in 2019) coupled with fiscal consolidation efforts are likely to have a significant impact on the economic outlook of the country for the next few years. Being marked as an election year, some fiscal slippage is anticipated in 2019, thus exerting pressure on the exchange rate as well as the interest rate. However, the external sector seems to provide some impetus with markets expecting an end to the Fed rate hike cycle and oil prices expected to stabilise at relatively low levels in 2019. Hence it is our view that interest rates will show gradual signs of nominal increases towards the second and third quarters due to increased domestic spending. The exchange rate having taken a pounding in 2018 is expected to return to the average annual depreciation levels of 4% to 6% levels.



>> The Bank's Treasury Department is an important vertical in ensuring sound operations whilst supporting other business units

GROUP COMPANIES

The Group's capital market cluster comprises of its fund and fee-based operations related to investment banking, stockbroking, wealth management and private equity management in Sri Lanka, Bangladesh and Mauritius. Since being brought under one roof at the Group's new NDB Private Wealth Centre Branch in Bambalapitiya, the cluster has further strengthened its value proposition as the country's premier one-stop-shop for portfolio management.

The clusters market position is strengthened by its strong technical expertise who have been capable of delivering excellent customer service with innovative solutions from individuals to massive corporate bodies in the country.

Capital Market Cluster



NDB Capital Holdings 147



NDB Investment Bank 149



NDB Wealth Management 151



NDB Securities 153



NDB Capital Limited 154

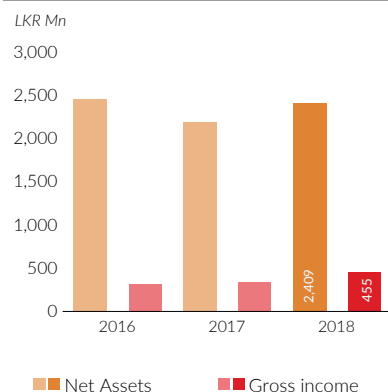


NDB Zephyr Partners 155

Performance of the Capital Market



Performance of the Property Management Cluster



Property Management Cluster



Development Holdings (Pvt) Limited

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NDB CAPITAL HOLDINGS LIMITED

PERFORMANCE HIGHLIGHTS 2018

LKR Mn	2018	2017	Change %
Profit after Tax	158.6	326.5	(52)
Operating Profit Margin (%)	27	34	-
Net Profit Margin (%)	15	31	-
Return on Equity (%)	3	6	-

Strategy in 2018

- Provision of the full spectrum of capital market solutions for both corporates and individuals

NDB Capital Holdings Limited (NCAP) and its subsidiaries (collectively referred to as the Investment Banking Cluster or NCAP Group) are strategically aligned to facilitate the economic development and growth of the capital market of Sri Lanka. NCAP functions as the fund-based investment banking arm of the Group which plays the key role in guiding its cluster companies. The main fee-based operations of the Company 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 Bangladesh. NCAP takes direct participation in fund based operations comprising but not limited to investments in listed equities, private equity, fixed income securities, Government bonds, structured debt, underwriting and acquisition funding.

OPERATING ENVIRONMENT

Year 2018 proved to be challenging for Sri Lankan capital markets, characterised by market volatility arising from pressure on the exchange rate, investor uncertainty and relatively low foreign participation levels. The political crisis towards the end of the year crippled the capital markets further with the total net foreign outflow for 2018 being over LKR 30 Bn. Meanwhile implementation of the new Inland Revenue Act resulted in an increased tax burden which also contributed to a dampening of market activity. As a result, the All Share Price Index (ASPI) and S&P SL20 Index dropped by 5% and 15% respectively by December compared to 2017 while the average daily market turnover of the CSE fell from LKR 915 Mn in 2017 to LKR 834 Mn by the end of December 2018 recording a drop of approximately 9% over the period under consideration.

STRATEGIC FOCUS

Through innovative competencies and resources, the capital market cluster led by NCAP aims to provide a unique proposition to its customers. Through its subsidiaries and with the support of its parent, the NCAP Group expects to offer fully-fledged financial services to its varied client base.

As an initiative to streamline operations within the Group, NCAP is in the process of acquiring the controlling stake of NDB Capital Limited, Bangladesh which was previously held by the Bank, through NDBIB.

During the year NCAP exited the investment it made in Resus Energy PLC, a structured investment undertaken in the financial year

of 2014. NCAP continued to make Private Equity investments through the Emerald Fund and reviewed various avenues to identify the most suitable investment opportunities given the various levels of risks in order to maximise the Group returns.

As a step towards becoming a responsible corporate citizen, NCAP successfully continued its NDB Capital Scholarship Trust Fund program marking its success for the fifth year. NCAP continued to invest in its Scholarship Trust Fund with the objective of supporting the educational aspirations of deserving undergraduates from engineering, management, medical and law faculties of University of Moratuwa, University of Sri Jayawardenapura and University of Colombo respectively. To date, there have been 54 recipients of this prestigious scholarship.

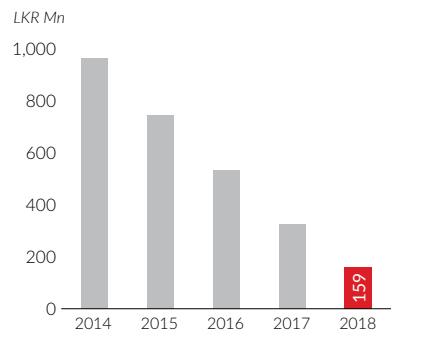
During the year of 2018, NCAP Group actively participated in implementing 'One NDB - Phase 02' initiatives. Becoming 'One NDB' is expected to facilitate integration of the way we work together across different business verticals of the NDB Group. As Sri Lanka's leading financial conglomerate, the main aspiration of this 'One NDB' concept is to unleash a unique customer experience by being a one-stop-shop for one's all financial needs.

PERFORMANCE

With the presence of challenging macroeconomic drivers and volatile global economic conditions, the consolidated profit after tax of NCAP Group stood at LKR 159 Mn for the year ended 31 December 2018 recording a decline of 52% from profit after tax of LKR 327 Mn recorded for the same period in 2017.

GROUP COMPANIES

NCAP-Consolidated PAT



OUTLOOK

While the prevailing external environment forces of the country recommends a 'watch-and-wait' approach to investors, NCAP Group will extend efforts to maximise returns in the capital market. Going forward the investment banking cluster will focus on achieving coalition within the NDB Group in creating business prospects in order to optimise synergies across the business verticals. Despite the uncertain domestic political and economic circumstances, NCAP Group will strive to retain its leading position in the domestic capital market as well as to secure a prominent market share in Bangladesh with the assistance of its foreign subsidiary in the future.

NDB INVESTMENT BANK LIMITED

PERFORMANCE HIGHLIGHTS 2018

LKR Mn	2018	2017	Change %
Funds Raised	59,535	55,083	8.08
Profit after Tax	55.12	84.17	(34.51)
Operating Profit Margin (%)	24.85	38.83	-
Net Profit Margin (%)	24.97	36.01	-
Return on Equity (%)	6.84	11.28	-

Strategic Focus

- Continues to maintain and extend its leadership across capital raising and M&A activities transcending local borders whilst striving to introduce innovative financial structures to the market

NDB Investment Bank Limited (NDBIB) is the investment banking arm of the NDB Group offering fee-based services ranging from debt and equity capital raising, mergers and acquisitions, and corporate advisory services. Over the years, NDBIB has cemented its position as the market leader for investment banking activity in Sri Lanka.

OPERATING ENVIRONMENT

Political instability and policy uncertainty continued to dampen investor confidence in 2018. The global scenario during the year also adversely impacted many markets including Sri Lanka. With the rise in US interest rates, a strengthening US Dollar, trade sanctions and unrest in the Middle-East, emerging markets witnessed an outflow of foreign funds leading to a significant downturn in performance.

STRATEGIC FOCUS

Despite the lacklustre performance of the economy and general lull in investment activity, NDBIB carried out several landmark transactions during the year, further solidifying its reputation as the country's foremost investment bank. Key transactions executed during the year include the following:

- NDBIB acted as financial advisor and manager to two BASEL III compliant Tier II Listed Rated Unsecured Subordinated Redeemable Debenture Issues for DFCC Bank PLC and Sampath Bank PLC amounting to a total of LKR 14.5 Bn.
- NDBIB also managed other listed debenture issues for Singer (Sri Lanka) PLC, Hayleys PLC and LOLC Finance PLC, raising over LKR 7 Bn.
- NDBIB acted as the financial advisor to HDFC Bank for the first ever perpetual debt issue to take place in the Sri Lankan Capital Market which qualifies as Additional Tier I Capital (AT1 Bond) under BASEL III guidelines. The General Treasury of the Government of Sri Lanka is the sole investor to the proposed AT1 Bond issue of HDFC. NDBIB assisted HDFC in finalising the terms of the AT1 Bond Issue with the General Treasury, drafting requisite legal documentation and obtaining all regulatory and shareholder approvals for the issuance of the AT1 Bond
- NDBIB also managed and advised on fund raisings via Commercial Paper, Structured Debt Products and Syndications for Softlogic Holdings PLC, Vidullanka PLC, LB Finance PLC, People's Leasing and Finance PLC, Fintrex Finance Limited, AMW Capital Leasing and Finance PLC, Sierra Developments Limited and Food Studio (Private) Limited raising over LKR 8.6 Bn.
- NDBIB managed two Rights Issues during the year which also included the Rights Issue of NDB Bank
- During the year, NDBIB's advisory team also completed multiple transactions including advising on a spin-off of the tea plantation segment of Watawala Plantations and Listing of Hatton Plantations on the Colombo Stock Exchange via an Introduction.
- Other advisory transactions included scrip dividend issues, valuations, financial
- NDBIB concluded a major transaction in 2018 by acting as the Financial Advisor for Lanka Credit and Business Limited (LCB) on its acquisition and revival of the distressed finance company, City Finance Corporation Limited (CFCL), which was under the purview of the Central Bank of Sri Lanka (CBSL). NDBIB facilitated all aspects of this transaction valued at LKR 1.3 Bn including structuring the acquisition to meet the requirements of LCB, securing requisite approvals, negotiating with CBSL and coordinating with multiple parties to ensue successful execution of the transaction within stipulated time-frames.
- In yet another landmark transaction, NDBIB acted as joint manager in the debt raising of USD 100 Mn for National Savings Bank. This was the first offshore dollar denominated fund raising executed by NDBIB. NDBIB also arranged a short term facility with the participation of Bank of Ceylon and NDB, the ultimate parent company of NDBIB, to bridge the time gap until completion of the transaction.
- NDBIB advised and managed the Sterling Group's (Japan) investment in to People's Merchant Finance PLC (PMF). PMF was part of the state owned People's Bank Group and was identified by NDBIB as the perfect candidate for Sterling to enter the financial services space. PMF became an ideal spring board due to its significant brand recognition and untapped deposit mobilisation strength. The transaction was structured as a LKR 1.4 Bn equity infusion together with a branding agreement to allow PMF to continue with its existing brand strength.

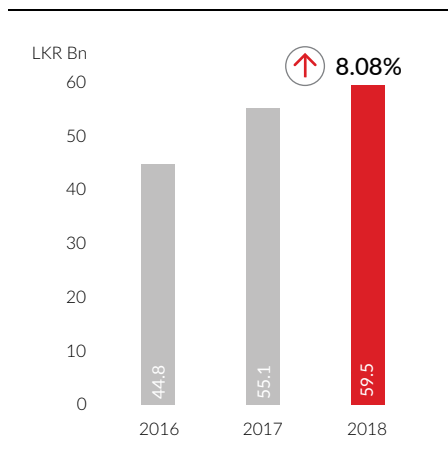
GROUP COMPANIES

modelling assignments, Balance Sheet restructurings and feasibility studies for both local and foreign companies.

PERFORMANCE

Despite unfavourable market conditions, NDBIB continued to carry out transactions across its main verticals; equity, debt and corporate advisory. During the year NDBIB raised a total of LKR 60 Bn and was once again crowned “Sri Lanka’s Best Investment Bank” for the seventh consecutive year by the prestigious Euromoney Magazine in 2018.

NDBIB - Funds Raised



OUTLOOK

NDBIB will continue its quest for innovation in order to create opportunities in capital markets. The downturn in economic activity will serve as a platform for M&A transactions where NDBIB can play a key role. NDBIB will also look in to expanding its footprint in the Region with a strategic focus on cross border transactions.

NDB WEALTH MANAGEMENT LIMITED

PERFORMANCE HIGHLIGHTS 2018

LKR Mn	2018	2017	Change %
Assets under management	93,335	97,350	(4)
Profit after tax	68.32	74.70	(9)
Return on equity (%)	9.19	9.67	

Strategic Focus

- Innovative wealth management propositions for retail and corporates

A fully owned subsidiary of NDB Capital Holdings Limited, NDB Wealth Management Limited (NDBWM) is the largest private sector Wealth Management institution in Sri Lanka, with over 25 years of experience. NDB Wealth currently manages over LKR 93 Bn in assets of over 9,500 clients, ranging from individuals to institutions.

OPERATING ENVIRONMENT

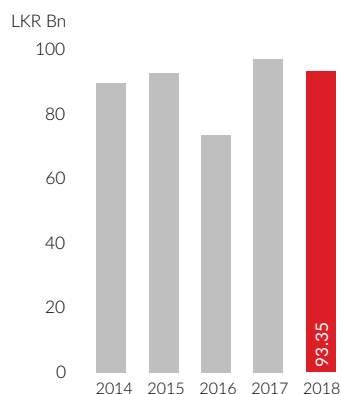
Year 2018 proved to be challenging amidst uncertainty surrounding changes to the tax regime and an under-performing stock market. The increase in the corporate tax rate as per the new Inland Revenue Act which came into effect from 01 April 2018 also negatively impacted the sector with institutional clients withdrawing large amounts of funds from unit trusts.

STRATEGIC FOCUS

The Company offers three distinct services; Discretionary Portfolio Management focused on large institutions such as insurance companies, provident funds and corporates, private wealth management for high net worth individuals and a series of risk rated mutual funds to cater to the wealth planning needs of the retail mass affluent market. Whilst continuing to develop sophisticated wealth management products for our

institutional and corporate clients we are also actively developing our retail proposition in order to diversify our client portfolio.

NDBWM - Assets Under Management



PERFORMANCE

Despite the challenging market conditions that prevailed during the year, NDBWM posted a profit after tax of LKR 68.32 Mn for the period ended 31 December 2018. Total fee-based income increased by 25% over the comparative period of 2017. Total assets under management (AUM) decreased by 4% to LKR 93.35 Bn owing to the withdrawal of funds from unit trust portfolios by institutional investors as a result of the uncertainties with the new Inland Revenue Act. However, capital of the company amounted to LKR 670.54 Mn, well above the regulatory minimum of LKR 25 Mn indicating the strength of the company.

OUTLOOK

Going forward, the changes in the tax regime may pose a challenge to the unit trust business. However, NDBWM is considering new products and further improvements in service for its clients in 2019.

NDB SECURITIES (PVT) LIMITED

PERFORMANCE HIGHLIGHTS 2018

LKR Mn	2018	2017	Change %
Total Brokerage	63.1	95.5	(34)
Market share (%)	2.54	4.47	-

Strategic Focus

- Leverage Group synergies to create value
- Strengthen Risk Policy Framework
- Dissemination of in-depth market Analysis

As one of Sri Lanka's leading stock brokering companies in the country, NDB Securities [Pvt] Limited (NDBS) has been instrumental in linking its strong institutional and retail client base with Sri Lanka's capital market through its listed equity and debt trading platforms. NDB's comprehensive offering also includes value added services such as a state-of-the-art online trading facility for prompt trade executions, margin trading and other credit products of its parent NDB Bank as well as in-depth research support.

OPERATING ENVIRONMENT

The Colombo Stock Exchange (CSE) market activity slowed down during 2018 where the average daily turnover declined by 8.9% to LKR 834 Mn. The subdued activity was mainly due to the bearish market sentiment that prevailed among investors, as the economic performance of the country did not exhibit a significant recovery as expected due to slow paced policy reforms implementation. The political uncertainty which was brought by the events that occurred during the last quarter of 2018, has further deteriorated investor confidence in the CSE. As the US Federal Reserve tightened their monetary policy, a significant amount of capital outflows were seen from the emerging markets. Therefore, the combined effects from these events led to a significant net outflow of

LKR 17.1 Bn from the CSE during the fourth quarter, resulting an overall LKR 23.3 Bn net foreign outflow from the market for the year 2018. Foreign sales accounted for 50.2% of the total turnover which was the highest ever contribution from foreign sales to market activity in the CSE. However, the domestic investor participation in the market has been subdued. The institutional investors, such as the EPF and ETF were inactive whilst retail investor participation has been slow-moving in the market. NDBS's clientele, which mainly comprised of local high net worth individuals, funds and corporate clients, were negatively impacted from the lacklustre market performance of the CSE.

STRATEGIC FOCUS

During the second year of operations at its new premises, our support services have continuously improved to deliver customer convenience and information security. Implementation of a new Information Security Policy and further enhancements to the company's Business Continuity Plan continued during the year. NDBS risk measures were further enhanced with NDBS compliance standards stemming from its three-tier risk model, in adherence with NDB Bank, NDB Capital and NDB Securities compliance frameworks. During 2018, NDBS was able to maintain its risk-based capital over six times of the required regulatory minimum due to its stringent practices and strong parent backing.

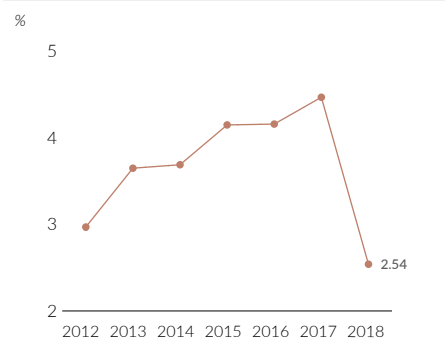
Creating well informed and efficient capital market through wide-spread dissemination of in-depth market analysis and research is an important element of our value proposition. Our research insights and market updates are shared widely among the clientele of NDB Bank while our published research reports are

disseminated to the public through various platforms, including print and electronic media. During the year, we collaborated with the CSE and conducted seminars and workshops across the country. NDBS Research continues to be recognized for their high-quality research, winning the Bronze award for the Best Equity Research Report at the CFA Sri Lanka Capital Market Awards 2018 for the third consecutive year.

We continue to leverage on group synergies to create value in our offering. Embracing the "One NDB Group" vision, NDBS invested significantly in its human capital during the year. The NDBS investment advisor team was trained and geared to offer a wide array of customer oriented financial products to its client base, going beyond its traditionally known listed equity and debt products. During the year, a more convenient trade settlement solution was introduced to customers by integrating NDBS's and NDB Bank's digital platforms. NDBS collaborated with the NDB Group companies to successfully initiate acquisitions of two finance companies during the year, in a bid to venture into other avenues of business amidst intensifying competition in the market.

PERFORMANCE

NDBS - Equity Market Share



NDBS's brokerage declined by 34.9% to LKR 63.1 Mn as a result of the severe competition that prevailed in the industry and the lack of exposure to a stronger foreign clientele, the market share of NDBS reduced to 2.5% compared to a market share of above 4% maintained during the last three years. Meanwhile, NDBS focused on operationalizing its group strengths, which led to a remarkable level of cross selling activities. Furthermore, NDBS managed to on-board a foreign broker during FY18, setting up the platform to embrace the strong integration of Sri Lanka and global investment giants.

OUTLOOK

The company is currently developing strategies to promote Sri Lankan equities amongst foreign investors. Despite the upcoming external debt repayments and pressurized exchange rate which challenges the short-term economic revival of Sri Lanka, we expect the economic conditions to improve in the second half of 2019 driven by policy reforms. This is expected to strengthen investor confidence in the capital market and its market activity. Meanwhile, NDBS will continue venturing into fee based income avenues, by embracing the synergetic approach of One NDB Group.

GROUP COMPANIES

NDB CAPITAL LIMITED (BANGLADESH)

PERFORMANCE HIGHLIGHTS 2018

BDT Mn	2018	2017	Change %
Operating income	18.9	81.1	(77)
Profit/(loss) after tax	(19.8)	22.8	(187)

Strategic Focus

- Leverage Group synergies to create value
- Strengthen Risk Policy Framework
- Dissemination of in-depth market Analysis

NDB Capital Limited continues to build inroads into the Bangladesh investment Banking sector with its diversified financial services offering. Services offered by the company include M&A, Advisory, IPO, Portfolio management, Fund raising through Commercial Papers, Bond and Preference Shares, Arrangement of Project Finance and Working Capital.

OPERATING ENVIRONMENT

The Bangladesh economy maintained sustained growth in 2018, with a GDP expanding by 7.86% in FY 2017-18 compared to 7.28% in FY 2016-17. High interest rates amidst tighter liquidity conditions in the market impacted the Banking sector resulting in a lower than expected loan growth and market activity.

STRATEGIC FOCUS

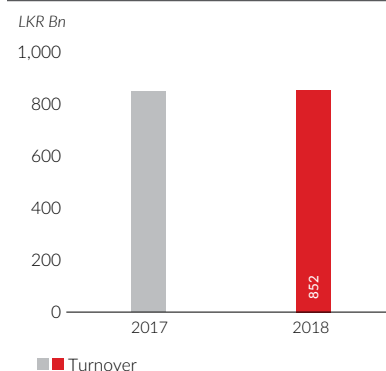
We continued to engage in a diverse range of transactions whilst strategically focusing on clients with exceptionally good repayment track records and robust and sustainable business models. Key transactions carried out during the year are as follows:

- The first ever Merger and Acquisition deal in the pharmaceutical industry in Bangladesh
- Partnered with IIDFC, a leading NBFI and a PFI of World Bank to raise finance of BDT 3,980 Mn from World Bank for a Private Economic Zone.
- Partnered with IIDFC to raise BDT 3,500 Mn from World Bank for a Telecommunication company.
- Mandated by one of the country's leading electricity transmission companies to raise BDT 3,000 Mn for its upcoming expansion.
- The company for the first time submitted IPO application to the regulator for a reputed company
- Fundraising mandates amounting to BDT 15 Bn through Syndication, Commercial Paper, Zero Coupon Bond, Subordinated Bond etc

PERFORMANCE

Severe liquidity constraints in the market and the resultant drop in investment activity negatively impacted performance during the year with the company failing to meet its revenue and profit targets for the year. On a positive note however, NDB Capital Limited (Bangladesh) secured the highest number of mandates since its inception, in 2018. Since most of these mandates will be completed in 2019, the revenue impact will only be felt in 2019.

NDBZ Highlights 2018



OUTLOOK

With the investment climate of the country gradually gaining momentum we are optimistic about the Company's performance in 2019. Several Public-Private- Partnerships (PPPs) were initiated by the government during the year while a total of 1,643 projects have been registered with Bangladesh Investment Development Authority (BIDA) in FY2017-18 indicating growing investor confidence. We expect private and public sector investments to continue to increase in 2019, following the National Election creating further impetus for financial and capital markets in the country. Many companies are expected to go public while Mergers and Acquisitions are also expected to increase in the coming years. To tap these opportunities, NDB Capital has already initiated dialogue with several private sector entrepreneurs with a view to expanding its deal pipeline.

NDB ZEPHYR PARTNERS LIMITED (MAURITIUS)

PERFORMANCE HIGHLIGHTS 2018

LKR Mn	2018	2017	Change %
Turnover	852,125	850,339	0.21%
Return on Equity (%)	31.99	40.19	-

Strategic Focus

- Continued collaboration with multilateral agencies and empowering SMEs with high growth potential

OPERATING ENVIRONMENT

Subdued domestic economic conditions and subdued global equity markets resulted in a relatively challenging year. On the domestic front, the economy continued to be impacted by political and policy uncertainty whilst globally, broad-based tightening of financial markets impacted global equity markets.

STRATEGIC FOCUS

Our network of investors consists of multilateral agencies including IFC (a member of the World Bank Group), DEG- German Development Finance Corporation, FMO (the Netherlands Development Finance Company). We will continue to collaborate closely with these organizations to provide access to capital and technical knowledge to our portfolio companies.

We leverage on our group capabilities to offer our portfolio companies an array of services including strategic planning and management, effective financial management, corporate governance and efficiency improvements in addition to providing equity capital to support growth aspirations. We also help portfolio companies access international markets through linkages with our wide network.

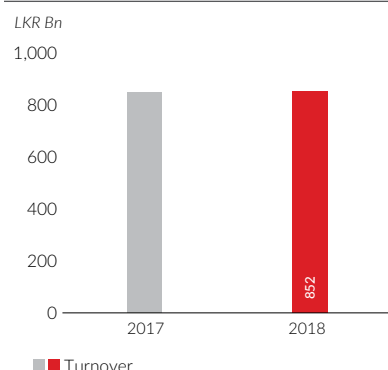
Capitalizing on NCAP's deep understanding and experience in the Sri Lankan market as well as our research and due diligence capabilities, we carry out in-depth sector

research to select companies which have a unique value proposition and a sustainable growth potential.

PERFORMANCE

The Emerald Fund Investment portfolio expanded during the year, with the addition of Consolidated Business Systems (CBS) Limited, a leading exporter of coconut -based products to its portfolio. Our Investment portfolio currently consists of four investments; Cleanline Linen Management (Pvt) Limited (CLM), JAT Holdings (Pvt) Limited (JAT), Idea Group Limited (IG) and Consolidated Business Systems Limited (CBS).

NDBZ Highlights 2018



Cleanline Linen Management (Pvt) Limited is a centralized laundry services provider to star class hotels in Sri Lanka. The company adopts sustainable environmental practices by implementing energy and water conservation methods and efficient waste management systems.

Incorporated in 1993, JAT Holdings (Pvt) Limited is a dominant player in Sri Lankan wood coating, decorative painting and interior living spaces market segments. The Company

has a commanding market position in the Sri Lankan wood coating industry, mainly due to its brand equity. While wood coating products is its core business segment, the company has successfully ventured into related market segments, such as decorative paints, paint brushes, furniture accessories and interior products. JAT also has exclusive rights to manufacture and distribute one of the world's leading wood coating brands, Sayerlack, across Sri Lanka, India, Bangladesh, Maldives, Pakistan and Seychelles.

In 2017, Emerald Fund invested in Idea Group Limited, a manufacturer and distributor of building products including PVC ceiling, roofing materials and architectural hardware in Sri Lanka. The company's top brand "SIVILAMA" provides an array of green-oriented products and continues to gain ground in the market.

The most recent addition to Emerald Fund portfolio companies is Consolidated Business Systems (CBS) Limited which is one of the leading exporters of coconut-based products such as virgin coconut oil, coconut milk, creamed coconut, coconut flour, coconut water etc. In addition to coconut products, CBS exports cut fruit and vegetables, processed food items, frozen food items and tea in the form of tea bags and packets.

Profitability of NDB Zephyr reflects a slight decline due to an increase in operating cost. This is mainly due to strengthening of staff in light of growing portfolio management work and evaluation of new investment opportunities. NDB Zephyr generated healthy ROE of 31.99% for the year 2018.

OUTLOOK

The Government's increasing focus on growing the SME export sector as well the most recent initiative to develop a National Policy Framework for Small and Medium Enterprise (SMEs) Development is a positive improvement which we hope to capitalise on when expanding our investment portfolio in the country. We will continue to identify potential companies in a range of growth sectors such as financial services, leisure, healthcare, information technology and FMCG in order to maximise shareholder return.

GROUP COMPANIES

DEVELOPMENT HOLDINGS (PVT) LIMITED

PERFORMANCE HIGHLIGHTS 2018

LKR Mn	2018	2017	Change %
Profit/(loss) before tax	409	295	39
Total Assets	2,981	2,704	10

Strategic Focus

- State-of-the-art corporate and conference space at the heart of Colombo

Development Holdings Pvt Limited (DHPL) together with the Export Development Board (EDB) owns and maintains the NDB-EDB Tower, the commercial property located at Nawam Mawatha, Colombo 02. The 16-storeyed building houses the Sri Lanka Export Development Board (EDB), several departments of the Bank and many other reputed global and local corporate and multi-lateral agencies such as International Finance Corporation (IFC) and Sri Lanka Export Credit Insurance Corporation (SLECIC).

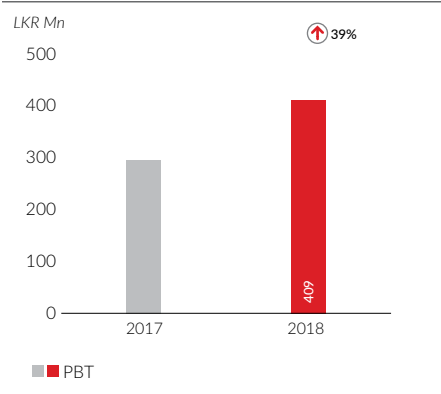
STRATEGIC FOCUS

The property's strategic location together with the high standard of facilities offered renders it as a premier business space in the heart of Colombo. The Property includes cafeteria facilities to accommodate 200 people, a fully-fledged auditorium and ample parking.

PERFORMANCE

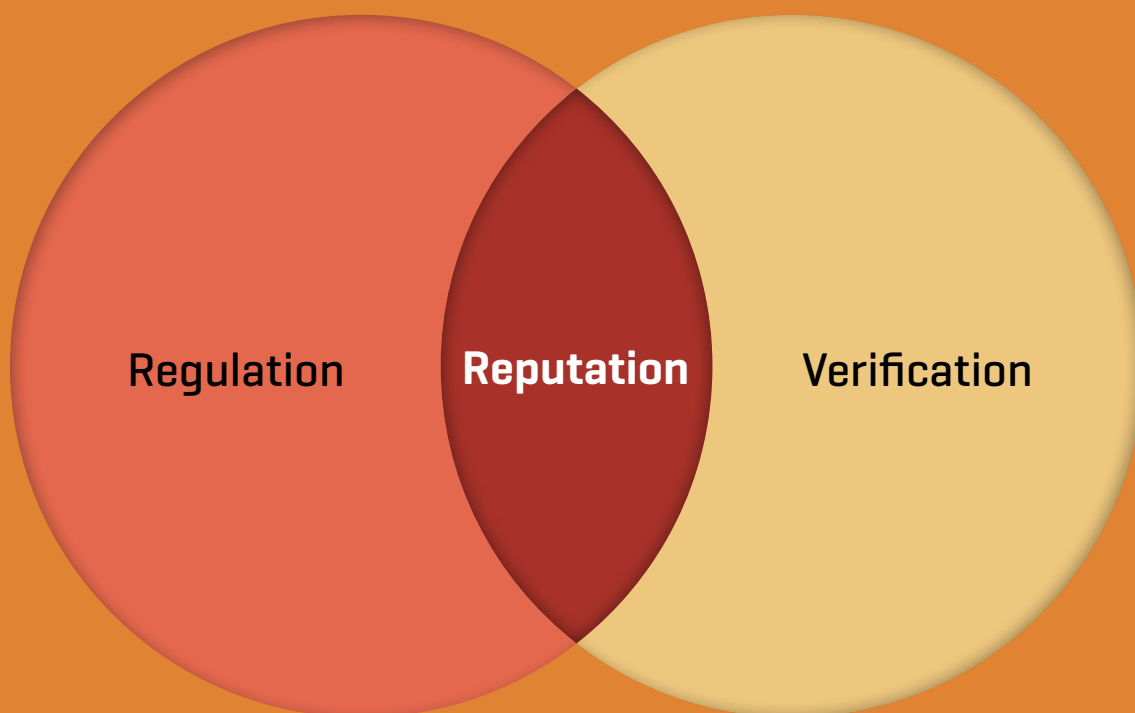
The Company continued to perform well, with PBT increasing by 39% to LKR 409 Mn in 2018. During the year a revaluation of investment property was carried out by an Independent Valuer, resulting in an annual fair value appreciation of LKR 246 Mn.

DHPL - Profit Before Tax



OUTLOOK

With Colombo fast developing as a commercial hub, we expect commercial office space to witness a significant increase in demand. DHPL will continue to strengthen its value proposition as a superior property management solution with continuous upgrades to facilities and amenities offered.



Stewardship

Corporate Governance **158** / Risk Management Overview **175** / Annual Report of the Board of Directors on the Affairs of the National Development Bank PLC **177** /
Directors' Interests in Contracts with the National Development Bank PLC **190** / Human Resources and Remuneration Committee Report **191** /
Nominations Committee Report **193** / Strategic Issues Committee Report **195** / Integrated Risk Management Committee Report **196** /
Board Audit Committee Report **199** / Related Party Transactions Review Committee Report **202** / Board Credit Committee Report **204** /
Statement of Directors' Responsibilities for Financial Reporting **205** / Directors' Statement on Internal Control over Financial Reporting **207** /
Group Chief Executive Officer's and Group Chief Financial Officer's Responsibility Statement **209** / Independent Assurance Report **211** / Way Forward **212**

CORPORATE GOVERNANCE

Dear Stakeholder,

The achievement of NDB's strategic ambitions is anchored on robust corporate governance practices which ensure that the Bank maintains the highest standards of integrity, transparency and corporate conduct in every aspect of its operations.

The corporate governance review set out in the subsequent pages illustrates the policies, structures and standards that strengthen the Bank's governance framework. The Bank's governance structure and principles provide clarity regarding the rights and responsibilities of different stakeholders including the Board of Directors, senior management, control functions, employees, external auditor and the regulators. Throughout this report we have illustrated the importance of each of these stakeholders and how they strengthen the Bank's governance framework. The Bank's approach towards corporate governance is embodied in the key principles of leadership effectiveness, accountability, remuneration and relations with shareholders.

The Bank is headed by a diverse and effective Board which is collectively responsible for the long-term success of the Bank. NDB's Board combines a diverse set of skills and industry experience, representing differences in age, gender and tenure, thereby enhancing the depth of discussions. The Board challenges and engages with the management to drive the Bank's strategic agenda. The relatively high proportion of Independent Non-Executive Directors on the Board ensures that independent perspectives are given due consideration thereby avoiding group think and unfettered powers by a person. Director feedback is identified through a comprehensive self-assessment which was carried out during 2018.

At NDB the role of the Chairman and CEO are clearly segregated; the CEO provides leadership to the executive function of the Bank while I, as the Chairman am responsible for providing leadership to the Board. It is the Board's main priority to build a sustainable business that generates good returns for our stakeholders over the long-term. Our role is to set NDB's strategy, provide leadership and create a culture that helps achieve

our strategy, ensure effective execution by monitoring performance and above all, make sure that risk is managed appropriately. Focus areas for the Board in 2018 included approval of the Bank's long-term strategy (2019-2023), review of the job evaluation and grading framework, review of the capital plan, succession planning and approval of the IT Strategy of the Bank. The Board is also responsible for setting the tone at the top, which is a prerequisite for good governance. The Board plays a vital role in formulating codes of conduct, living the Bank's corporate values and nurturing an organisational culture which encourages honesty and integrity. In 2018, we also adopted the revised Code of Best Practice on Corporate Governance (2017) issued by the Institute of Chartered Accountants of Sri Lanka.

Our Board subcommittees play a vital role in providing oversight of risk management and ensuring that our risk appetite and risk profile are consistent with and support our strategy to deliver long-term, sustainable success. Our internal controls cover financial, operational, compliance, technology controls, as well as risk management policies and systems.

During the year, we welcomed Mr. Sriyan Cooray to the Board. He brings with him an extensive and multi-disciplined experience in banking. The Board would also like to thank Mr. Trevine Jayasekara who retired from the Board at the beginning of the first quarter

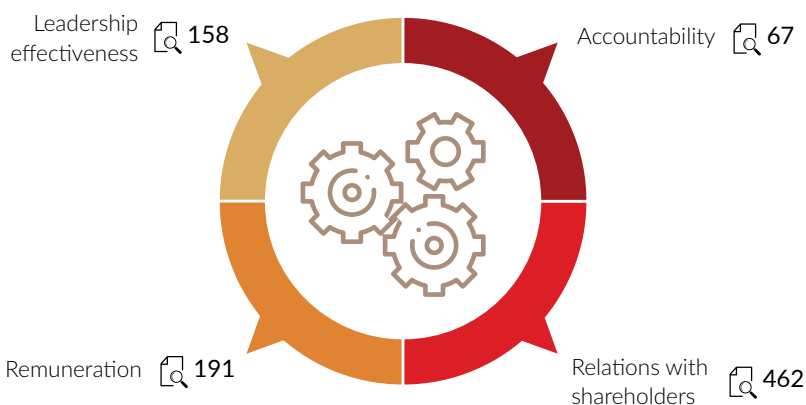
2019 for his valuable contribution to the Board and the Board Audit Committee where he functioned as the Chairman during his 9 year tenure.

This Report sets out our approach to governance in practice, how the Board discharged its duties during the year and how we complied with all relevant regulatory requirements. The report also details the "Factual Finding Report" submitted by the External Auditors in relation to the compliance with the Corporate Governance Direction issued by the Central Bank of Sri Lanka (CBSL).

As stipulated by the Code of Best Practices on Corporate Governance issued by the Institute of Chartered Accountants of Sri Lanka in 2017 I affirm that I am not aware of any material violations of any provisions in 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. Ananda Atukorala
Chairman

This report should be read in conjunction with the tables demonstrating the Bank's compliance to the disclosure requirements of the CBSL and Code of Best Practice on Corporate Governance on pages 364 to 409



Corporate Governance Developments in 2018



SETTING STRATEGY

- The Bank's business strategy for 2019-2023 was approved by the Board following detailed discussions held with The Leadership Team of the Bank.
- Approved the IT strategy of the Bank.
- Establishment of the Board Credit Committee has enabled the Board to dedicate more time in formulating strategy, managing risks and opportunities among others.



POLICY FRAMEWORK

- The Compliance Policy and Code of Conduct, Group Securities Trading Policy and the Group Anti-Bribery and Corruption Policy were reviewed in line with prevailing regulations and best practices.
- Data Classification Policy was rolled out across the Bank.
- Related Party Transactions Policy was reviewed and approved by the Board.
- Disclosure Policy was reviewed and approved by the Board.
- Reviewed the NCAP group IT governance structure and introduced a new IT Policy Framework for the NCAP Group.
- All Policies, Procedure manuals, PPGs and TORs were tracked on a monthly basis to ensure that they are reviewed in a timely manner in accordance with new regulations and best practices.



BOARD APPRAISAL

- Reviewed and improved the Director's Annual Self-assessment by assessing the progress/ achievement of the goals and targets set for the directors.
- Successfully completed and evaluated the self-assessments of the Board, subcommittees and its management committees.



DIRECTOR TRAINING

- An external resource person was engaged to provide an overview on the impacts of IFRS 9.
- Directors participated in Technical Sessions for Directors of Banks conducted by CBSL.
- An awareness session was arranged for the Board on key developments to the AML regulatory landscape.
- The Chairman followed a refresher course conducted by Sri Lanka Institute of Directors and obtained a certification thereafter.



SECURITIES TRADING

- The blackout periods on the NDB share were imposed every quarter or more frequently as required.
- All trades done during the blackout period of the NDB share were monitored on a monthly basis to ensure that directors and employees do not trade based on price sensitive information.



TALENT MANAGEMENT

- The Bank carried out a job evaluation and a grading exercise across the Bank and job descriptions were reviewed by covering 604 job roles.
- The Bank initiated a talent management, competency assessment and evidence based leadership framework/ succession planning assignment with the assistance of external consultants of international repute.

CORPORATE GOVERNANCE

GOVERNANCE FRAMEWORK

NDB's governance framework is founded on two pillars which ensure its relevance and robustness. The first pillar is the external regulatory benchmarks on corporate governance which comprise of laws, regulations and guidelines issued by regulators. The second pillar consists of internal benchmarks on corporate governance which integrate the external regulations into the Bank's processes by way of Board approved policies. While ensuring compliance with all relevant regulatory requirements, this structure allows the Board to drive effective leadership, accountability, fair remuneration and effective relations with shareholders.



POLICY FRAMEWORK

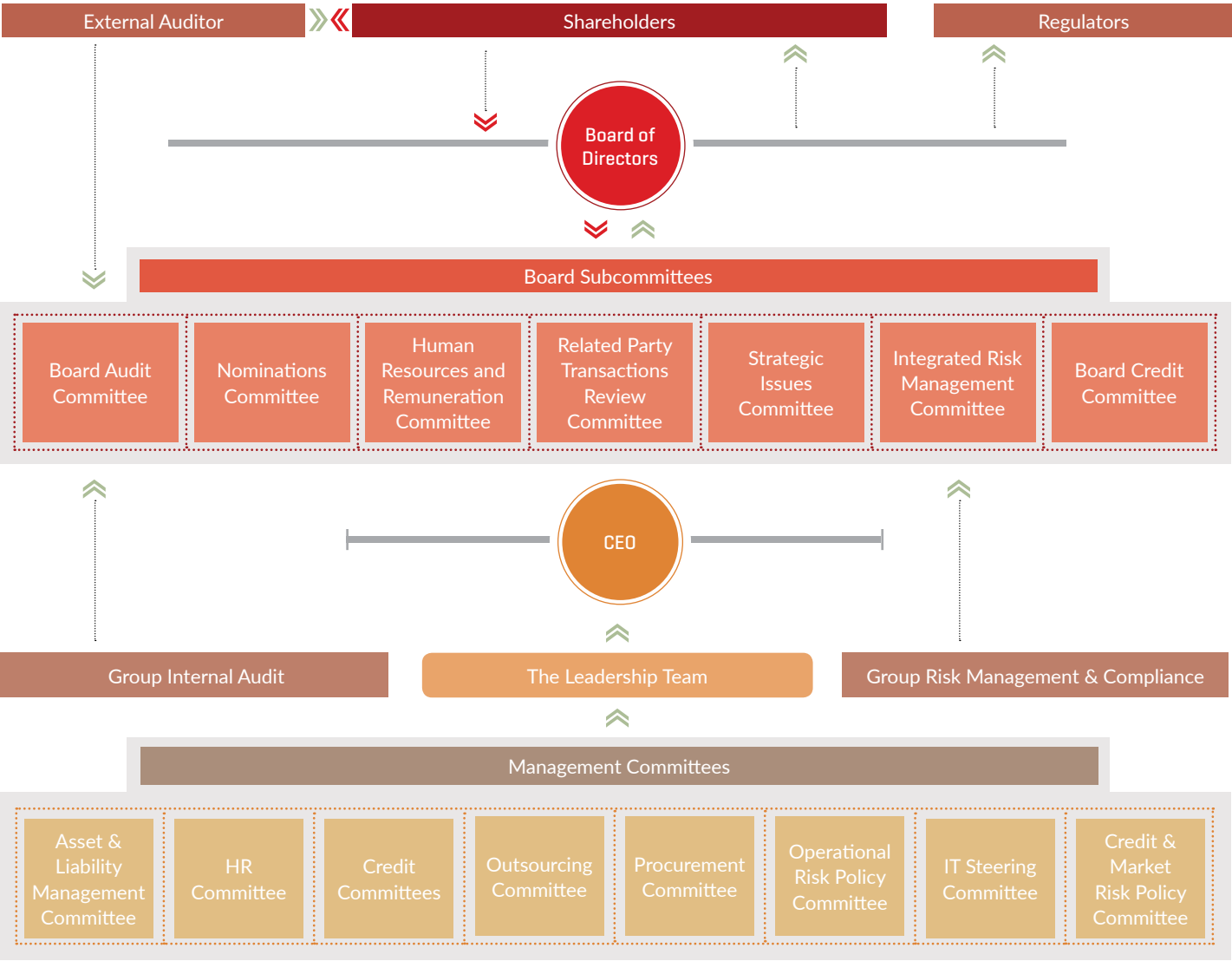
NDB's vision and values are the cornerstones of our business and applies universally to all employees across the NDB Group which in turn sets, the standard for external stakeholder interaction and performance management. The successful delivery of the Bank's bold growth strategy articulated by 'Transformation 2020' has necessitated an evolution of not only what the Bank does but also how we do it. Accordingly, our aspiration is to be a Bank that our stakeholders can depend on. Dependability can only be demonstrated when every member of Team NDB lives out our core values of Integrity, Excellence, Creatively, Accountability and Sincerity every day when interacting with our colleagues, customers, suppliers, shareholders and society.

The following policies have contributed towards inculcating such a culture within the organisation;

- **Internal Code of Corporate Governance** 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.
- **The Compliance Policy and Code of Conduct** 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.
- **The Group Securities Trading Policy** 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 imposed. All share trades carried out by employees of the Bank are monitored to ensure compliance.
- **The Group Anti-Bribery and Corruption Policy** clearly sets out the Bank's expectations and minimum standards on managing the group's exposure to bribery and corruption. It complements the NDB group's core values of integrity and the standard of behaviour expected from all directors and employees of the NDB Group. The Gifts and Entertainment Policy of the group also forms part of this policy.
- **Related Party Transactions (RPT) Policy** is adopted by the Board to ensure that necessary processes are implemented by the Bank to identify, approve, monitor and disclose related party transactions. The Bank takes every endeavour to ensure that it does not grant more favourable treatment when entering into a transaction with a related party of the Bank. The Board appointed Related Party Transactions Review Committee in line with the RPT Policy assesses and considers transactions with the related parties to ensure that related parties are treated on par with other shareholders and constituents of the Bank. The Policy incorporates the relevant legal and regulatory requirements.
- **The Whistle-blowing Policy** 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 whistle-blower 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.

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE STRUCTURE



- » Elected / Appointed by
- » Reporting / Engage

HOW THE BOARD GOVERNS

As the apex decision making authority, the Board is ultimately responsible for creating and delivering sustainable shareholder value. It acts in accordance with the Bank's Articles of Association and complies with laws and regulations applicable to the Bank directly and through the Board subcommittees and Key management personnel.

Key responsibilities of the Board include :

- 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 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 clarification is sought where necessary.
- Presenting a balanced and understandable assessment of the Bank's position and satisfying itself on the integrity of the Bank's Financial Statements.
- Engaging with and considering the opinions of shareholders and other stakeholders.
- Assessing the Board's effectiveness through a comprehensive self-assessment as detailed on page 168.

Board highlights for 2018

The Board's key deliberations during the year are given below :

Strategy Reviewed and approved the 5 year Strategic Plan	Capital Planning Raised Capital through the issuance of shares by way of Rights to the shareholders and approved a Debenture issue to strengthen regulatory capital of the Bank	Digital Strategy • Approved the digital banking expansion through services and products as well as the phygital branch expansion • Approved IT Strategy
Risk Management Approved the ICAAP and Risk Appetite Statement	Talent Management • Succession planning of the Board • HR initiatives to build strong talent pipelines for retention and succession of staff	Monitoring Performance Monitoring delivery of strategy and budgets and performance against plans
Subcommittee deliberations Reviewed and approved the Board Subcommittee deliberations and recommendations	Dividend Approved the final dividend for 2017 by way of LKR 2.00 in cash dividend and LKR 5.00 in scrip dividend	Financials Approved the interim and annual Financial Statements

CORPORATE GOVERNANCE

BOARD COMPOSITION

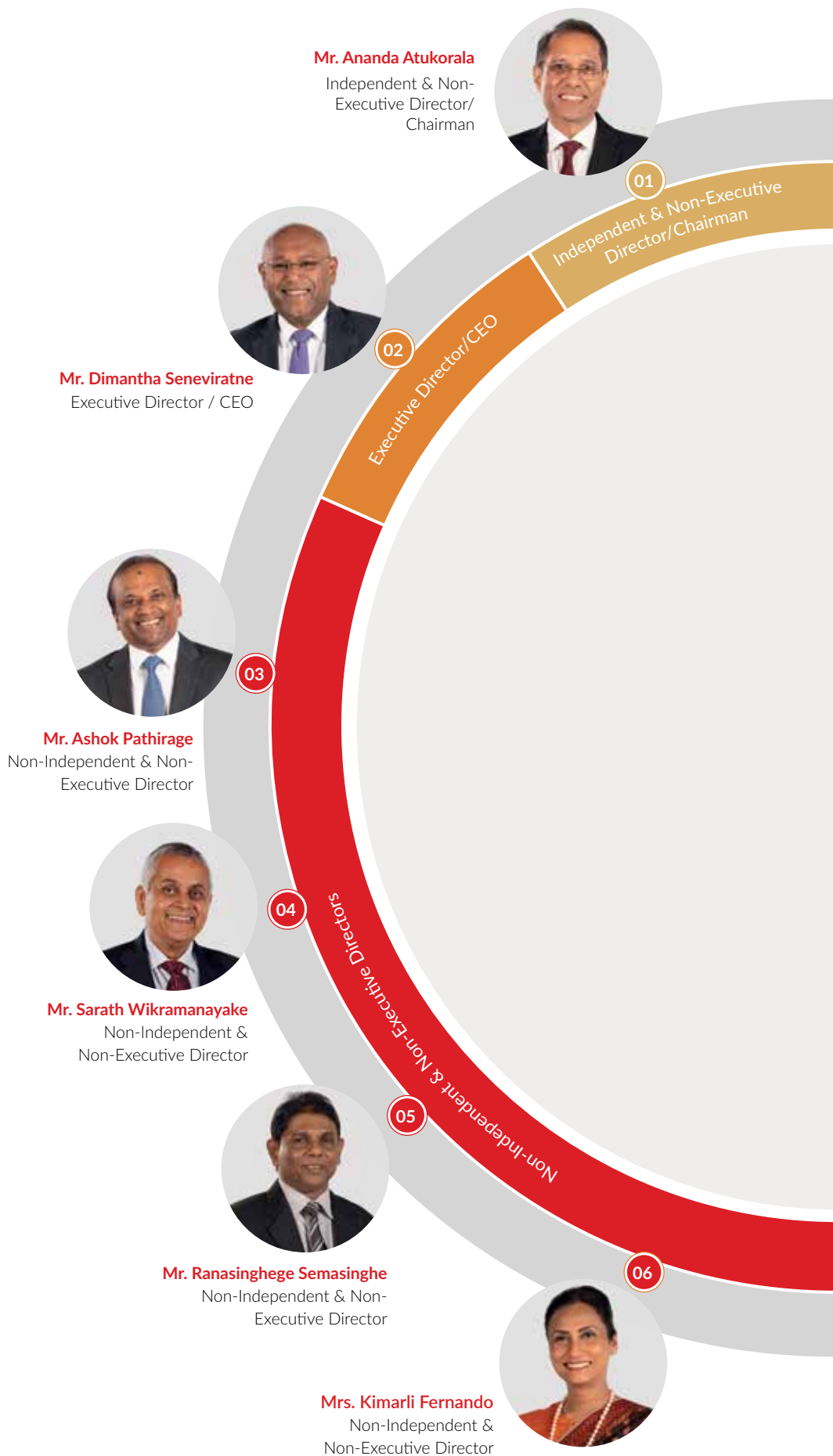
The proportion of Independent Non-Executive Directors on the Board is high. Our Board has a broad range of experience and industry expertise. The tenure of our Directors demonstrates a good balance between continuity and fresh perspective. The makeup of the Board reflects diversity of gender and age.

Independence

- 6 Independent Non-Executive Directors (Including Chairman)
- 4 Non Independent and Non-Executive Directors
- 1 Executive Director/CEO



Banking	6
Finance , Accounting & Management	9
Law	2
HR	1
IT	1
Public Policy & Public Administration	2
Investment Banking	1
Media	2
Insurance	3
Entrepreneurship	1

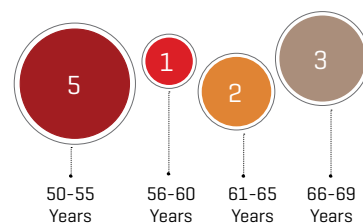




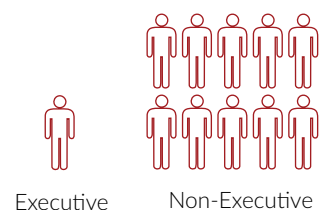
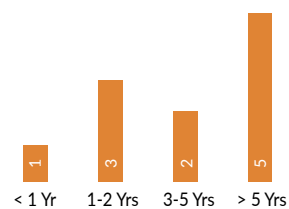
Directors by Gender



Number of Directors by Age



Tenure on the Board



CORPORATE GOVERNANCE

Role of the Chairman and CEO

The roles of the Chairman and the CEO are segregated, ensuring appropriate balance of power and authority. The Chairman is a non-executive director and provides leadership to the Board and plays a vital role in setting the tone at the top while the 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's Role

- 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 decisions
- Facilitates constructive relations between executive and non-executive directors and drive 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's Role

- 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
- Prepares 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

Role of the Company Secretary

The Bank has appointed the Company Secretary as prescribed by applicable laws and regulations and in accordance with the Bank's Articles of Association. The Company Secretary plays a proactive and central role in implementing the Corporate Governance framework of the Bank. It is the responsibility of the Company Secretary to act with integrity, independence and objectivity to protect the interests of the Bank, its shareholder and its employees. All directors have access to the advice and services of the Company Secretary, and it is her responsibility to ensure that the Board procedures are followed, and that applicable laws rules and regulations are complied with. The Company Secretary 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. Board minutes are recorded with sufficient details and uploaded to the Board Pac of the directors well before the next monthly meeting providing adequate time for consideration/clarifications and amendments where needed with the consent of the Chairman. The Board minutes contain sufficient detail so that it is possible for regulatory bodies to assess the depth of deliberations at Board meetings.

Content Captured in Board Minutes

- Summary of information used for Board deliberations
- Matters considered by the Board
- Fact finding discussions and issues of contention or dissident
- Testimonies and confirmations from the senior management
- Board knowledge and understanding of risks to which the Bank is exposed
- Decisions and Board resolutions

Role of Independent Non-Executive Directors

Independent Non-Executive Directors complement the skills and experience of the other Directors by bringing objective and independent judgment on matters relating to strategy, performance, resource allocation, risk management, compliance and standards of the Bank by challenging the Board and management constructively and by sharing their expertise.

Independent Director's Role

- Provides objective challenge as necessary for the good of the Bank;
- Questions intelligently, debates constructively and decides dispassionately
- Helps shape corporate strategy
- Has a good understanding of the Group's businesses and affairs to enable them to properly evaluate information and responses provided by management
- Actively promotes and demonstrates the appropriate culture, values and behaviours of the Boardroom and beyond, including upholding the Bank's Values.

The Structure, Composition and Attendance of the Board as at 31 December 2018

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. Ananda Atukorala (Chairman)	Management and Banking	Independent	Independent	31.08.2016	14	14
Mr. Ashok Pathirage (Deputy Chairman)	Retail Trade, Insurance, Entrepreneurship	Non-Independent	Non-Independent	18.02.2011	14	13
Mr. Dimantha Seneviratne (GCEO)	Banking, Finance and Management	Non-Independent	Non-Independent	01.01.2017	14	12
Mr. Trevine Jayasekara	Accounting, Banking and Textile Industries	Independent	Independent	10.02.2010	14	14
Mr. Sarath Wikramanayake	Accounting, Banking, Insurance and Investment Banking	Non-Independent	Non-Independent	04.06.2010	14	13
Mrs. Kimarli Fernando	Law, Banking and Management	Non-Independent	Independent	04.06.2010	14	13
Mrs. Indrani Sugathadasa	Management, Insurance, Public Administration, Plantations and HR	Independent	Independent	04.10.2013	14	14
Mr. Dinal Phillips PC	Law	Independent	Independent	22.04.2015	14	12
Mr. Kavan Ratnayaka	Management, IT and Media	Independent	Independent	13.05.2015	14	13
Mr. Ranasinghege Semasinghe	Public Policy, Media and Management	Non-Independent	Independent	26.09.2017	14	14
Mr. Sriyan Cooray (appointed w.e.f 10th August 2018)	Banking, Finance and Management	Independent	Independent	10.08.2018	7	6

Effective Board meetings

Preparation prior to Board meetings: In order to ensure a high level of attendance, Board meetings are scheduled and duly informed to the Board at the end of the previous calendar year and the agreed calendar is uploaded to the BoardPac ensuring easy access to Directors through out the year. All Directors are entitled to include matters and proposals in the agenda for discussions, as clearly set out in the Bank's internal Code of Corporate Governance. To ensure that there is adequate information and time to address all agenda items the Chairman draws up the agenda in consultation with the Chief Executive Officer and Company Secretary. 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. In ensuring that Directors are kept

abreast of the changing regulatory landscape all laws and regulations issued that relate to banking business are uploaded to the tablets provided to directors together with an explanatory note. All these documents are uploaded through a secure connection to the tablets of all directors in order to ensure that Board members have access to complete information prior to Board meetings. All Directors are also given the opportunity to participate by telephone or video conference. Directors have the discretion to engage external advisers if required.

During Board meetings: The Chairman encourages and facilitates constructive dialogue during Board meetings. Board members prepare in advance to ensure effective and robust discussions on key matters and all directors bring their

independent judgment to matters discussed. The Board is kept informed in a timely manner on key decisions taken at subcommittee meetings and any areas of concern by the Chairpersons of Board subcommittees. The Board has access to first hand insight on the activities of the subsidiaries as some directors of the Bank sit on the Boards of subsidiaries.

Board's engagement with management

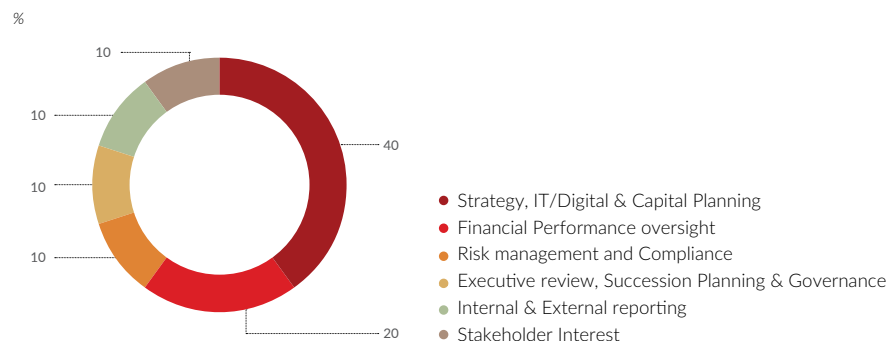
The Board of Directors have access to the Key Management Personnel who regularly update the Board on matters relating to performance, progress against strategy, key risks and control lapses that have been identified. Senior Management makes regular presentations to the Board on matters under their purview and are also called in by the Board to explain matters relating to their respective areas.

CORPORATE GOVERNANCE

Board's Areas of Focus in 2018

The Board deliberated on numerous aspects pertaining to governance, risk management and performance during the year. The time spent on such deliberations are graphically illustrated below;

Time spent by the Board in 2018



Assessing Board effectiveness

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 listed alongside. The Chairman and Deputy Chairman reviews the responses to the self-assessment vis a vis the previous year's scores and reports any identified weaknesses or lapses to the Board for a remedial action plan. Where necessary, one on one discussions are held with directors to better understand comments and concerns raised, if any, with a view to improve board oversight, deliberations and governance proactively. The Board periodically reviews the progress made on the action plan.

Topics covered in the Directors' self-assessment

- Board responsibilities
- Board's management of conflicts of interest
- Board leadership
- Teamwork and management relations
- Board and Subcommittee composition
- Timeliness and quality of information
- Progress achievement of goals/targets

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. 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 and structure, economic significance and risk profile of the Bank. The external auditor provides a fully independent auditor's objectivity toward the affairs of the Bank.

The Bank has in place a Board approved Disclosure Policy which supports the NDB Group's commitment to increasing the transparency of its operations, and to meet a growing public interest in its activities to shareholders and the public. The policy provides the NDB Group with a framework within which the wide range of information collected and generated about its operations can be disclosed in the financial and other related statements published to its stakeholders. As a regulated public quoted company, the Bank strives to ensure that communication is transparent whilst taking into account the laws, regulations and obligations relating to secrecy and confidentiality.

Managing Conflicts of Interests

The Directors are conscious of their obligations to deal with situations in which conflicts of interests 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 interests. At the time of onboarding a new Director, they provide details of their interests as well as the interests of their close relations. 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 relations and concerns in which they or their close relations 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 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 businesses, the Directors maintain strict arm's length basis and ensure that they do not exert duress or undue influence and do not circumvent normal procedures when introducing new business to the Bank.

Board Training and Access to Information

Upon joining the Board, all Directors undergo a structured induction, which serves to provide an overview on the Bank's operations. Appropriate business awareness briefing sessions and updates on issues identified in consultation with the Chairman and Directors are 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. In 2018 all new laws and regulations relevant to the banking industry were made available on the Board Pac together with an explanatory note which detailed the key areas of impact. During 2018, an external resource person was engaged to provide an overview on the impacts of IFRS 9. Further directors participated in Technical Sessions for Directors of Banks conducted by CBSL. An awareness session on key developments to the AML regulatory landscape was arranged for the Board.

Board Succession

Board succession planning was a key area during the year; we believe it is critical to bring new talent and expertise to the Board to complement the collective expertise of the current Directors and those who will step down. New Directors also bring in fresh thinking and perspectives to the Board, enhancing the overall effectiveness of decision making. The Nominations Committee (NC) closely evaluates the Board renewal process and has in 2018 recommended candidates for the replacement of the Directors who retire from their positions.

Diversity is one of the key considerations in the board renewal process to ensure that there is an appropriate balance to support the long-term success of the Bank. Criteria considered by the NC includes fitness and propriety aligned to the NDB culture, expertise and industry insights and fulfilment of regulatory requirements. The NC also considers a candidate's ability to commit sufficient time to fulfil the duties of a Director. In order to maintain a smooth transition in 2019 the Bank shall be introducing new Directors gradually.

Smart remuneration for Directors and Executives

The Bank's Human Resources and Remuneration Committee plays a pivotal role in determining the Human Resource and Remuneration policies (salaries, allowances and other financial payments) relating to Directors, Chief Executive Officer and Key Management Personnel of the Bank. As

the committee comprises exclusively of non-executives directors who also meet independent criteria these processes ensure that no Director is involved in determining his or her own remuneration.

Further the Bank's compensation program is designed to attract, motivate and retain quality employees to support superior business performance in line with the Banks overall objectives. The Bank ensures that the mix and the level of compensation of an employee reflect its effective alignment with prudent risk taking. The Bank's Compensation Policy is structured based on job evaluation using the following compensable factors such as know-how/job complexity, communication and coordination/customer interaction, supervision exercised and risk impact/consequences. The Bank periodically determines the desired market positioning against which the employee compensation will be benchmarked. At present, the Bank wishes to remain at the market median on total compensation. The Bank conducted a Job Evaluation/grading/mapping exercise in 2018 which was duly approved by HRRC.

CORPORATE GOVERNANCE

Board Subcommittees

To enable the Board to discharge its stewardship and fiduciary responsibilities effectively it delegates authority to Board subcommittees to oversee specific responsibilities based on clearly defined terms of reference.

Name of the Committee	Role of the Committee	Key Activities in 2018
Board Audit Committee (BAC)	Assist the Board of Directors in the general oversight of financial reporting, internal controls and functions relating to internal and external audit.	BAC Report  199
Integrated Risk Management Committee (IRMC)	Assess all risks and specify risk appetite of the Bank, its subsidiaries and associate companies, through appropriate risk indicators, dash boards and management information. The Committee is also responsible for recommending prompt corrective action to mitigate the effects of specific risks in case such risks are at levels beyond the prudent levels set by the Bank's risk appetite statement, regulatory and/or supervisory requirements.	IRMC Report  196
Nominations Committee (NC)	Identify individuals qualified to become Board members. Also select and appoint Key Management Personnel (KMPs) internally through promotions and externally through recruitment.	NC Report  193
Human Resource and Remuneration Committee (HRRC)	Determine and review the Human Resources and Remuneration policies (salaries, allowances and other financial payments) and set goals and targets relating to Directors, Chief Executive Officer (CEO) and KMPs of the Bank.	HRRC Report  191
Related Party Transactions Review Committee (RPTRC)	Evaluate 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 whilst adhering to regulatory provisions laid out under the corporate governance directions, LKAS 24 and Listing Rules of the Colombo Stock Exchange.	RPTRC Report  202
Strategic Issues Committee (SIC)	Examine and evaluate strategic issues of a regular as well as ad hoc nature and recommend any action to the Board.	SIC Report  195
Board Credit Committee (BCC)	Review the Credit Proposals submitted by the Business lines, its risks and adequacy of pricing or covenants to mitigate the identified risks.	BCC Report  204

Details of members of the Board Subcommittees as at 31 December 2018

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. Ananda Atukorala	C	01.09.2016							C	01.09.2016	C	01.09.2016	M	01.06.2017
Mr. Ashok Pathirage	M	11.08.2011	M	01.01.2014							M	18.02.2011	M	01.06.2017
Mr. Dimantha Seneviratne					M	01.01.2017							M	01.06.2017
Mr. Trevine Jayasekara	M	10.02.2010	M	10.02.2010			C	10.02.2010	M	19.12.2014	M	11.08.2011		
Mr. Sarath Wikramanayake					C	22.06.2010	M	22.06.2010	M	19.12.2014	M	22.06.2010		
Mrs. Kimarli Fernando*	M	30.03.2015	M	22.06.2010			M	11.08.2011	M	19.12.2014	M	04.06.2010	C	01.06.2017
Mrs. Indrani Sugathadasa			C	01.01.2014			M	01.01.2014	M	19.12.2014			M	01.06.2017
Mr. Dinal Phillips			M	01.01.2017	M	01.06.2017							M	01.06.2017
Mr. Kavan Ratnayaka			M	15.03.2016	M	13.05.2015							M	01.09.2018
Mr. Ranasinghe Semasinghe					M	01.12.2017	M	01.12.2017	M	01.12.2017				
Mr. Sriyan Cooray**					M	01.09.2018	M	01.09.2018						

DOA - Date of Appointment Status - C - Chairman / M - Member

Number of meetings held and attendance of the Board Subcommittees as at 31 December 2018

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	Status	DOA
Mr. Ananda Atukorala	3	3							7	7	3	3	12	9
Mr. Ashok Pathirage	3	3	3	2							3	3	12	6
Mr. Dimantha Seneviratne					4	4							12	11
Mr. Trevine Jayasekara	3	3	3	3			10	10	7	7	3	3		
Mr. Sarath Wikramanayake					4	4	10	9	7	7	3	3		
Mrs. Kimarli Fernando*	3	3	3	2			6	3	7	7	3	2	12	9
Mrs. Indrani Sugathadasa			3	2			10	9	7	5			12	8
Mr. Dinal Phillips			3	2	4	4							12	11
Mr. Kavan Ratnayaka			3	3	4	3							5	3
Mr. Ranasinghe Semasinghe					4	2	10	7	6	6				
Mr. Sriyan Cooray**					1	1	4	3						

* Mrs. Kimarli Fernando (Resigned from Board Audit Committee w.e.f 01.09.2018)

** Mr. Sriyan Cooray (Appointed to Board Audit Committee and Board Integrated Risk Management Committee w.e.f 01.09.2018)

CORPORATE GOVERNANCE

EXECUTIVE LEVEL COMMITTEES

The Board has delegated its authority in operational areas to the senior management led by the CEO, within clearly defined limits. The senior management works through a number of management committees as illustrated below:

Name of the Committee	Role of the Committee	Meetings held in 2018
Asset and Liability Management Committee	Defines the most appropriate strategies for the Bank in terms of balance sheet planning in optimising risk-return dynamics.	12
Credit and Market Risk Committee	Regularly assess the Credit / Market / Liquidity risk policies of the Bank vis-a-vis its performance and the potential Credit / Market / Liquidity risks the business lines need to counter.	4
Operational Risk Policy Committee	Regularly assess the effectiveness of the Bank's operational risk policies, review the current operational risk profile of the Bank and deliberate on any potential operational risks that the Bank needs to counteract.	7
Credit Committees	Corporate Credit Committee Review and approve facilities within the approved delegated authority limits and engage in the regular monitoring of the corporate portfolio along with the business lines with the objective of maintaining a quality Corporate portfolio.	84
	Branch Credit Committee Review and approve facilities within the approved delegated authority limits and engage in the regular monitoring of Branch Network portfolio along with the business lines with the objective of maintaining a quality Branch Network portfolio.	43
Procurement Committee	Facilitate the procurement of all goods and services obtained by the Bank to ensure fairness, transparency and consistency is maintained when assessing suppliers.	118
IT Steering Committee	Leverage the experience, expertise, and knowledge of individuals and teams and provide guidance and direction to ensure business objectives are achieved.	10
Human Resources Committee	Determine the human resource (HR) strategies and policies relating to all staff of the Bank and recommend solutions to improve the operational delivery, efficiency and effectiveness of the HR function at the Bank.	4
Outsourcing Committee	Regularly assess, approve, monitor and review all the outsourcing arrangements pertaining to the Bank which are in line with the regulatory provisions.	7

RISK GOVERNANCE

The Board holds apex responsibility for ensuring that the Bank's key risks are identified, measured, monitored and mitigated. 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. Several executive level committees including the Asset and Liability Management 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.

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IT GOVERNANCE

The Bank has now established and is in the process of implementing an overall governance structure to mitigate or eliminate IT security risks of the Bank. This encompasses the responsibilities of the Bank's CISO who will act as the risk steward and compile all policies and guidelines required to cover the Bank from external and internal IT security risks which include end user computing. The overall governance structure defines the responsibilities of all businesses and functions of the Bank including IT department to implement, monitor, and manage the IT security guidelines issued by the risk steward in-order to detect, deter and protect the Bank from any IT security threats as the first line of defense on an on-going basis. It also sets out the responsibilities of Internal Audit function as the third line of defense to monitor the proper functionality of first line of defense on a periodic basis. The governance structure also articulates the clear responsibilities, and accountability of the Board of directors and Bank's senior management on securing the Bank from IT security threats.

HR GOVERNANCE

HR governance is considered the process and practice introduced by an organization in determining the roles, authority, responsibilities, decision-making, and ultimately the accountability of all employees and management for the benefit of its stakeholders. Since 2017, the Bank has invested in enhancing the human capital proposition with the objective of aligning our people to the strategic aspirations prescribed by Transformation 2020. The following initiatives were adopted in 2018;

- Conducted a comprehensive job evaluation and grading exercise across the Bank and job descriptions were reviewed and revised with the guidance of the HRRC subcommittee which sets the policy parameters and recommended necessary changes. This resulted in the creation of new grades and realignment of existing grades with promotions being given accordingly.
- Reviewed the expertise, skills and talents of internal candidates and external persons to fill several senior managerial positions of the Bank. During this exercise, the HRRC considered the salient terms and conditions pertaining to all such appointments/designations of senior management personnel during the year in line with the job grading policies of the Bank.
- Carried out a comprehensive analysis on the succession needs of the Bank with the objective of building strong talent pipelines. In order to fulfill the talent demand arising from the accelerated growth of the Transformation 2020, the Bank also initiated a talent management, competency assessment and evidence-based leadership framework/ succession planning assignment with external consultants in 2018.

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SUBSIDIARY GOVERNANCE

The consistent application of governance and risk management practices across the Bank's subsidiaries is ensured through commonalities in policy frameworks, common directors and reporting lines to the parent entity. Several of our subsidiaries are regulated entities and therefore operate within stringent governance and risk management frameworks with operations conducted with high standards of integrity and transparency. During 2018 NCAP group reviewed its IT governance structure and introduced a new IT Policy Framework for the NCAP Group.

EFFECTIVE STAKEHOLDER ENGAGEMENT

The Bank maintains proactive and open engagement with its internal and external stakeholders, facilitated through a range of formal and informal platforms. The stakeholder universe includes shareholders, employees, customers, creditors, partners, general public and regulators. The Bank regularly communicates information through publication of financial reports, announcements, circulars and press releases on the Bank's website, newspapers and by way of disclosures made to the Colombo Stock Exchange. Further financial and strategic performance is communicated to investors, analysts and the media through investor forums, webinars, press conferences and media releases. The Bank communicates effectively with its shareholders at the Annual General Meeting and through the presentation of the annual report. Employee communications are handled through various structured forums, via e-mails and through NDB's intranet "NDB Cloud" and the T20 Website.

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Tools/processes used by the Bank to strengthen its communication with stakeholders are detailed below

- **Bank's disclosures**
The Board approved Disclosure policy supports the Bank in disseminating timely, accurate and balanced regulatory disclosures based on applicable laws and regulations.

CORPORATE GOVERNANCE

- Investor Relations

A dedicated Investor Relations function ensures that shareholders are kept aware of emerging developments. Numerous platforms are in place to disseminate information amongst shareholders and analysts; these include investor presentations, press releases, email notifications, online investor webinars, road shows and the investor relations web-page within the Bank's corporate website.

- Communication

A Board approved Communication Policy ensures the effective and consistent communication of internal and external communication of corporate information.

- Customer Complaint Handling

The Bank has a Customer Complaint Handling Policy which has been printed in all three languages and disseminated to all customer contact points of the Bank. This document outlines the complaints handling policy of the Bank and governs the procedure through which complaints are tracked, monitored and resolved.

- Regulatory engagement

The Bank aspires to maintain an informed, efficient, and effective engagement process with its regulators. The Bank has in place a guideline on the regulatory engagement with CBSL to support this objective. These guidelines ensure that the Bank maintains a relationship of trust and transparency with CBSL and communicates effectively with CBSL in a uniform and professional manner. Further the Bank maintains an effective communications with the regulators by facilitating the requirement of statutory audits and information requested from time to time. The Bank carries out regulatory reporting as stipulated in regulations. The Bank seeks advice from regulators on areas that regulations provide no answers to. The CEO meets with Central Bank officials at the monthly CEO's meeting. The Chairman of the Bank and the Chairpersons of the IRMC and BAC also meets with the CBSL officials from time to time. Further Directors, the CEO and KMPs of the Bank maintain dialogues with the regulators on an ongoing basis and attend the Director's forum arranged by the CBSL.

ESG REPORTING

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 pages 54-55) 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

Sustainable use of resources (energy and water)	Pages 114-117
Emissions and climate change	Page 117
Environmental screening for lending	Page 116
Biodiversity conservation and environmental education	Page 112

Social Factors

Customer relationships	Pages 104-108
Labour practices	Pages 80-89
Community engagement	Pages 111-113

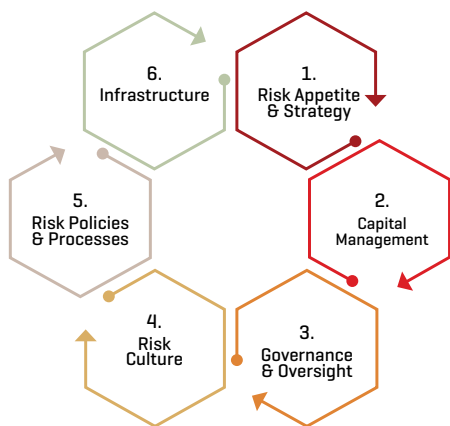
RISK MANAGEMENT OVERVIEW

UP NEXT: ►

Annual Report of the Board of Directors on the Affairs of the National Development Bank PLC

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 Integrated Risk Management Framework (IRM) is applied across the Group, with effective governance and corresponding risk management tools. Employees are collectively responsible for the management of risk, with the ultimate responsibility residing with the Board. The Bank has nurtured a strong risk culture through ongoing training initiatives and clear risk communication. In 2018, a challenging business environment coupled with the impending changes to the regulatory frameworks have compelled all banks to strengthen risk management capabilities and insights to ensure resilience and the continued creation of stakeholder value.

INTEGRATED RISK MANAGEMENT FRAMEWORK



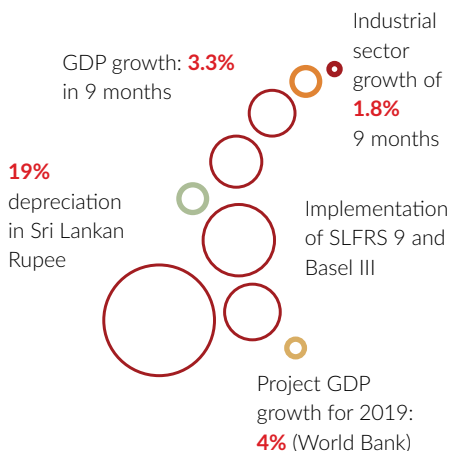
Risk Governance: The Bank's Board of Directors holds apex responsibility for risk management and sets the tone at the top for the effective management of risks. In discharging its risk-related responsibilities, it is supported by three key committees, namely the Integrated Risk Management Committee (IRMC), Board Audit Committee (BAC), Board Credit Committee (BCC) 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.

Stress testing: NDB operates a systematic and comprehensive stress testing program which has been formulated in line with regulatory guidelines and global best practices. Stress tests are conducted at various frequencies in line with the Board approved framework and results are reported to Board.

● Please refer pages 411 to 438 for detailed information on the Bank's Risk Management Framework

RISK LANDSCAPE



Globally, the operating landscape in 2018 was characterised by disparate regional growth, trade tensions between the US and China, tighter financial conditions and rising commodity prices. Events during the year also highlighted the need for concerted efforts on addressing socio economic and environmental issues such as poverty, income equality and climate change. Cascading effects of global dynamics together with a slowdown in industrial activity and political instability towards the latter part of the year presented a challenging domestic environment which saw sharp depreciation of the Sri Lankan Rupee, cautious investor sentiments and liquidity pressures across industrial

value chains. (Refer page 60 for detailed information on our operating landscape)

RISK PRIORITIES IN 2018



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, has led to considerable shifts in the banks' operating landscape. Most players sought to augment capital through debentures and equity infusions although the non-conducive environment made this somewhat challenging. Banks also saw a weakening in portfolio quality given moderating economic conditions and most players experienced an influx of NPLs and an escalation of impairment charges. Portfolio growth remained strong during the year 2018.

RISK MANAGEMENT OVERVIEW

SUMMARY OF TOP AND EMERGING RISKS

The following discussion presents a high-level overview of the Bank's risk exposures during the year.

External risks

Risk	Trend	Mitigants
Global and domestic economic outlook	●	The Bank is actively monitoring global and domestic economic trends in assessing potential impacts on our portfolios. We also conducted comprehensive stress testing exercises to assess potential impacts under a range of scenarios.
Geopolitical tensions	▲	Global and domestic political conditions are proactively monitored by all business units and the Risk Management Department to assess impact on the Bank's risk profile.
Government policy	▲	Monetary and fiscal policy implications such as changes to the tax regime, policy rates, import restrictions and concessionary loan schemes among others have a direct impact on the Bank's operation and are monitored on a continuous basis
Turning of the credit cycle	▲	We have enhanced monitoring and further strengthened the watch listing process
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 heightened in 2018

● Risk unchanged in 2018

Internally driven risks

Credit risk: Despite a moderation during the year, the Bank successfully maintained its credit quality above industry average. Resultantly the Bank's gross NPL of 2.85% in 2018 (2017:1.83%) remained well below the industry average of 3.4%. Strategic emphasis on penetrating the Retail and SME sectors led to a more diversified portfolio while based on the internal rating models for corporate and middle market clients, 66% of the Bank's portfolio was rated in the 'A' and above category. Proactive efforts taken to curtail the influx of NPLs and a cautious approach towards growth in 2019 is anticipated to result in preservation of the Bank's credit quality despite persistent challenges stemming from the operating landscape.

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 to mark to market adjustment (through OCI) in the AFS investment portfolio as the Bank does not engage in equity trading at present.

Liquidity risk: Despite strong loan growth during the year the Bank maintained a sufficient liquidity buffer above the regulatory requirements and internal limits. The Bank also benefited from a diverse funding profile and an improved deposit franchise.

Operational risk: Operational risks measured through loss events were maintained within the risk appetite indicator. Incident reporting has improved over the years and out of the total incidents reported less than 20% has materialized as operational risk losses.

Strategic risk: The Bank's medium to long-term strategy is clearly laid out in the T20 strategy, which has been clearly communicated across the organization. The strategic plans are drawn at various level of granularity e.g. a branch level strategy will detail the growth targets at branch level whereas a department level strategy will feature the achievement metrics at that level. The implementation is reviewed through monthly meetings where variances from the growth targets are analysed and corrective actions recommended.

OUTLOOK

NDB's risk management capabilities have evolved from the responsibility of an individual unit to an organization-wide risk culture permeating all business and support functions. Unprecedented changes in the operating landscape have compelled banks consistently monitoring emerging dynamics and strengthen risk management frameworks to effectively drive strategic aspirations. As we move towards obtaining the status of a domestic systemically important Bank, 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.

ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE NATIONAL DEVELOPMENT BANK PLC

UP NEXT:
Directors' Interests in Contracts with
the National Development Bank PLC

ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY AND STATEMENT OF COMPLIANCE OF THE CONTENTS OF THE ANNUAL REPORT AS REQUIRED BY SECTION 168 OF THE COMPANIES ACT NO. 07 OF 2007

1. GENERAL

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 2018 of the Bank and the 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 recommended best practices.

The Report was approved by the Board of Directors on 18 February 2019. 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, 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.

In February 2019, Fitch Ratings Lanka Limited announced its rating action affecting the rating of the Bank, whereby, the Bank's national long term rating was affirmed at A+ whilst the Outlook was revised to Negative, the key driver being the continued pressure on NDB's capitalization, which has been well accounted for, in the Bank's strategic capital and funding plans, which remains a key strategic focus.

Basel II compliant subordinated debentures were affirmed at A[Ika], whilst the proposed debenture issue was also assigned A[Ika] [EXP].

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 2018.

Information required to be disclosed as per the Companies Act No. 07 of 2007	Reference to the Companies Act	Extent of Compliance by the Bank
i. The nature of the business of the Group and the Bank together with any change thereof during the accounting period.	Section 168 (1) (a)	Refer pages 42 and 43
ii. Signed Financial Statements of the Group and the Bank for the accounting period completed	Section 168 (1) (b)	Refer pages 218 to 359
iii. Auditor's Report on Financial Statements of the Group and the Bank	Section 168 (1) (c)	Refer pages 215 to 217
iv. Accounting Policies and any changes therein (Group also included)	Section 168 (1) (d)	Refer pages 230 to 359
v. Particulars of the entries made in the Interest Registers of the Bank and its Subsidiaries during the accounting period.	Section 168 (1) (e)	Refer page 179
vi. Remuneration and other benefits paid to Directors of the Bank and its Subsidiaries during the accounting period.	Section 168 (1) (f)	Refer page 179
vii. Total amount of donations made by the Bank and its Subsidiaries during the accounting period.	Section 168 (1) (g)	Refer page 179
viii. Information on Directorate of the Bank and its Subsidiaries during and at the end of the accounting period.	Section 168 (1) (h)	Refer pages 183 to 186
ix. 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)	Refer page 187
x. Auditor's relationship or any interest with the Bank and its Subsidiaries	Section 168 (1) (j)	Refer page 187
xi. Acknowledgement of the Contents of this Report/Signatures on behalf of the Board	Section 168 (1) (k)	Refer page 189

ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE NATIONAL DEVELOPMENT BANK PLC

2. REVIEW OF BUSINESS

2.1 Vision, Mission and Corporate Conduct

The vision, mission and values of the Bank are given on pages 48 and 49 of this Report.

The Bank and the Group practices high ethical standards in carrying out their business activities in line with the vision of the Bank.

All employees of the Bank abide by the Bank's Code of Conduct and the Directors and the Key Management Personnel of the Bank additionally abide by the Code of Corporate Governance of the Bank.

2.2 Review on Operations of the Group and the Bank

A review of the operations of the Bank and the Group as required by Section 168(1) (a) of the Companies Act are discussed in the Chairman's Message, Chief Executive Officer's Review (pages 12 to 21) and the Integrated Management Discussion and Analysis (pages 67 to 156). These reports form an integral part of the Annual Report of the Board of Directors.

2.2.1 Principal Business Activities of the Bank and its Group Companies

As required by Section 168 (1) (a), the principal activities of the Bank and Group are described in the section "About the Bank" on pages 42 and 43 of our Annual Report.

2.2.2 Future Developments and Current Standing

During 2018, NDB expanded its reach to customers via conventional brick and mortar modes, well balanced with digital modes. Accordingly, new branches opened during the year was moderated to one, in Katugastota along with five branch re-locations to better serve customers and three new Privilege Centres opened to serve our high-net worth clientele.

The Bank made rapid expansions in digital penetration as a result of strategic focus placed on this aspect. Cash Recycling Machines [CRMs] were introduced to its customers in 2018, and by the end of the year expanded to 27, with a sound mix of on-site and off-site CRMs to maximize on customer convenience. The branch-less banking proposition, Bank2U, was made available via 71 branches, versus 24 in 2017, whilst mobile banking and on-line banking solutions were also strengthened during the year.

Furthermore, in early 2019, NDB opened its first phygital branch in Colombo 01, and the Bank intends to expand to more locations in the future.

In terms of the product portfolio, a fully-fledged commercial banking portfolio is augmented by the capital market solutions provided by the Group companies. An offering of combined products to customers which would have both features of banking and capital market investments is planned for the future. A women centric unique value proposition to empower the aspiring women in the country is also planned.

Further as required by Section 168 (1) (a), an overview of the future developments of the Bank and the Group are discussed in the Chairman's Message, Chief Executive Officer's Review (pages 12 to 21) and the Integrated Management Discussion and Analysis (pages 67 to 156). These reports form an integral part of the Annual Report of the Board of Directors

2.3 Financial Statements of the Bank and the Group

The 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 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 balance as at 01 January 2018.

The comparative figures for the year ended 31 December 2017 remains as audited and published and previous year's figures and phrases have been re-arranged wherever necessary to conform to the current year's presentation.

The impact on the transition to SLFRS 9, Financial Instruments on the assets, liabilities and retained earnings of the Bank and the Group are given in the Note 20.

The Financial Statements of the Bank and the Group for the year ended 31 December 2018 are duly signed by the Acting Group Chief Financial Officer/ Assistant Vice President – Finance and Planning, two Directors and the Company Secretary in accordance with Section 168 (1) (b) of the Companies Act No. 07 of 2007 and are given on pages 218 to 359.

2.4 Directors' Responsibility for Financial Reporting

The Directors are responsible for the preparation of the Financial Statements of the Bank to reflect a true and fair view of the state of its affairs. The Directors are of the view that these Financial Statements have been prepared in conformity with the requirements of the Sri Lanka Accounting Standards, Companies Act No. 07 of 2007, the Banking Act No. 30 of 1988 (as amended), the Listing Rules of the Colombo Stock Exchange

and the Mandatory Code of Corporate Governance for Licensed Commercial Banks issued by the Central Bank of Sri Lanka.

The Directors are satisfied that the Financial Statements, presented on pages 218 to 359, give a true and fair view of the state of affairs of the Bank and the Group as at 31 December 2018 as well as the profit for the year then ended.

The Statement of Directors' Responsibility for Financial Reporting is given on pages 205 and 206 and forms an integral part of the Annual Report of the Board of Directors.

2.5 Directors Statement of Internal Control

The Board has issued a report on the internal control mechanism of the Bank as per Section 3 (8) (ii) (b) of the Banking Act Direction No. 11 of 2007 on Corporate Governance. The Board has confirmed that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Financial Statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements. The above report which forms an integral part of the Report of the Board of Directors is given on pages 207 and 208 of the Annual Report.

The Board has obtained an Assurance Report from the External Auditors on the Directors' Statement on Internal Control which is given on page 211 of this Annual report.

2.6 Auditors' Report

The Bank's Auditors, Messrs Ernst and Young, carried out an audit on the Financial Statements of the Bank and the Consolidated Financial Statements of the Group for the year ended 31 December 2018 and their report on those Financial Statements are given

on pages 215 to 217 of the Annual Report.

2.7 Significant Accounting Policies and Changes during the Year

The significant accounting policies adopted in the preparation of the Financial Statements are given on pages 230 to 359. The significant changes to accounting policies adopted if any, in the preparation of the Financial Statements are given on pages 230 to 359.

2.8 Entries in the Interest Register

As required by Section 168 (1) I of the Companies Act No. 07 of 2007, the Bank and all its subsidiaries maintain Interest Registers. We wish to confirm that 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. The share ownership of Directors is disclosed on page 467 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.

2.9 Directors' Remuneration and Other Benefits

As required by Section 168 (1) (f) of the Companies Act No. 07 of 2007, the Directors' remuneration and other benefits in respect of the Bank and the Group for the financial year ended 31 December 2018, are disclosed in Note 14 of the Financial Statements on pages 249 and 250.

2.10 Corporate Donations by the Bank

The Bank and the Group made Donations amounting to LKR 22 Mn and LKR 26 Mn respectively, for the year 2018 (2017 - LKR 20 Mn and LKR 23.5 Mn respectively), in terms of the Resolutions passed at the last Annual General Meeting.

The information given above forms an integral part of the Annual Report of the Board of Directors in terms of Section 168 (1) (g) of the Companies Act No. 07 of 2007.

The Bank's Corporate Social Responsibility Committee initiates most of the CSR activities together with the participation of employees from all departments. The primary responsibility of the CSR Committee is to ensure that CSR activities are conducted in a manner to ensure sustainable business development.

As notified to the Shareholders, residual fractions arising out of the Scrip Dividends issued in the financial years ended 2016 and 2017 were disposed on the trading floor of the Colombo Stock Exchange and the sales proceeds were utilized to donate essential medical equipment and surgical consumables required by the Apeksha Hospital, Maharagama.

3. GROSS INCOME

The gross income of the Group for 2018 was LKR 52,071, Mn (2017- LKR 43,018 Mn) of which the Bank's gross income was LKR 51,103 Mn (2017- LKR 42,521 Mn)

The sources of external operating income, net operating profit and asset allocation of the Group among different business segments together with their proportions are given in Note 51 to the Financial Statements on page 314.

4. TOTAL OPERATING INCOME

The total operating income of the Group for 2018 was LKR 22,553. Mn (as compared with LKR 16,683 Mn for 2017), while the Bank's total

ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE NATIONAL DEVELOPMENT BANK PLC

operating income was LKR 21,554 Mn (as compared with LKR 16,152 Mn for 2017). An analysis of the income is given on pages 241 to 246 to the Financial Statements.

5. RESULTS AND APPROPRIATIONS

5.1 Performance of the Bank and the Group and Transfers to Reserves

The Group's Operating Profit Before Value Added Tax, Nation Building Tax and Debt Repayment Levy on Financial Services and income tax expenses including that of its subsidiaries and its share of profit from associate companies amounted to LKR 9,422 Mn (compared to LKR 7,192 Mn in 2017). After deducting LKR 4,146 Mn (compared to LKR 3,760 Mn in 2017) for Valued Added Tax, Nation Building Tax, Debt Repayment Levy on Financial Services and income tax expenses, the Profit After Tax for the year amounted to LKR 5,276 Mn (compared to LKR 3,432 Mn in 2017). The Group profit attributable to shareholders amounted to LKR 5,136 Mn (compared to LKR 3,490 Mn in 2017).

The Bank's Profit Before Value Added Tax, Nation Building Tax and Debt Repayment Levy on Financial Services and income tax expenses amounted to LKR 9,494 Mn (compared to LKR 7,547 Mn in 2017). After deducting LKR 3,945 Mn (compared to LKR 3,196 Mn in 2017) for taxation, the Profit After Tax for the year amounted to LKR 5,548 Mn (compared to LKR 4,352 Mn in 2017).

Details are given in the Statement of Profit or Loss on page 221.

Details of appropriation of the Profit of the Bank are given below;

LKR '000	2018	2017
Profit for the year after charging all operating expenses, depreciation and amortization	9,494,029	7,547,420
Less; Taxation	(3,945,637)	(3,195,791)
Net Profit for the year	5,548,392	4,351,629
Other Comprehensive Income (OCI)		
Other Comprehensive Income before tax	92,800	(99,429)
Less, tax on other comprehensive income	2,308	(3,037)
Total other comprehensive income for the year, net of taxes	95,108	(102,466)
Total comprehensive income for the year	5,643,500	4,249,163
Add: Unappropriated balance Brought forward from previous year	18,585,255	16,088,681
Less: Transition on adoption of SLFRS 9	(2,457,013)	-
Add: Deferred Tax on transitional adjustments	687,964	-
Total retained profits available for appropriations	22,459,706	20,337,844
Appropriations		
Transfer to statutory reserve fund	(300,000)	(90,000)
Dividends		
Interim cash dividends for the year 2016	-	(328,505)
Final scrip dividends for the year 2016	-	(991,113)
Interim cash dividends for the year 2017	-	(342,971)
Final cash dividends for the year 2017	(336,087)	-
Final scrip dividends for the year 2017	(857,429)	-
Unappropriated balance carried forward	20,966,190	18,585,255

5.2 Dividends on Ordinary Shares

The Directors on 22 February 2019, authorized and approved a first and final dividend of LKR 8/- per share to be paid in the form of a cash dividend amounting to LKR 1.50 per share and a scrip dividend of LKR 6.50 per share for the financial year ended 31 December 2018.

In declaring the dividends, the Directors ensured due compliance by the Bank of the solvency provisions contained in Section 56 (3) of the Companies Act No. 07 of 2007 and the listing rules of CSE. The Board provided the Statement of Solvency to the auditors and obtained Certificates of Solvency from the auditors in respect of the said dividend payments conforming to the statutory provisions.

These dividends were partly paid out of dividend income received and partly out of operational profits, the latter being subject to withholding tax.

5.3 Reserves

A summary of the Banks and Group's reserves is given below;

	BANK		GROUP	
	2018 LKR' 000	2017 LKR' 000	2018 LKR' 000	2017 LKR' 000
Stated Capital	6,469,323	2,208,520	6,469,323	2,208,520
Statutory Reserve Fund	1,636,479	1,336,479	1,636,479	1,336,479
Available-for-Sale Reserve	-	(225,196)	-	(236,382)
Fair Value through Other Comprehensive Income	(1,022,229)	-	(1,029,596)	-
Revaluation Reserve	1,041,261	1,041,261	1,166,840	1,136,654
General Reserve	5,805,707	5,805,707	5,805,707	5,805,707
Cash Flow Hedge Reserve	101,311	(14,191)	101,311	(14,191)
Retained Earnings	20,966,190	18,585,255	24,862,382	22,775,440
Total	34,998,042	28,737,836	39,012,446	33,012,227

5.4 Provision for Taxation

The income tax rate applicable on the Bank's domestic operations and FCBU on-shore and off-shore banking operations was 28% (2017 – 28%). The Bank's profit was also liable for Value Added Tax on Financial Services, Nation Building Tax and Debt Repayment Levy and the regulatory tax rate for the year are as follows.

- Value added tax on Financial Services – 15% (2017- 15%).
- Nation Building Tax at the rate of 2% (2017 – 2%).
- Debt Repayment Levy -7% with effect from 01.10.2018.

Deferred Tax is provided for all known temporary differences based on the Liability Method in accordance with Sri Lanka Accounting Standard (LKAS 12) – Income Taxes.

6. PROPERTY, PLANT AND EQUIPMENT, INTANGIBLE ASSETS AND LEASEHOLD PROPERTY

The details of Property, Plant & Equipment are given in Notes 34 and 35 to the Financial Statements on pages 285 to 289.

Total Capital expenditure incurred by the Bank and the Group on acquisition of property, plant & equipment and intangible assets amounted to LKR 942 Mn and LKR 995 Mn, respectively (2017 - Bank - LKR 588 Mn and Group - LKR 740 Mn).

7. INVESTMENT PROPERTY

Investment properties of any group companies when significantly occupied by other companies in the group are classified under Property, Plant and equipment in the Consolidated Financial Statements in accordance with LKAS 40 on "Investment Property". There were no acquisitions of Investment Properties during the year as well as the previous year.

The details of Investment Property are given in Note 33 to the Financial Statements.

ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE NATIONAL DEVELOPMENT BANK PLC

8. ISSUE OF SHARES AND DEBENTURES

8.1 Issue of Shares and Debentures by the Bank

Details of the shares issued by the Bank in the years 2017 and 2018 are given in the table below;

Reason for the Issue	Number of shares issued	
	2018	2017
Exercise of options by employees under the Employee Share Option Plan	N/A	N/A
Issued by way of a Scrip Dividend	5,977,357	6,300,199
Issued by way of Rights	32,854,055	N/A

Details of the Debentures issued by the Bank are given in the table below;

Year of Issue	Reasons for the Issue of debentures	Type of Debenture	Number of debentures issued	Aggregate face value (LKR)
2013	Utilized to support the Bank's Tier II Capital	Rated, unsecured, subordinated, redeemable debentures	100,000,000	10,000,000,000/-
2015	Utilized to support the Bank's long term and short term funding requirements and the Bank's Tier II Capital	Rated, unsecured, subordinated, redeemable debentures	100,000,000	10,000,000,000/-

8.2 Issue of Shares and Debentures by the Subsidiaries and Associates during the year 2018

Other than for the share issue concluded by a subsidiary company as discussed in Note 31 to the Financial Statements given on page 282, no shares or debentures have been issued by any subsidiaries or associates of the Bank during the financial year 2018.

8.3 Stated Capital

The stated capital of the Bank at the beginning of the year was LKR 2,209million and at the end of the year was LKR 6,469 million and comprised of 171,485,705 ordinary shares at the beginning of the year and 210,317,117 ordinary shares at the end of the year. The details of the Stated Capital are given in Note 432 to the financial statements on pages 304 and 305.

During the period of January 2018 to December 2018 a total number of 38,831,412 shares were issued by the Bank to the shareholders of the Bank as at 31 December 2018, by way of a scrip dividend and a rights Issue.

8.4 Debentures

The details of the debentures issued by the Bank in 2013 and 2015 are disclosed under on pages 472 to 474.

9. SHARE INFORMATION

9.1 Distribution schedule of shareholdings

Information on the distribution of the number of holders in each class of equity securities and the percentage of their holdings as per the CSE listing rules are given in Investor information on pages 465 and 466 of the Annual Report.

9.2 Information on Earnings, Dividends, Net Assets and Market Value

The information relating to earnings, dividends, net assets and market price per share is given in the financial highlights on page 6 of the Annual Report.

The ratios relating to dividends, net asset value, market value per share and ratios relevant to debt Securities are disclosed in Investor information on pages 469 to 471 of this Annual Report.

10. Substantial Shareholdings

The Bank had 9,322 registered shareholders as at 31 December 2018. The distribution, public holding, 20 largest shareholders and the share price during 2018 are set out in page 466 of this Annual Report.

11. DIRECTORS

11.1 Information on Directors of the Bank and the Group

11.1.1 List of Directors

In terms of the provisions of the Articles of Association of the Bank, the Board of Directors, as at 31 December 2018, consisted of eleven (11) Directors, including the Chairman and was made-up as follows:

- Eight (08) Directors have been appointed by the shareholders;
- One (01) Director who will be reappointed at the AGM
- One Director has been appointed as a representative of the Ministry of Finance in terms of the Articles of Association of the Bank; and
- The Group Chief Executive Officer is an ex-officio Director

Compliance by the Board of Directors of the Banking Direction No. 11 of 2007 on Corporate Governance for Licensed Commercial Banks in Sri Lanka issued by the Central Bank of Sri Lanka is set out in pages 364 to 409 of the Annual Report. In terms thereof the classification of Directors as Executive, Non-Executive, Independent and Non-Independent as at 31 December 2018 is given below:

Name of Director	Independent/ Non-Independent	Executive/ Non-Executive
Mr. Ananda Atukorala	Independent	Chairman – Non-Executive
Mr. Ashok Pathirage	Non Independent	Deputy Chairman – Non-Executive
Mr. Trevine Jayasekara (Retired w.e.f. 8 February 2019)	Independent	Non-Executive
Mrs. Kimarli Fernando	Non Independent	Non-Executive
Mr. Sarath Wikramanayake	Non Independent	Non-Executive
Mr. Dinal Phillips, PC	Independent	Non-Executive
Mrs. Indrani Sugathadasa	Independent	Non-Executive
Mr. Kavan Ratnayaka	Independent	Non-Executive
Mr. Ranasinghege Semasinghe	Non Independent	Non-Executive
Mr. Sriyan Cooray (appointed w.e.f. 10 August 2018)	Independent	Non-Executive
Mr. Dimantha Seneviratne (Group Chief Executive Officer)	Non Independent	GCEO – Executive

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.

Compliance by the Board of Directors of the Code of Best Practice on Corporate Governance 2017 issued by The Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka is set out in pages 364 to 409 of the Annual Report. In terms thereof, the classification of Directors as Executive, Non-Executive, Independent and Non-Independent as at 31 December 2018 is given below:

Name of Director	Independent/ Non-Independent	Executive/ Non-Executive
Mr. Ananda Atukorala	Independent	Non-Executive
Mr. Ashok Pathirage	Non Independent	Non-Executive
Mr. Trevine Jayasekara (Retired w.e.f. 8 February 2019)	Independent	Non-Executive
Mrs. Kimarli Fernando	Independent	Non-Executive
Mr. Sarath Wikramanayake	Non Independent	Non-Executive
Mr. Dinal Phillips, PC	Independent	Non-Executive
Mrs. Indrani Sugathadasa	Independent	Non-Executive
Mr. Kavan Ratnayaka	Independent	Non-Executive
Mr. Ranasinghege Semasinghe	Independent	Non-Executive
Mr. Sriyan Cooray (appointed w.e.f. 10 August 2018)	Independent	Non-Executive
Mr. Dimantha Seneviratne (Group Chief Executive Officer)	Non Independent	GCEO – Executive

ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE NATIONAL DEVELOPMENT BANK PLC

11.1.2 New Appointments and Resignations

The new Appointment to the Board of Directors of the Bank during the year 2018 was of Mr. Sriyan Cooray who was appointed w.e.f 10 August 2018.

Mr. Trevine Jayasekara retired from the Board of Directors of the Bank on 8 February 2019 having served a period of nine years.

11.1.3 List of Directors of Subsidiaries and Associates of the Bank

The Directors of the Group companies are set out on page 505 and 506 of the Annual Report.

11.1.4 Recommendations for Re-election

In terms of the provisions of the Articles of Association of the Bank, one-third of the elected Directors (i.e. - excluding the representative of the Ministry of Finance and the ex-officio executive Director) and directors appointed during the year to fill casual vacancies shall retire from office and such directors shall be eligible for re-election by the shareholders at each Annual General Meeting of the Bank.

Directors to Retire by Rotation

The Directors to retire by rotation at an Annual General Meeting shall be those who (being subject to retirement by rotation) have been longest in office since their last election or appointment. If one third of the Directors eligible for retirement by rotation is not a multiple of three, the nearest to but not greater than one third shall retire. Accordingly, the Nominations Committee and the Board have recommended that Mr. Kavan Ratnayaka and Mr. Dinal Phillips, PC be considered for re-election by the shareholders at the Annual General Meeting of the Bank.

Directors who served on the Board for a period exceeding 9 years;

As per the Banking Act Direction No. 11 of 2007 the total period of service of a Director (excluding the executive

director) shall not exceed 9 years.

The Bank has no Directors who have served the Bank for over 9 years as at 31 December 2018. However, Mr. Trevine Jayasekara retired from the Board of Directors of the Bank on 8 February 2019 having served a period of nine years.

11.1.5 Directors' Meetings

Details of Director's meetings which comprised of Board Meetings and all Board Sub-Committee meetings are presented on page 167.

11.1.6 Board Sub-Committees

There are seven permanent committees of the Board as at 31 December 2018, namely, Integrated Risk Management Committee, Board Audit Committee, Strategic Issues Committee, Human Resources and Remuneration Committee, Nomination Committee, Related Party Transactions Review Committee and the Credit Committee. Details of the members of these committees are given on pages 171.

The seven committees include four mandatory Committees (Nominations Committee, Human Resources and Remuneration Committee, Board Audit Committee, Integrated Risk Management Committee) formed by the Board in compliance with the Banking Act Direction No.11 of 2007 issued by the Monetary Board on Corporate Governance for Licensed Commercial Banks in Sri Lanka, one Committee (Related Party Transactions Review Committee) formed in compliance with Section 9 of the Listing Rules of the Colombo Stock Exchange as well as two other committees formed by the Board taking into account the needs of the Bank. The Committees ensure and assist the Board in ensuring that the activities of the Bank are conducted, conforming to the required laws, rules and regulations, the highest ethical standards and in the best interest of all the Stakeholders.

11.1.7 Appraisal of Board Performance

The Bank has in place a robust scheme whereby the Directors perform a self-assessment of the Board's conduct and achievement of the goals and targets set, annually by answering a Self-assessment Questionnaire. The responses to the Self-assessment Questionnaire are evaluated by the Chairman and Deputy Chairman and any action, recommendations and/or concerns are discussed with the Nominations Committee and the Board and accordingly noted and action taken where deemed appropriate. This self-assessment process has been extended to Board subcommittees as well to ensure due review, evaluation, focus etc. of the said Subcommittees performance and contribution.

12. OTHER DIRECTORSHIPS OF DIRECTORS

Information of the other Directorship of the Directors of the Bank as at 31 December 2018 is given below:

Mr. Ananda Atukorala

- United Motors Lanka PLC – Director
- Orient Finance PLC – Director
- Colombo City Holdings PLC – Director
- Development Holdings (Private) Limited – Chairman
- NDB Securities (Private) Limited – Director
- NDB Zephyr Partners Limited, (Mauritius) - Director
- Unimo Enterprises Limited. – Director
- Arni Holdings & Investments (Pvt) Limited – Director
- Unawatuna Boutique Resort (Pvt) Limited – Director
- U B Finance Company Limited – Deputy Chairman

Mr. Ashok Pathirage

- Softlogic Holdings PLC – Chairman / Managing Director
- Asiri Hospital Holdings PLC – Chairman / Managing Director
- Asiri Surgical Hospital PLC – Chairman / Managing Director
- Central Hospital Limited – Chairman / Managing Director
- Softlogic Retail (Private) Limited – Chairman / Managing Director
- Ceysand Resorts Limited – Chairman / Managing Director
- Softlogic Finance PLC – Chairman
- Softlogic Capital PLC – Chairman
- Softlogic Life Insurance PLC – Chairman
- NDB Capital Holdings Limited – Chairman
- Softlogic Properties (Private) Limited – Chairman
- Softlogic Australia (Pty) Limited – Chairman (Incorporated in Australia)
- Softlogic City Hotels (Private) Limited – Chairman
- Softlogic Supermarkets (Private) Limited – Chairman
- Odel PLC – Chairman
- Odel Properties One (Private) Limited – Director
- Asiri A O I Cancer Centre (Private) Limited – Director
- Softlogic Retail Holdings (Private) Limited – Director
- Softlogic Healthcare Holdings Limited – Director

Mr. Trevine Jayasekara**(Retired w.e.f. 8 February 2019)**

- Brandix Lanka Limited – Director
- Brandix Management Services (Private) Limited – Director
- Brandix Asia Limited – Director
- Kuruwita Textile Mills Limited – Director
- Nirbitha Adventures (Private) Limited – Director
- John Keells Hotels PLC – Non-Executive – Director
- Phoenix Industries Limited – Director
- Phoenix Ventures (Private) Limited – Director
- Inqube Global (Pvt) Limited – Director
- Quantum Clothing Lanka (Private) Limited
- Quantum Apparel (Cambodia) Limited – Director
- Quantum Clothing Group Limited – Director
- Fortude Inc. – Director
- Fortude (Private) Limited – Director
- Fortude Australia Pty. Limited – Director
- Phoenix Retail (Private) Limited

Mrs. Kimarli Fernando

- Vallibel One PLC – Director
- Delmege Limited – Director
- Richard Pieris Distributors Limited – Director

Mr. Sarath Wikramanayake

- NDB Capital Holdings Limited – Director
- NDB Capital Limited (Bangladesh) – Chairman

- NDB Wealth Management Limited – Chairman
- NDB Investment Bank Limited – Chairman
- AIA Insurance Lanka PLC – Director
- NDB Zephyr Partners Lanka (Pvt) Limited – Chairman

Mrs. Indrani Sugathadasa

- Director – Kalubovitiyana Tea Factory Limited
- Director – Hayleys Aventura (Pvt) Limited
- Director – Hayleys Consumer Products (Pvt) Limited.

Mr. Dinal Phillips, PC

- President Counsel
- Director – Gestetner of Ceylon PLC
- Director – Vauxhall Beira Properties (Private) Limited
- Director – Abans Electricals PLC (appointed w.e.f. 15.02.2018)

Mr. Kavan Ratnayaka

- Director – Sri Lanka Business Development Centre (SLBDC)
- Director – KBSL (Pvt) Limited

Mr. Ranasinghege Semasinghe

- Additional Secretary, Ministry of Finance and Mass Media
- Commissioner General of Excise
- Represents Boards of Management as Board Member/ Treasury Representative of Ceylon Electricity Board (CEB) (2) Sri Jayawardenapura General Hospital, Central Environmental Authority, Police Academy, Katana and Academy of Financial Studies (MILODA)

ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE NATIONAL DEVELOPMENT BANK PLC

Mr. Sriyan Cooray
(appointed w.e.f. 01.09.2018)

- Nil

Mr. Dimantha Seneviratne
(Group Chief Executive Officer)

- Director - Credit Information Bureau of Sri Lanka
- Director - LankaClear (Pvt) Limited
- Director - Sri Lanka Banks' Association (Guarantee) Limited
- Director - NDB Capital Holdings Limited
- Director - NDB Wealth Management Limited
- Director - NDB Investment Bank Limited
- Director - NDB Capital Limited (Bangladesh)
- Chairman - Development Holdings (Pvt) Limited

13. DISCLOSURE OF DIRECTOR'S DEALING IN SHARES AND DEBENTURES

Shareholdings of the Directors in the Bank as at the year-end and their corresponding holdings as at the end of the previous year are as shown on page 467 of this Annual Report.

Directors holdings in Debentures of the Bank as at 31 December 2018 are set out on page 474 of this Annual Report.

14. EMPLOYEE SHARE OPTION SCHEME (ESOS) AND EQUITY LINKED COMPENSATION PLAN (ELCP)

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 (performance year 2016) subject to the performance criteria set out in the Circular to Shareholders dated 1st March 2016, and each year the Share Options will be limited to 1.25% of the total number of shares then issued by the Bank.

Although the scheme commenced in the year 2017, the Bank failed to meet the 'Qualifying Criteria' set out in the Circular to Shareholders dated 1st March 2016 and accordingly no shares were issued during the years 2017 and 2018.

The Bank does not have in place any profit sharing plans other than the Variable bonus Scheme.

15. DIRECTORS' INTERESTS IN CONTRACTS OR PROPOSED CONTRACTS

Directors' interest in contracts or proposed contracts with the Company, both direct and indirect are disclosed on pages 190 of this Annual Report. These interests have been declared at Directors' meetings. As a practice, Directors have refrained from voting on matters in which they were materially interested. Directors have no direct or indirect interest in any other contract or proposed contract with the Company.

17. INSURANCE AND INDEMNITY

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.

18. ENVIRONMENTAL PROTECTION

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 on pages 114 to 117.

19. 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.

20. EVENTS OCCURRING AFTER THE DATE OF THE STATEMENT OF FINANCIAL POSITION

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, except as disclosed in Note 53 to the Financial Statements on page 322.

21. GOING CONCERN

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.

22. RELATED PARTY TRANSACTIONS

A Board approved Related Party Transactions Policy has been adopted and a Related Party Transactions Review Committee formed by the Board of Directors in compliance with the provisions contained in Section 9 of the Listing Rules of the Colombo Stock Exchange, and in line with the Sri Lanka Accounting Standards (LKAS 24) and the Directions issued by the Central Bank of Sri Lanka.

The Directors and Key Management Personnel of the Bank have disclosed transactions, if any, that could be classified as related party transactions in terms of LKAS 24 - 'Related Party Disclosures' which is adopted in the preparation of the Financial Statements. Those transactions disclosed by the Directors are given in Note 52 to the Financial Statements.

23. MATERIAL FORESEEABLE RISK FACTORS (AS PER RULE NO. 7.6 (VI) OF THE LISTING RULES OF THE COLOMBO STOCK EXCHANGE)

Information pertaining to the material foreseeable risk factors, that require disclosures as per the Rule No. 7.6 (vi) of the Listing Rules of the Colombo Stock Exchange are discussed in the Risk Management Review on pages 410 to 438.

24. MATERIAL ISSUES PERTAINING TO EMPLOYEES AND INDUSTRIAL RELATIONS PERTAINING TO THE BANK (AS PER RULE NO. 7.6 (VII) OF THE LISTING RULES OF THE COLOMBO STOCK EXCHANGE)

There were no material issues pertaining to employees and industrial relations pertaining to the Bank that occurred during the year under review which need to be disclosed.

25. INTEGRATED ANNUAL REPORT

The Bank's Annual Report for the year ended 31 December 2018 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.

24. APPOINTMENT OF AUDITORS AND INDEPENDENCE DECLARATION

The Financial Statements of the Bank for the year ended 31 December 2018 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 authorizing the Directors to fix their remuneration will be proposed at the Annual General Meeting.

25. AUDITOR'S REMUNERATION AND INTERESTS IN CONTRACTS WITH THE BANK

The expenses incurred in respect of auditors remuneration, fees for other audit services and non-audit fees to auditors during the year for the Bank and the Group are given in Note 14 to the Financial statements on page 250.

26. INFORMATION ON RATIOS, MARKET PRICES OF SHARES AND CREDIT RATINGS

Information that require disclosures as per Rule 7.6 (xi) of the listing Rules of the Colombo Stock Exchange are given in the Section on "Investor Relations" on pages 471 to 474.

27. RISK MANAGEMENT

The Bank has an ongoing process to identify, evaluate and manage the risks. The Board of Directors continuously monitors and reviews this process through the Board Integrated Risk Management Committee. The process adopted by the Bank to manage risks for banking and non-banking activities are discussed in detail in the Bank's Risk Management review on pages 410 to 438 of this Annual Report.

28. CAPITAL MANAGEMENT

The Bank has an ongoing process to evaluate the adequacy of capital in line with the medium term and long term strategic aspirations and to comply with the Basal III guidelines. The detailed review on Capital Management is discussed in the Risk Management section on pages 412 and 413.

ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE NATIONAL DEVELOPMENT BANK PLC

29. CORPORATE GOVERNANCE

The Directors are responsible for the governance of the Bank including the establishment and maintenance of the Bank's systems of internal financial control. Internal control systems are designed to meet the particular needs of the organization concerned, and the risks to which it is exposed and by their nature they can provide reasonable but not absolute assurance against material misstatement or loss. The Directors are satisfied that a strong control environment is prevalent within the Bank and that the internal control systems referred to above are effective.

The Directors declared that-

- I. the Bank complied with all applicable laws and regulations in conducting its business and has not engaged in any activity contravening the relevant laws and regulations. Officers responsible for ensuring compliance with the provision in various laws and regulations confirm compliance in each quarter to the Board Integrated Risk Management Committee.
- II. the Directors have declared all material interests in contracts involving the Bank and refrained from voting on matters in which they were materially interested.
- III. all endeavours have been made to ensure that shareholders have been treated equitably;
- IV. the business is a Going Concern with supporting assumptions or qualifications as necessary, and that the Board of Directors has reviewed the Bank's Corporate / Business plans and is satisfied that the Bank has adequate resources to continue its operations in the foreseeable future. Accordingly, the Financial Statements of the Bank, its Subsidiaries and

Associates are prepared based on the Going Concern concept;

- V. the Bank has complied with the Code of Best Practice on Corporate Governance 2017 issued by the ICASL, the Listing Rules of the CSE and the Banking Act Direction No 11 of 2007 (as amended) issued by the CBSL on Related Party Transactions and made the disclosures in the Financial Statements and to the market when applicable;
- VI. they have 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; and
- VII. There is a robust process in place to identify and manage cyber security risks and is more fully detailed on pages 95 and 409.

The measures taken and the status of compliance with the Code of Best Practice on Corporate Governance 2017 issued by the ICASL, the Listing Rules of the CSE and the Banking Act Direction No 11 of 2007 (as amended) issued by the CBSL are given in our Corporate Governance Report found on pages 364 to 409.

30. HUMAN RESOURCES

One of the key strategic objectives of the NDB Group is to develop and nurture a Best in Class Engaged and Inspired Team. Execution of this strategic objective is done by continuously investing in the development of the Human Capital and by implementing effective Human Resources policies to ensure efficiency, productivity, whilst maintaining a work life balance. 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 on pages 191 and 192 and the discussion on Human Capital Formation in the Management Discussion and Analysis on pages 80 to 89.

31. OPERATIONAL EXCELLENCE

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 standardization and to optimize the use of existing technology platforms.

32. OUTSTANDING LITIGATIONS

In the opinion of the Directors and the Bank's lawyers, pending litigations against the Bank disclosed in Note 48 to the Financial Statements will not have a material impact on the financial position of the Bank or its future operations.

33. ANNUAL GENERAL MEETING

In complying with the good governance practices, the Annual Report of the Bank is dispatched as soon as possible after the end of the financial year and completion of the audit.

In compliance with the Colombo Stock Exchange Listing Rules, the Annual Reports have been distributed in the form of a CD-ROM (a Soft copy) as well as in the form of a Printed Report as and when requested by shareholders.

34. NOTICE OF MEETING

The Fourteenth Annual General Meeting will be held at the Auditorium of Development Holdings (Pvt) Limited., 3rd Floor, NDB EDB Tower, No 42, Navam Mawatha, Colombo 2 on 28 March 2019 at 10.30 am. The notice of meeting is given on page 504 of this Annual Report.

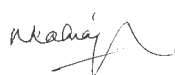
35. ACKNOWLEDGEMENT OF THE CONTENTS OF THIS REPORT

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.

Signed in accordance with a resolution adopted by the Directors.



Mr. Ananda Atukorala
Chairman



Mr. Kavan Ratnayaka
Director



Mr. Ashok Pathirage
Deputy Chairman



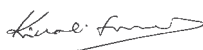
Mr. Dinal Phillips, PC
Director



Mr. Dimantha Seneviratne
Director/ Group Chief Executive Officer



Mr. Sriyan Cooray
Director



Mrs. Kimarli Fernando
Director



Mr. Ranasinghe Semasinghe
Director



Mr. Sarath Wikramanayake
Director



Ms. Shehani Ranasinghe
Company Secretary



Mrs. Indrani Sugathadasa
Director

Colombo
18 February 2019

DIRECTORS' INTERESTS IN CONTRACTS WITH THE NATIONAL DEVELOPMENT BANK PLC

	Relationship	Accommodation Granted, Deposits & Investments	Balance Outstanding as at 31.12.2018 LKR '000	Balance Outstanding as at 31.12.2017 LKR '000
Mr. Ananda Atukorala				
United Motor Lanka PLC	Director	Deposits & Investments	50,278	26,879
		Off - Balance Sheet Accommodations	71,300	158,097
		Loans & Receivables		1
Unimo Enterprises Limited	Director	Deposits & Investments	5,702	2,790
		Off - Balance Sheet Accommodations	326,000	105,000
Unawatuna Boutique Resort (Pvt) Limited	Director	Deposits & Investments	14,840	9,423
Colombo City Holdings PLC	Director	Deposits & Investments	2,955	38,113
Orient Finance PLC	Director	Loans & Receivables	285,317	251,874
Development Holdings (Private) Limited	Chairman	Deposits & Investments	354,453	310,236
		Loans & Receivables		1
TVS Lanka Limited	Director	Deposits & Investments	-	250
Mr. Ashok Pathirage				
Asiri Hospital Holdings PLC	Chairman / Managing Director	Deposits & Investments	1,000	
Asiri Surgical Hospital PLC	Chairman / Managing Director	Deposits & Investments	3,011	
Softlogic Retail (Pvt) Limited	Chairman / Managing Director	Deposits & Investments		1,287
Central Hospital Limited	Chairman / Managing Director	Deposits & Investments	6,450	
Softlogic Life Insurance PLC	Chairman	Deposits & Investments	422	1,283
Mr. Dimantha Seneviratne				
Credit Information Bureau of Sri Lanka	Director	Deposits & Investments	1,130,003	
NDB Wealth Management Limited	Director	Deposits & Investments	2,114	3,101
NDB Investment Bank Limited	Director	Deposits & Investments	1,996	2,860
		Loans & Receivables	1	
Mr. Trevine Jayasekara				
Brandix Apparel Solutions Limited	Director	Deposits & Investments		104
John Keells Hotels PLC	Director	Deposits & Investments	1,228	
Phoenix Ventures (Pvt) Limited	Director	Deposits & Investments	4,386	
Mr. Sarath Wikramanayake				
NDB Wealth Management Limited	Director	Deposits & Investments	2,114	3,101
NDB Investment Bank Limited	Director	Deposits & Investments	1,996	2,860
		Loans & Receivables	1	
NDB Zephyr Partners Lanka (Pvt) Limited	Chairman	Deposits & Investments	1,039	4,150
Mrs. Kimarli Fernando				
Richard Pieris Distributors Limited	Director	Deposits & Investments	2,011,733	1,755,067
		Off -Balance Sheet Accommodations	25,014	127,519
		Loans & Receivables	229,969	39,913
Mr. Kavantissa Ratnayaka				
Sri Lanka Business Development Centre (SLBDC)	Director	Deposits & Investments	4	4
Mr. Ranasinghege Semasinghe				
Ceylon Electricity Board (CEB)	Director	Deposits & Investments	1,092	2,327

HUMAN RESOURCES AND REMUNERATION COMMITTEE REPORT

COMPOSITION OF THE HUMAN RESOURCES & REMUNERATION

The Board appointed Human Resources & Remuneration Committee comprised 6 Non-Executive Directors inclusive of the Chairperson of the committee who is an Independent Director as set out below. The Group Chief Executive Officer (GCEO) has been present at meetings subsequent to being invited by the Committee, other than in instances where matters relating to the GCEO have been discussed. The Chairman of the Bank has also been present at meetings by invitation.

Composition as at 31 December 2018

Name of the Board Subcommittee Member	Directorship Status	Membership Status
Mrs. Indrani Sugathadasa	Independent	C
Mr. Ashok Pathirage	Non- Independent	M
Mr. Trevine Jayasekara (Retired w.e.f. 8 February 2019)	Independent	M
Mrs. Kimarli Fernando	Non- Independent	M
Mr. Kavan Ratnayaka	Independent	M
Mr. Dinal Phillips, PC	Independent	M

C – Chairperson, M – Member

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 November 2018. 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 GUIDING PRINCIPLES

The Overall focus of the Committee:

- Setting guidelines and policies to formulate compensation packages, which are attractive, motivating and capable of retaining qualified and experienced employees in the Bank. In this regard, the Committee sets the criteria such as qualifications, experience, skills and competencies required which are to be considered for appointment or promotion to the post of GCEO and to KMPs.
- Setting guidelines and policies to ensure that the Bank upholds and adheres to the provisions of the Laws of the Land, particularly those provisions of the Banking Act No. 30 of 1988, including the Directions issued by the Monetary Board/ Director of Bank Supervision in accordance of the provisions of such Act.
- Providing guidance and policy direction for relevant matters connected to general areas of Human Resources Management of the Bank.

HUMAN RESOURCES AND REMUNERATION COMMITTEE REPORT

- Ensuring that the performance related element of remuneration is designed and tailored to align employee interests with those of the Bank and its main stakeholders which ensure sustainable growth.
- Structuring remuneration packages of KMPs to ensure that a significant portion of the remuneration is linked to performance which builds a pay for performance culture.
- Promoting a culture of regular performance reviews to enable staff to obtain feedback from their superiors in furtherance of achieving their objectives and development goals.
- To develop a robust pipeline of rising talent capable and available to fill key positions in the Bank.

COMMITTEE MEETINGS

The Committee held three (3) meetings during the year under review. The attendance of Committee Members at meetings is stated in the table on page 171. The quorum for a meeting is three (3) 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 organizes and takes part in compensation surveys every 2-3 years and has utilized 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

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 Balanced Scorecard methodology and recommended to the Board of Directors of the Bank the increments, bonuses and promotions for the staff members including the KMPs in 2018. They also set goals and targets for the KMPs for 2018 in line with the strategic vision and direction of the Bank in 2018.

The Committee also renewed the remuneration paid to Directors and noted and agreed on goals and targets of the Board of Directors and KMPs for the year 2018.

The Bank undertook a Job Evaluation and Grading exercise across the Bank and Job descriptions were reviewed and revised. The Committee deliberated on the policy parameters and recommended these changes. With these changes new grades were created, re-aligned etc. and promotions were carried out accordingly as recommended by the Committee.

The Committee, together with the Nominations Committee, 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 several senior

managerial positions of the Bank with a view to strengthening the organizational structure of the Bank. In this exercise, the Committee considered the salient terms and conditions pertaining to all such appointments/ designations of senior management personnel during the year in line with the Job Grading policies of the Bank.

The Committee, together with the Nominations Committee, also deliberated, in depth, the succession needs of the Bank vis a vis each senior position in the organizational structure and identified suitable candidates for succession to KMP positions. More importantly, in order to meet the demands on the talent arising from the accelerated growth of "Transformation 2020 (T20) Strategy", initiated a talent management, competency assessment and evidence based leadership framework/ Succession Planning assignment with external consultants in 2018. This exercise is expected to position the human resources of the Bank in line with the new strategic vision and direction the Bank has embarked on.



Mrs. Indrani Sugathadasa
Chairperson

Human Resources & Remuneration
Committee

18 February 2019
Colombo

NOMINATIONS COMMITTEE REPORT

COMPOSITION OF THE NOMINATIONS COMMITTEE

The Board appointed Nominations Committee comprised 4 Board Members including the Chairman of the Committee who is an Independent Director as set out below. The Group Chief Executive Officer (GCEO) and other Directors have been present at meetings only if invited by the Committee.

Composition as at 31 December 2018

Name of the Board Subcommittee Member	Directorship Status	Membership Status
Mr. Ananda Atukorala	Independent	C
Mr. Ashok Pathirage	Non- Independent	M
Mr. Trevine Jayasekara (Retired w.e.f. 8 February 2019)	Independent	M
Mrs. Kimarli Fernando	Non- Independent	M

C – Chairman, M – Member

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 October 2018 with no changes made thereto.

The Committee carries out the following duties and responsibilities:-

1. Implements procedures to select/appoint new Directors, GCEO and Key Management Personnel (KMPs).
2. Considers and recommends the re-election 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.
3. 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.

4. 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.
5. 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.
6. Considers and recommends from time to time, the requirements of additional/new expertise and the succession arrangements for retiring Directors and KMPs.

COMMITTEE GUIDING PRINCIPLES

The Committee is tasked with identifying appropriate individuals who may become members of the Boards of National Development Bank PLC and its group companies. For this purpose, the Committee assesses the experience, skills, expertise and competencies of the individuals being considered to be nominated as Directors through the Board approved procedure for selection and appointment of Directors. Such

procedure envisages the Board carrying out an assessment of the identified candidates against the needs of the Board/s, and the relevant regulatory requirements and applicable statutes so as to determine the fit and proper nature of the Directors to be so appointed, if and when a vacancy exists and at such times the Committee considers appropriate.

The Committee also has in place an agreed procedure through the Committee and with the concurrence the Human Resources and Remuneration Committee of the Board pertaining to the selection/appointment of KMPs internally through promotions and externally through recruitment to ensure that the organizational structure supports the strategic plan and direction of the Bank and that such identified KMPs are 'fit and proper' to be promoted/recruited to such positions of the Bank.

COMMITTEE MEETINGS

The Committee met three (03) times during the year under review, and the attendance of committee members at meetings is stated in the table on page 171 of the Annual Report. The quorum for a meeting is three (3) members.

The proceedings of the Committee meetings have been regularly reported to the Board of Directors.

METHODOLOGY USED BY THE COMMITTEE

The Committee meets as and when necessary in order to assess the suitability of individuals for appointment as Directors and KMPs in the manner aforementioned as well as to conduct such other affairs which the Charter of the Committee mandates the Committee to carry out.

SUMMARY OF ACTIVITIES

During the year, the Committee reviewed the appointment of one Director to the Board of Directors of the Bank and further reviewed the appointment of a Director to the Board of one of the subsidiary companies of the Bank. In the process, the Committee

NOMINATIONS COMMITTEE REPORT

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 Board compositions and striking the ideal balance in terms of expertise and experience on Boards.

The Committee also assessed the fitness and propriety of the continuing Directors and Directors' declarations were forwarded to the Regulator for approval as required by the regulation. The Committee further recommended to the Board the re-election of Directors retiring by rotation and offering themselves for re-election at the Annual General Meeting in line with the Articles of Association of the Bank and applicable regulations, having reviewed the fitness and propriety of the Directors.

The Committee, with a view to strengthening the organizational 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 carried out the appointment / designation of several KMPs of the Bank in line with the strategic vision and direction of the Bank.

The Succession Plan for KMPs in place at the Bank was reviewed and considered in making its selection and recommendation on the appointment of KMPs during the year and on internal promotions to KMP positions in the Bank in line with the strategic vision and direction of the Bank.



Mr. Ananda Atukorala
Chairman
Nominations Committee

18 February 2019
Colombo

STRATEGIC ISSUES COMMITTEE REPORT

COMPOSITION OF THE STRATEGIC ISSUES COMMITTEE

The Board appointed Strategic Issues Committee comprised 5 Board Members including the Chairman of the Committee who is an Independent Director as set out below. Other Directors and Members of the Management Team attend meetings upon invitation by the Committee.

Composition as at 31 December 2018

Name of the Board Subcommittee Member	Directorship Status	Membership Status
Mr. Ananda Atukorala	Independent	C
Mr. Ashok Pathirage	Non- Independent	M
Mr. Trevine Jayasekara (Retired w.e.f. 8 February 2019)	Independent	M
Mrs. Kimarli Fernando	Non- Independent	M
Mr. Sarath Wikramanayake	Non- Independent	M

C – Chairman, M – Member

CHARTER OF THE 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 September 2018.

The Committee carries out the following duties and responsibilities:-

1. Providing the strategic direction and strategic thinking of the Board to the management in the development and implementation of the Bank's strategic plan.
2. Developing the Bank's strategy and its implementation together with the management.
3. Reviewing and assessing the formulation and implementation of strategic plans developed by the management and approved by the Board.
4. Guiding and assisting the management in implementing strategic decisions taken by the Board.
5. 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:

1. Approving of all strategic investments and divestments and recommending the same to the Board.
2. Approving the periodical Strategic Plan (covering 3-5 years or more) and recommending the same to the Board.
3. Approving any significant amendments to the existing Strategic Plan and recommending the same to the Board.

COMMITTEE GUIDING PRINCIPLES

The primary purposes of the Committee comprise of the examination and Broad evaluation of strategic issues of a regular as well as of an ad hoc nature whilst also recommending any action required to be taken by the Board of Directors of the Bank.

The Committee serves as a catalyst as well as an observer of the development and implementation of the Bank's business strategies and additionally assists the Board in maintaining a close nexus with the management in the strategic planning process which comprises reviewing and assessing of the business strategy plans developed by the management and subsequently approved by 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 171 The quorum for a meeting is four (4) members.

The proceedings of the Committee meeting has been 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 2018

The Committee engaged in depth deliberations and recommended the Strategic Plan 2019-2023 during 2018. This included deliberations on organic growth plan and inorganic growth opportunities as well as the deliberations with regard to the Capital Plan and the IT Strategy of the Bank. The Committee also deliberated and recommended the Budget 2019 of the Bank to the Board in 2018.



Mr. Ananda Atukorala
Chairman
Strategic Issues Committee

18 February 2019
Colombo

INTEGRATED RISK MANAGEMENT COMMITTEE REPORT

COMPOSITION OF THE INTEGRATED RISK MANAGEMENT COMMITTEE

The Board appointed Integrated Risk Management Committee comprised 5 Board members and the Chairman of the Committee is a Non Independent Director as set out below.

Composition as at 31 December 2018

Name of the Board Subcommittee Member	Directorship Status	Membership Status
Mr. Sarath Wikramanayake	Non- Independent	C
Mr. Dinal Phillips, PC	Independent	M
Mr. Kavan Ratnayaka	Independent	M
Mr. Ranasinghe Semasinghe	Non- Independent	M
Mr. Sriyan Cooray (appointed w.e.f. 01.09.2018)	Independent	M
Mr. Dimantha Seneviratne (Group Chief Executive Officer)	Non- Independent	M
Mr. Lalith Fernando (Group Chief Financial Officer) (Resigned w.e.f 01.01.2019)	Non Director	M
Ms. Nirmala Rayen (Vice President - Group Risk Management)	Non Director	M
Ms. Manique Kiriella Bandara (Compliance Officer)	Non Director	M

C – Chairman, M – Member

CHARTER OF THE INTEGRATED RISK MANAGEMENT COMMITTEE

The Integrated Risk Management Committee was formed in June 2008 replacing the Risk & Credit Committee of the Board, in compliance with the Section 3 (6) of Direction No. 11 of 2007, 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 2018. The charter was reviewed again in November 2018 in order to include Mr. Sriyan Cooray – Independent Director as a Member to the IRMC committee. 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 GUIDING PRINCIPLES

- Responsible to the Board of Directors and the Committee's role is one of oversight.
- Management is responsible for designing, implementing and monitoring an effective risk program.
- Line business managers are responsible for managing risks in the areas for which they are responsible.
- Each member of the Committee shall be entitled to rely in good faith on the integrity of those persons from whom he or she receives information.

COMMITTEE MEETINGS

The Committee held four meetings, during the year under review to discuss the normal scope of work and ICAAP Framework of the Bank was discussed during the 2nd meeting held in May 2018. Attendance of Committee Meetings is given on page 171 The proceedings of the Committee meeting have been reported to the Board of Directors. Key members of the staff participate at the meetings as appropriate.

METHODOLOGY USED BY THE COMMITTEE

- Assess all risks faced by the Bank, its subsidiaries and associate companies, through appropriate risk indicators, dash boards and management information.

- Specify Risk Appetite and recommend prompt corrective action to mitigate the effects of specific risks in case such risks are at levels beyond the prudent levels decided by the Committee on the basis of Bank's/ Group's policies and regulatory and supervisory requirements.

SUMMARY OF ACTIVITIES

Credit Risk

- Reviewed and approved policies and operating guidelines related to Risk Management Policy on Bank's Exposure to Stock Market Activities, Impairment Policy, Loan Review Policy & Framework and Delegated Lending Authority for credit related approvals for the Corporate Banking and Branch Network.
- Reviewed portfolio quality covering
 - The amount, characteristics, concentrations and quality of the Bank's loan portfolio, large credit exposures, sector and geographical distribution of portfolio, NPL analysis based on business line, product category, sector wise, analysis of rescheduled loans, portfolio value at risk, exposure to Stock Market Activities / Margin Trading Exposures Reports, country risk exposures
 - Update on Collections and Recoveries
 - Update on the 100% provided NPLs transferred to Memorandum Account
 - Update on the Loan Review Mechanism
 - Rapid risk reviews on stressed sectors
 - Country Risk reports
- 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 policies related to Operational Risk, namely Operational Risk Policy, Operational Risk Data Collection paper, Risk and

Control Self-Assessment paper, Key Risk Indicators Methodology paper, Fraud Risk Management policy, Business line Mapping policy, Delegation of Authority for manual entries and back valuation and Business Continuity Framework.

- Reviewed operational risk issues, including but not limited to:
 - Significant Operational Risks and Losses.
 - Key Risk Indicators related to HR, Information Technology, Account Reconciliations, Audit points and Compliance related incidents.
 - 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.

Liquidity and Market 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 optimize 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 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.
- Liquidity risk analysis & stress testing
- Treasury Dealing Room positions, limits, exposures and limit compliance
- Counterparty exposures.

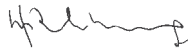
COMPLIANCE

- Monitors and assesses the Bank's compliance with laws, regulations and regulatory obligations based on the Quarterly Compliance Report submitted to the Committee.
- Ensures that the compliance framework, policies and processes are designed to manage, monitor and report compliance and to minimize 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.
- Reviewed and approved the Compliance Risk Management Policy and Framework which enables the Bank to identify, prioritize, and assign accountability for managing existing or potential compliance risks that could lead to fines, penalties or reputational damage.
- Ensure effective implementation of governance related policies at the Bank. Reviewed and approved the three governance related policies namely, Compliance Policy and Code of Conduct, Group Securities Trading Policy and the Group Anti-Bribery and corruption Policy.
- Reviewed and approved the Annual Compliance Program work carried out.
- Track progress of action to be taken for supervisory concerns identified by CBSL and ensure timely completion of same.

INTEGRATED RISK MANAGEMENT COMMITTEE REPORT

Legal Affairs

- Reviewed and monitored in detail the cases filed against the Bank in order to assess the risk. A detailed update of the cases filed against the Bank and other cases were discussed with the IRMC committee whilst updating the Committee on the probable outcome of such cases.
 - Reviewed and monitored the court cases filed by the Bank.
 - Reviewed and monitored other cases where the Bank is made a party such as partition, testamentary and winding up etc.
 - Reviewed and monitored the progress on court cases below LKR 5 Mn outsourced to two instructing law firms namely Shiranthi Gunawardene Associates and Sudath Perera Associates. It may be noted that the outsourced cases do not include the cases handled by the Recoveries and Collection Department which are cases on Personal Loans, Credit Cards, Pawning and Housing.
 - Reviewed and monitored the progress on parate actions and any issues faced.
 - Reviewed and monitored any other matters pertaining to the legal policy such as the title policy of the Bank.
 - 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 performance against the Risk Appetite.
 - Reviewed/ approved the Integrated Risk Management Framework, Stress Testing Policy and Framework, Valuation Policy and Single Borrower Limit/ Group Exposure Limit for NDB Group.



Mr. Sarath Wikramanayake
Chairman
Integrated Risk Management Committee

18 February 2019
Colombo

OTHERS

- The Committee reviewed the Key Risk Indicators of the Banks and Group Companies on a monthly basis through the monthly KRI statements and quarterly Risk Assessment Reports. Group Companies covered are NDB Investment Bank, NDB Capital Holdings, NDB Wealth Management, NDB Securities, NDB Capital Bangladesh and NDB Zephyr.
- Reviewed and approved Annual Review of Internal Capital Adequacy Assessment Process (ICAAP) Document for 2018.

BOARD AUDIT COMMITTEE REPORT

COMPOSITION OF THE BOARD AUDIT COMMITTEE

The Board Audit Committee appointed by and responsible to the Board of Directors comprised of 5 Directors. The Committee composition during the year 2018 is as follows;

Composition as at 31 December 2018

Name of the Board Subcommittee Member	Directorship Status	Membership Status*
Mr. Trevine Jayasekara (Retired w.e.f 08 February 2019)	Independent	C
Mr. Sarath Wikramanayake	Non - Independent	M
Mrs. Indrani Sugathadasa	Independent	M
Mr. Ranasinghege Semasinghe	Non - Independent	M
Mr. Sriyan Cooray (Appointed w.e.f. 01 September 2018) (Appointed as BAC Chairman w.e.f. 09 February 2019)	Independent	M
Mrs. Kimarli Fernando (Resigned w.e.f. 01 September 2018)	Independent (as at 01 September 2018)	M

*C – Chairman, M – Member

The Chairman of the Committee, Mr. Trevine Jayasekara who is an Independent Non-Executive Director, is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka and counts many years of experience in the Financial Services industry. The Vice President Group Audit functions as the Secretary to the Committee. Brief profiles of the members are given on pages 24 to 31 of the Annual Report.

TERMS OF REFERENCE

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 third quarter of 2018.

The Audit Committee is responsible to the Board of Directors and reports on its activities regularly. The functions of the Audit Committee are geared to assist the Board of Directors in its general oversight on financial reporting, internal controls and functions relating to internal and external audit.

COMMITTEE GUIDING PRINCIPLES

The Committee functions are structured and regulated in accordance with the guidelines issued in the Banking Act Direction No.11 of 2007 on "Corporate Governance for Licensed Commercial Banks in Sri Lanka" and its subsequent amendments (hereinafter referred to as the Direction), "Rules on Corporate Governance under Listing Rules of the Colombo Stock Exchange" and "Code of Best Practice on Corporate Governance" issued jointly by The Institute of Chartered Accountants of Sri Lanka (CASL) and the Securities and Exchange Commission of Sri Lanka (SEC).

COMMITTEE MEETINGS

The Committee held ten meetings during the year to discuss the matters coming under their preview. Attendance of the Committee members for each of these meetings is given on page 171. The formalized Minutes of the Committee meetings with details of matters discussed are regularly tabled at Board meetings.

Vice President Group Audit, Group Chief Executive Officer, Group Chief Financial Officer 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.

The Chairman of the Bank as an optional invitee also attended three meetings during the year.

ROLES AND RESPONSIBILITIES

The Committee is mainly responsible for;

- 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 the 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.

BOARD AUDIT COMMITTEE REPORT

- Assessing the reasonableness of the underlying assumptions for estimates and judgments made in preparing the Financial statements
- Overseeing the appointment, compensation, resignation and dismissal of the External Auditors.

SUMMARY OF ACTIVITIES

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. 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 of the implementation of Sri Lanka Accounting Standard (SLFRS) 9 on "Financial Instruments" and the relevant details on

implications in the Financial Statements for the year ended 31 December 2018.

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 Defense of the Bank. Additionally, the Committee assessed the effectiveness of the Bank's internal controls over financial reporting as of 31 December 2018, 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 page 207 and 208, 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 211 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 2018 and August 2018 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.

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 during the year, without the presence of the 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:

1. 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.
2. 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 the External Auditor

The Audit Committee performed an evaluation of the External Auditor based on certain defined criteria and recommended to the Board of Directors that Messrs. Ernst and Young, Chartered Accountants, to be re-appointed for the financial year ending 31 December 2019 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 March 2018 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 member Mrs. Kimarli Fernando for her valuable contribution.



Mr. Trevine Jayasekara
Chairman
Audit Committee

07 February 2019
Colombo

RELATED PARTY TRANSACTIONS REVIEW COMMITTEE REPORT

COMPOSITION OF THE RELATED PARTY TRANSACTIONS REVIEW COMMITTEE

The Board appointed Related Party Transactions Review Committee comprised 6 Board members including the Chairman of the Committee who is an Independent Director.

The Group Chief Executive Officer (GCEO) has been present at meetings only if invited by the Committee.

Composition as at 31 December 2018

Name of the Board Subcommittee Member	Directorship Status	Membership Status*
Mr. Ananda Atukorala	Independent	C
Mr. Trevine Jayasekara (Retired w.e.f. 8 February 2019)	Independent	M
Mr. Sarath Wikramanayake	Non- Independent	M
Mrs. Kimarli Fernando	Non- Independent	M
Mrs. Indrani Sugathadasa	Independent	M
Mr. Ranasinghege Semasinghe	Non- Independent	M

C – Chairman, M – Member

CHARTER OF THE 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 October 2018 with amendments being made with regard to Minutes and Recommendations.

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:-

1. 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;
2. Approving or rejecting Related Party Transactions upon the required internal approvals being obtained.
3. Determining whether the relevant Related Party Transaction is fair to, and in the best interests of, the Bank and its stakeholders; and
4. Recommending to the full Board what action, if any, should be taken by the Board with respect to any Related Party Transaction.
5. 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 GUIDING PRINCIPLES

The Committee is entrusted with evaluating and considering all transactions with related parties of the Bank except the exempted transactions as per the Listing Rules of the CSE in order to ensure that related parties are treated on par with other shareholders and constituents of the Bank and related party transactions are evaluated according to the applicable rules and regulations. To this end the Committee shall ensure that necessary processes are in place to identify, approve, disclose and monitor related party transactions according to the provisions contained in the Board approved Related Party Transaction Policy pertaining to the Bank and its subsidiaries.

The Committee is required to carry out the aforementioned approval of the related parties and related party transactions in line with the regulations issued by the Central Bank of Sri Lanka, the CSE and/or Securities and Exchange Commission of Sri Lanka, the Banking Act Directions, the Companies Act requirements and the Sri Lanka Accounting Standards.

COMMITTEE MEETINGS

The Committee met seven (07) times during the year under review and the attendance of committee members at meetings is stated in the table on page 171 of the Annual Report. The quorum for a meeting is four (4) members.

The proceedings of the Committee meetings are formally documented and 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 Listed Entity and interest in the transaction, the material facts of the proposed transaction including the aggregate value of the same, the benefits to the Listed Entity 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

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.

The legal fees to be charged by the Bank's Legal Department from Group Companies of the Bank was set with the approval of the Committee on an arm's length basis. A reward mechanism for referrals within the Group was another matter considered and approved by the Committee, taking in to consideration

the need to ensure that all transactions are carried out on an arm's length basis with no favourable treatment.

The appointment of a Subsidiary of the Bank to act as Financial Advisors to the Bank on capital raising activities such as Rights Issues and Debenture Issues and the connected terms were reviewed and approved by the Committee during the year.

The Committee also reviewed the TOR of the Committee for the year 2018.

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 2018 to 31 December 2018 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. Ananda Atukorala
Chairman
Related Party Transactions Review Committee

18 February 2019
Colombo

BOARD CREDIT COMMITTEE REPORT

COMPOSITION OF THE BOARD CREDIT COMMITTEE

The Board appointed Credit Committee comprised 5 Non-Executive Directors inclusive of the Chairperson of the committee who is an Independent Director as set out below.

Composition as at 31 December 2018

Name of the Board Subcommittee Member	Directorship Status	Membership Status*
Mrs. Kimarli Fernando	Non Independent	C
Mr. Ananda Atukorala	Independent	M
Mr. Ashok Pathirage	Non Independent	M
Mr. Dinal Phillips, PC	Independent	M
Mrs. Indrani Sugathadasa	Independent	M
Mr. Kavan Ratnayaka (w.e.f. 21 August 2018)	Independent	M
Mr. Dimantha Seneviratne (Group CEO)	Non Independent	M

C – Chairman, M – Member

CHARTER OF THE BOARD CREDIT COMMITTEE

The Board Credit Committee (BCC) was formed in June 2017 and the Charter of the BCC was approved by the Board of Directors in July 2017 and reviewed in June 2018. As per the Charter, the scope of work includes the following,

- Review and approve credit proposals including excess ratifications coming under the Committee's DLA
- Review and approve facilities of Retail Banking (under PPG) 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 necessary) of any Board level approvals
- Approve all Counterparty (bank) limits falling within the policy guidelines approved by 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/ Covenant compliance status of Corporate Clients

- Review and recommend to IRMC on any changes to credit policy

COMMITTEE GUIDING PRINCIPLES

- Responsible to the Board of Directors
- Business Lines and the Management Level Credit Committees are responsible for managing the risks in the areas for which they are responsible.
- Each Member of the Committee shall be entitled to rely in good faith on the integrity of those persons from whom he or she receives information.

COMMITTEE MEETINGS

The Committee held twelve meetings, during the year under review to discuss the normal scope of work and the proceedings of the Committee meetings have been reported to the Board of Directors.

METHODOLOGY USED BY THE COMMITTEE

Review 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.

SUMMARY OF ACTIVITIES IN 2018

During the meetings held in 2018 the Committee carried out the following activities

- Reviewed and agreed on the revised Terms of Reference of the Committee and proposed for approval of the Board of Directors
- Reviewed Delegated Authority Limits of Business Banking Unit and recommended changes to be incorporated in the final proposal for the approval of Board of Directors
- Reviewed and recommended thirty four credit proposals for the approval of the Board of Directors
- Reviewed and approved nineteen credit proposals comprising of new facilities, annual review of revolving facilities, changes to terms and conditions of facilities already approved and four pre-clearance proposals.
- Reviewed and approved four housing loan proposals
- Reviewed and approved nine proposals related to renewal of Bank Counter Party limits.
- Reviewed processes of facility annual review, covenant monitoring, watch listing and recommended improvements. Status of position of overdue reviews reported on a monthly basis and watch client reviews discussed quarterly.
- Reviewed Legal opinions on value and enforceability of agreements to Mortgage, Process and possibility of executing Parate Rights on condominium units, legal implications and rights of different parties if a condominium development project goes bankrupt during implementation stage.
- Reviewed and recommended to Board on Bank's strategy on long term off-shore business opportunities and monitoring mechanism.



Mrs. Kimarli Fernando
Chairman
Board Credit Committee

18 February 2019
Colombo

STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING

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 Acting Group Chief Financial Officer / Assistant Vice President - Finance and Planning 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 2019 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 2018, 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 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 recognize 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 balance as at 01 January 2018.

The comparative figures for the year ended 31 December 2017 remains as audited and published. The Previous year's figures and phrases have been re-arranged wherever necessary to conform to the current year's presentation, in line with the applicable accounting standards.

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 207 and 208 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 199 to 201 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 page 215 to 217 of this Report.

The Board of Directors accepts responsibility for the integrity and objectivity of the Financial Statements presented in this

STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING

Annual Report. The Directors confirm that in preparing the Financial Statements exhibited on pages 218 to 359 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 authorized 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 310. 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 2019
Colombo

DIRECTORS' STATEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

UP NEXT: ►

Group Chief Executive Officer's and
Group Chief Financial Officer's
Responsibility Statement

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 recognizes that the business of banking requires reward to be balanced with risk on a managed basis and as such the internal control systems are primarily designed with a view to highlighting any deviations from the limits and indicators which comprise the risk appetite of the Bank. In this light, the system of internal controls can only provide reasonable, but not absolute assurance, against material misstatement of financial information and records or against financial losses or fraud.

The Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Bank and 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 audits. 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 199 to 201.
- 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 Board took necessary steps to implement the requirements of the Sri Lanka Accounting Standard – SLFRS 9 on 'Financial Instruments'. The required models have been implemented and processes and controls have been designed. Also adequate training and awareness sessions have been conducted to all stakeholders including the Board and Senior Management. 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.

DIRECTORS' STATEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

- The Board has taken into consideration the requirements of the SLFRS 16 - Leases which is effective from 01 January 2019 and necessary steps are being taken to assess its impact on Financial Statements and to design suitable internal controls.

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 2018 and reported to the Board that nothing has come to their attention that causes them to believe that the statement is inconsistent with their understanding of the process adopted by the Board in the review of the design and effectiveness of the internal control over financial reporting of the Bank. Their independent assurance report on the Directors' Statement on Internal Control is given on the page 211 of this Annual Report.

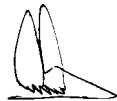
By order of the Board,



Mr. Ananda Atukorala - Chairman
18 February 2019



Mr. Trevine Jayasekara - Chairman Audit Committee (Former)
07 February 2019



Mr. Sriyan Cooray - Chairman Audit Committee
18 February 2019



Mr. Dimantha Seneviratne - Group Chief Executive Officer
18 February 2019

Colombo

GROUP CHIEF EXECUTIVE OFFICER'S AND GROUP CHIEF FINANCIAL OFFICER'S RESPONSIBILITY STATEMENT

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 2018 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 (2013)

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 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 transitional impact on the adoption of SLFRS 9 on the financial performance as at 31 December 2017, has been reflected in the opening equity balance as at 01 January 2018.

The comparative figures for the year ended 31 December 2017 remains as audited and published. The Previous year's figures and phrases have been re-arranged wherever necessary to conform to the current year's presentation, in line with the applicable accounting standards.

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.

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.

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 recognized in weighing the assurance provided by any system of internal control and accounting.

The Financial Statements of the Bank and the Consolidated Financial Statements of the Bank and its group companies were audited by Messrs Ernst & Young, Chartered Accountants. The Report issued by them is available on page 215 to 217 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 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 199 to 201. 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

GROUP CHIEF EXECUTIVE OFFICER'S AND GROUP CHIEF FINANCIAL OFFICER'S RESPONSIBILITY STATEMENT

Bank and the Group other than those disclosed in Note 48.3 on page 310 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

Acting Group Chief Financial Officer /
Assistant Vice President – Finance & Planning



Mr. Dimantha Seneviratne

Group Chief Executive Officer

18 February 2019
Colombo



Ernst & Young
Chartered Accountants
201 De Saram Place
P.O. Box 101
Colombo 10
Sri Lanka

Tel : +94 11 2463500
Fax Gen : +94 11 2697369
Tax : +94 11 5578180
eysl@lk.ey.com
ey.com

SPF/DMI/AD

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 2018.

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 behaviour.

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 2019
Colombo

Partners: W R H Fernando FCA FCMA M P D Cooray FCA FCMA R N de Saram ACA FCMA Ms. N A De Silva FCA Ms. Y A De Silva FCA 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
Principal T P M Ruberu FCMA FCCA

WAY FORWARD

Year 2019 will see the Bank progressively moving towards achieving the status of a Domestic Systemically Important Bank and emerging as an impactful players in the industry. This would necessitate further augmentation of our capital base and we are currently pursuing alternative funding avenues to fulfil this requirement. The operating landscape is anticipated to remain challenging over the short term given potential fiscal slippage due to the upcoming elections, liquidity constraints and cascading effects of global trade tensions which will result in investors adopting a wait and see approach. Our strategy and business activities will continue to be guided by the clearly-defined priorities and action plans of Transformation 2020 and a brief overview of what we plan to focus on next year is given below;



BUSINESS FOCUS

Given the operating context we will adopt a cautious approach to growth in our selected target markets and direct efforts towards consolidating the portfolio and preserving quality. Portfolio expansion will be sought through pursuing cross sell opportunities across business verticals while further strengthening our position in the Consumer and SME sectors. 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. We also hope to expand the 'Banking on Women' initiative driving both our commercial and sustainability objectives through providing a holistic value proposition for women which will include bundled product offers, tailor-made solutions and web-based support platforms.

Targets for 2019

The Bank envisages to grow above the industry average growth rates as demonstrated in the past, whilst maintaining sound asset quality.



BUSINESS PROCESSES AND IT

Considerable investments will be directed towards strengthening the Bank's business processes and IT infrastructure in 2019. Key among these will be the upgrade of the core banking system which is expected to accrue substantial benefits in driving operational efficiencies, strengthening risk management and providing access to more accurate and reliable management information. Driving seamless customer integration across platforms will also be a priority during the year and we will seek to further upgrade the mobile and online banking platforms with focus on user experience and advanced functionality. Over the short-to-medium term we also hope to enhance the Treasury platform and upgrade the ATM switch.



INSPIRED TEAM

Human capital priorities over the short to medium term will include further enhancement of employee engagement levels in driving the organisational change management programme, focus on skill development with particular emphasis on the competencies required to achieve T20 and the creation of a robust talent pipeline that will augment the succession planning process. An organisation-wide exercise was conducted in 2018 to identify talent gaps and over the medium to long-term we will focus on clearly defining career paths and progression opportunities for our high-performers.



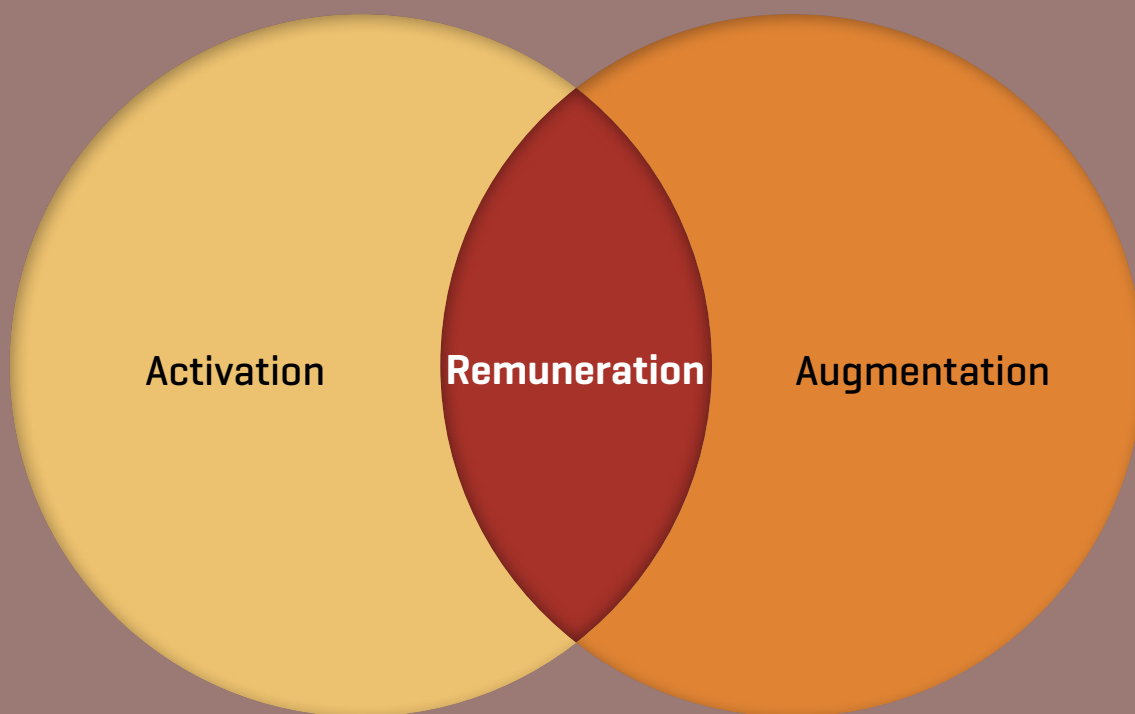
CUSTOMER EXPERIENCE

A key pillar of the Bank's digital strategy will be enhancing customer experience and in 2019 further efforts will be directed towards providing accessible, convenient and seamless channels. We hope to expand our network of NDB NEOS Digi branches which are expected to redefine the customer experience through uniquely combining technology and human interaction. 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. Achieving superior and consistent service standards will also be a priority in 2019 as we drive Service Leap across our network.



GROUP SYNERGIES

Initiatives to leverage on synergies across the Group in pursuing cross sell opportunities will include launch of a 'One NDB' account which will offer bundled services across the Group's portfolio of offerings including savings, investment/wealth management and overdrafts among others. Incentive schemes to drive combined sales referrals across the Bank, capital market and wealth management clusters which will also enable a deeper customer relationships. We also hope to strengthen the partnership between the Corporate and Investment Banking arms in collaborating and sharing expertise. We are also in the process of leveraging possible operational synergies across the business verticals to enhance the operational efficiency of the NDB Group.



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FINANCIAL CALENDAR 2018/2019

Annual General Meetings	Date
14th Annual General Meeting	28 March 2019
13th Annual General Meeting	28 March 2018

Dividend Payments	Amount	Date dividends announced	Date dividends paid / to be paid
Final dividend payment for 2018	1.50 (cash)	22 February 2019	15 March 2019 (cash)
	6.50 (scrip)		15 March 2019 (scrip)
Final dividend payment for 2017	2/- (cash)	21 February 2018	05 March 2018 (cash)
	5/- (scrip)		14 March 2018 (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 2018	11 February 2019	-
Q3/For the nine months ended 30 September 2018	30 October 2018	16 November 2018
H1/For the six months ended 30 June 2018	30 July 2018	11 August 2018
Q1/For the three months ended 31 March 2018	10 May 2018	23 May 2018
Q4/For the twelve months ended 31 December 2017	01 February 2018	20 March 2018

Annual Financial Statements	Date released / to be released the CSE	Date published in newspapers (in Sinhala, English & Tamil)
Annual financial statements for 2018	05 March 2019	25 March 2019
Annual financial statements for 2017	05 March 2018	20 March 2018

Investor Engagements on Quarterly Financial Results	Forum	On-line Webinar
Q4 2018	06 March 2019	13 February 2019
Q3 2018	Not hosted	01 November 2018
H1 2018	31 July 2018	30 July 2018
Q1 2018	Not hosted	14 May 2018
Q4 2017	27 March 2018	02 February 2018

Proposed Financial Calendar 2018/2019 (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 2019	March 2020	March 2020

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



Ernst & Young
Chartered Accountants
201 De Saram Place
P.O. Box 101
Colombo 10
Sri Lanka

Tel : +94 11 2463500
Fax Gen : +94 11 2697369
Tax : +94 11 5578180
eysl@lk.ey.com
ey.com

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF NATIONAL DEVELOPMENT BANK PLC

Report on the audit of the consolidated financial statements

Opinion

We have audited the financial statements of National Development Bank PLC ("the Bank") and the consolidated financial statements of the Bank and its subsidiaries ("the Group"), which comprise the statement of financial position as at 31 December 2018, 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 2018, 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 and Group's transition to SLFRS 9: Our audit considered allowance for impairment of loans and receivables to other customers as a key audit matter due to the materiality of the balances, its associated subjective nature of the management's impairment estimation, and transition to Sri Lanka Financial Reporting Standard 9 (SLFRS 9). As at 31 December 2018, the Group recorded a total of LKR 344,276 million as loans and receivables to other customers, net of allowance for impairment as given in Note 27, which represented 72 % of the Group's total assets. The impact on transition to SLFRS 9 of the Group financial statements previously reported, is disclosed in Note 20. The estimation of allowance for impairment requires subjective judgments. Management determined such allowance for impairment using complex calculations. Group's transitioning to SLFRS 9 required significant changes to the basis of estimating allowance for impairment.	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, included the following: • We observed the oversight and approval of impairment policies by the board audit committee and management; • We evaluated the design, implementation and operating effectiveness of available controls over measurement of impairment allowance for loans and receivables to other customers in line with SLFRS 9; • We tested the underlying calculations and data used in such calculations of impairment allowance; • The following key procedures were also performed: For loans and receivable to other customers that individually assessed for impairment: • where impairment indicators existed, we evaluated the reasonableness of management's estimated future recoveries including the expected future cash flows, discount rates and the valuation of collateral 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. For loans and receivables to other customers that collectively assessed for impairment: • We tested the completeness and fairness 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 as well as re-performing the calculation of allowance for impairment.

Partners: W R H Fernando FCA FCMA M P D Cooray FCA FCMA R N de Saram ACA FCMA Ms. N A De Silva FCA Ms. Y A De Silva FCA W K B S P Fernando FCA FCMA
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Principal T P M Ruberu FCMA FCCA

INDEPENDENT AUDITORS' REPORT



Key Audit Matter	How our Audit Addressed the Key Audit Matter
	- 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, 27.5 and 56.3. - We also assessed the adequacy of the Group's disclosure on the impact of the initial adoption of SLFRS 9 as set out in the Note 20.
Bank's financial reporting process and related IT systems and controls The Bank's IT environment is complex in terms of the scale and nature as it uses multiple IT systems of which the information output is used to generate financial reporting amounts and disclosures. Accordingly, we considered the assessment of the automated and IT dependent manual controls specific to the information processing that contribute to the preparation of accounting and financial information as a key audit matter.	Our audit procedures included the following, amongst others; - We understood and evaluated design and operating effectiveness of key automated, IT dependent manual controls implemented by the management over generation of financial statements and disclosures. - In respect of significant disclosures and computations that were based on information derived from IT systems, we assessed the accuracy of such by performing appropriate additional testing. - We assessed if the significant disclosures were made in line with applicable accounting standards. - We performed where relevant, other procedures which included: - understanding and evaluation of specific procedures carried out by personnel involved in the information security function together with additional work carried out by internal audit that supported management's assertion of integrity of systems. - performing additional substantive testing on specific account reconciliations.

Other Information included in the Group's 2018 Annual Report

Other information consists of the information included in the Annual Report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's and the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SLAuSs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SLAuSs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal controls of the Bank and the Group.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with ethical requirements in accordance with the Code of Ethics regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

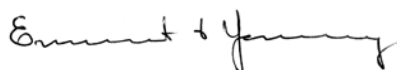
From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters.

We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

As required by section 163 (2) of the Companies Act No. 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 2199.



18 February 2019
Colombo

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INTEGRATED APPROACH TO FINANCIAL REPORTING

We have adopted the integrated reporting concepts in the presentation of financial statements in 2018 as well. Accordingly, we have presented the Financial Statements and relevant Notes to Financial Statements on a comprehensive and integrated manner, which has progressively improved the user-friendliness of the information presented.

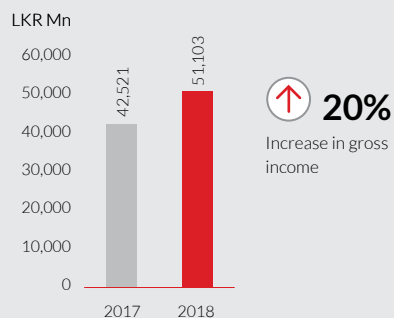
The presentation of the 2018 financial statements are in accordance with the Sri Lanka Financial Reporting Standards and all other applicable guidelines issued by regulators.

Furthermore, the Bank adopted SLFRS 9: Financial Instruments, for the first time, in reporting its financial results for 2018, and such adoption is described below.

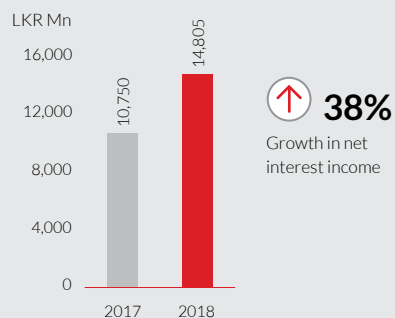
The financial statements of the Bank and the Group, presented herewith are prepared based on the new accounting policies and methods which have been revised in line with the requirements of the SLFRS 9 -Financial Instruments. The Bank complied with LKAS -39, Financial Instruments: Recognition and Measurements 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 balance as at 01 January 2018. The transition impact is arising predominantly due to impairment charges of loans and other losses.

FINANCIAL STATEMENT HIGHLIGHTS

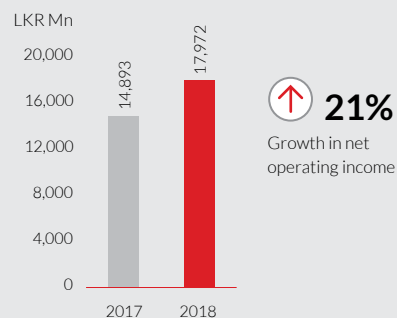
Gross Income



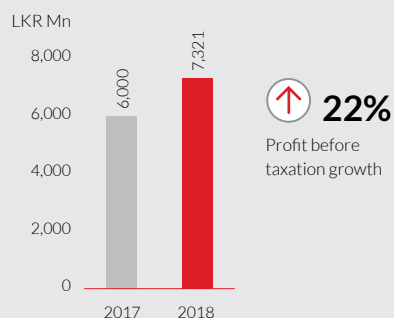
Net Interest Income



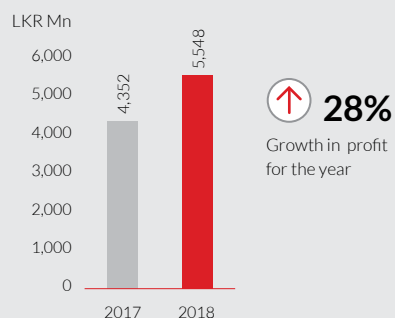
Net Operating Income



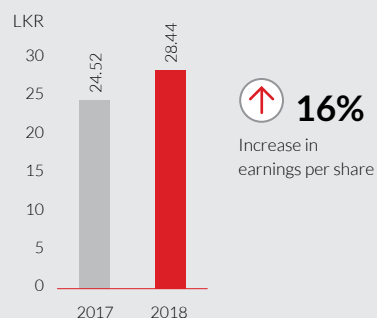
Profit Before Taxation



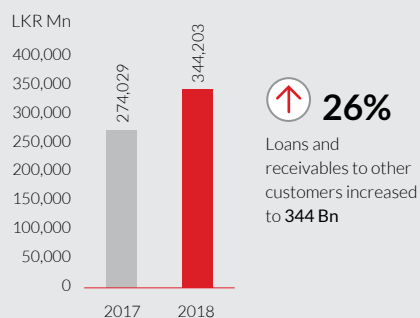
Profit for the Year



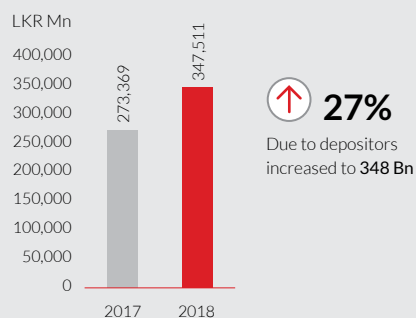
Earnings per Share



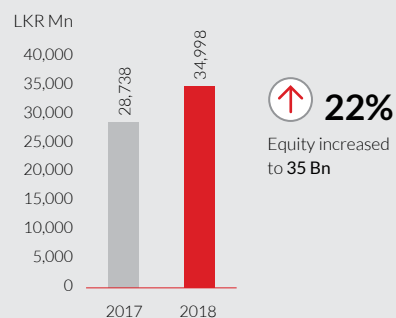
Loans and Receivables to Other Customers



Due to Depositors



Equity



STATEMENT OF PROFIT OR LOSS

UP NEXT: ►

Statement of Comprehensive Income

For the year ended 31 December	Note	Page No.	BANK			GROUP		
			2018 LKR '000	2017 LKR '000	%	2018 LKR '000	2017 LKR '000	%
Gross income	4	241	51,103,421	42,520,594	20	52,071,241	43,017,759	21
Interest income	5.1	242	44,354,296	37,118,699	19	44,621,712	37,421,114	19
Less: Interest expenses	5.2	242	29,549,656	26,368,585	12	29,517,983	26,334,787	12
Net interest income	5	242	14,804,640	10,750,114	38	15,103,729	11,086,327	36
Fee and commission income	6	243	3,136,329	2,520,532	24	3,947,738	3,416,002	16
Net gains/(losses) from trading	7	244	1,218,338	1,063,944	15	1,218,338	1,063,944	15
Net gains/(losses) from financial investments at fair value through profit or loss	8	244	(6,712)	8,935	(175)	56,194	97,155	(42)
Net gains/(losses) from derecognition of financial assets	9	245	383,565	513,710	(25)	449,880	572,400	(21)
Other operating income	10	246	2,017,605	1,294,774	56	1,777,379	447,144	297
Total operating income			21,553,765	16,152,009	33	22,553,258	16,682,972	35
Less: Impairment charges	11	246	3,581,009	1,258,554	185	3,764,858	1,290,297	192
Net operating income			17,972,756	14,893,455	21	18,788,400	15,392,675	22
Less: Operating expenses								
Personnel expenses	12	248	4,443,795	3,611,339	23	4,898,398	4,024,851	22
Depreciation and amortisation expenses	13	249	442,169	423,248	4	508,895	477,699	7
Other expenses	14	249	3,592,763	3,311,448	8	3,959,287	3,698,385	7
Total operating expenses			8,478,727	7,346,035	15	9,366,580	8,200,935	14
Operating profit before tax on financial services			9,494,029	7,547,420	26	9,421,820	7,191,740	31
Less: Tax on financial services	15	250	2,173,521	1,547,450	40	2,173,521	1,547,450	40
Operating profit after tax on financial services			7,320,508	5,999,970	22	7,248,299	5,644,290	28
Share of associate companies' profits/(losses)	16	251	-	-	-	-	-	-
Profit before taxation			7,320,508	5,999,970	22	7,248,299	5,644,290	28
Less: Income tax expenses	17	251	1,772,116	1,648,341	8	1,972,312	2,211,987	(11)
Profit for the year			5,548,392	4,351,629	28	5,275,987	3,432,303	54
Profit attributable to equity holders of the parent			5,548,392	4,351,629	28	5,136,168	3,489,752	47
Non-controlling interests			-	-	-	139,819	(57,449)	343
			5,548,392	4,351,629	28	5,275,987	3,432,303	54
Earnings per share basic / diluted (LKR)	18	253	28.44	24.52	16	26.33	19.66	34
Dividend per share (LKR)	19	254	8.00	9.00	(11)	-	-	-

The Notes to the Financial Statements disclosed from pages 230 to 359 form an integral part of these Financial Statements.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December	Note	Page No.	BANK			GROUP		
			2018 LKR '000	2017 LKR '000	%	2018 LKR '000	2017 LKR '000	%
Profit for the year			5,548,392	4,351,629	28	5,275,987	3,432,303	54
Other comprehensive income								
Items that will be reclassified to statement of profit or loss								
Exchange differences on translation of foreign operations			-	-	-	58,443	(371)	15,853
Gains/(losses) from available for sale investments			-	648,763	(100)	-	604,471	(100)
Gains/(losses) on investments in debt instruments								
Fair value through other comprehensive income								
- Net change fair value during the year			(1,210,600)	-	(100)	(1,198,934)	-	(100)
- Changes in allowance for expected credit losses			16,308	-	100	98,275	-	100
Deferred tax effect on gains/(losses) on above financial instruments			562,442	(308,218)	282	554,595	(298,266)	286
Net gains/(losses) on Investments in above financial instruments			(631,850)	340,545	(286)	(546,064)	(306,205)	(278)
Gains/(losses) on cash flow hedges	25.1 (b)	266	115,502	(70,339)	264	115,502	(70,339)	264
Net other comprehensive income that will be reclassified to Statement of profit or loss (a)			(516,348)	270,206	(291)	(372,119)	235,495	(258)
Items that will not be reclassified to profit or loss								
Net gains/(losses) on Investments in equity Instruments - fair value through other comprehensive income			(148,875)	-	(100)	(148,875)	-	(100)
Revaluation of freehold land and buildings	46.1	306	-	361,948	(100)	30,186	378,100	(92)
Deferred tax effect on revaluation gains/(losses)			-	(174,143)	100	-	(211,241)	100
Net gains/(losses) on revaluation of freehold land and buildings			-	187,805	(100)	30,186	166,859	(82)
Actuarial gains/(losses) on defined benefit plans	41.2 (f)	303	76,492	(99,429)	177	74,874	(99,021)	176
Deferred tax effect on actuarial gains/(losses)			2,308	(3,037)	176	2,308	(2,902)	180
Net actuarial gains/(losses) on defined benefit plans			78,800	(102,466)	177	77,182	(101,923)	176
Net other comprehensive income that will not be reclassified to Statement of profit or loss (b)			(70,075)	85,339	(182)	(41,507)	64,936	(164)
Total other comprehensive income for the year, net of taxes (a + b)			(586,423)	355,545	(265)	(413,626)	300,431	(238)
Total comprehensive income for the year			4,961,969	4,707,174	5	4,862,361	3,732,734	30
Attributable to:								
Equity holders of the parent			4,961,969	4,707,174	5	4,709,202	3,790,029	24
Non-controlling interests			-	-	-	153,159	(57,295)	367
			4,961,969	4,707,174	5	4,862,361	3,732,734	30

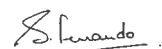
The Notes to the Financial Statements disclosed from pages 230 to 359 form an integral part of these Financial Statements.

STATEMENT OF FINANCIAL POSITION

UP NEXT: 
Statement of Changes in Equity

			BANK			GROUP		
As at 31 December	Note	Page	2018	2017		2018	2017	
		No.	LKR '000	LKR '000	%	LKR '000	LKR '000	%
Assets								
Cash and cash equivalents	22	262	6,537,579	5,274,466	24	7,071,438	5,343,314	32
Balances with the Central Bank of Sri Lanka	23	263	15,546,386	15,364,920	1	15,546,386	15,364,920	1
Placements with banks	24	263	15,237,306	840,684	1,712	15,237,306	840,684	1,712
Derivative financial instruments	25	264	3,937,847	2,471,706	59	3,937,847	2,471,706	59
Financial assets recognised through profit or loss - measured at fair value	26	267	1,947,242	1,216,439	60	4,052,409	2,659,883	60
Financial assets at amortised cost - loans and receivables to other customers	27	268	344,203,289	274,029,448	26	344,276,363	274,078,788	26
Financial assets at amortised cost - debt and other instruments	28.1	277	24,070,365	-	100	24,175,346	-	100
Financial investments - loans and receivables	28.2	277	-	21,171,508	(100)	-	23,316,328	(100)
Financial investments - held-to-maturity	28.3	278	-	3,524,051	(100)	-	4,077,096	(100)
Financial assets measured at fair value through other comprehensive income	29	279	52,908,306	-	100	54,487,227	-	100
Financial investments - available-for-sale	29	279	-	52,620,584	(100)	-	52,975,690	(100)
Investments held-for-sale	30	282	-	18,526	(100)	-	33,302	(100)
Investments in subsidiary companies	31	282	2,166,714	2,106,021	3	-	-	-
Investments in associate companies	32	283	-	-	-	-	-	-
Investment property	33	284	-	-	-	2,110,661	1,894,848	11
Intangible assets	34	285	379,896	384,369	(1)	396,742	397,053	(0)
Property, plant & equipment	35	286	2,569,873	2,356,679	9	3,144,359	2,917,017	8
Deferred tax assets	40	295	1,059,485	-	100	1,059,485	-	100
Other assets	36	290	2,347,642	1,693,641	39	2,932,641	2,274,809	29
Total assets			472,911,930	383,073,042	23	478,428,210	388,645,438	23
Liabilities								
Due to banks	37	291	15,047,481	20,236,719	(26)	15,047,481	20,236,719	(26)
Derivative financial instruments	25	264	2,906,572	936,754	210	2,906,572	936,754	210
Financial liabilities at amortised cost	38	291						
Due to depositors	38.1	291	347,511,223	273,369,023	27	347,169,564	273,041,417	27
Due to debt securities holders	38.2	293	6,394,211	8,719,243	(27)	6,382,024	8,719,243	(27)
Due to other borrowers	38.3	294	37,040,987	19,387,802	91	37,040,987	19,387,802	91
Debt securities issued	39	294	16,811,808	19,336,855	(13)	16,811,808	19,336,855	(13)
Current tax liabilities			3,077,151	1,578,447	95	3,147,224	1,575,091	100
Deferred tax liabilities	40	295	-	1,371,659	(100)	471,281	1,796,492	(74)
Retirement benefit obligations	41	298	408,308	363,138	12	501,531	460,080	9
Other liabilities	42	303	8,716,147	9,035,567	(4)	8,838,250	9,177,012	(4)
Total liabilities			437,913,888	354,335,207	24	438,316,722	354,667,465	24
Equity								
Stated capital	43	304	6,469,323	2,208,520	193	6,469,323	2,208,520	193
Statutory reserve fund	44	305	1,636,479	1,336,479	22	1,636,479	1,336,479	22
Retained earnings	45	305	26,771,897	24,390,962	10	30,668,089	28,581,147	7
Other reserves	46	306	120,343	801,874	(85)	238,555	886,081	(73)
Total equity to equity holders of the Bank			34,998,042	28,737,835	22	39,012,446	33,012,227	18
Non-controlling interests	47	308	-	-	-	1,099,042	965,746	14
Total equity			34,998,042	28,737,835	22	40,111,488	33,977,973	18
Total liabilities and total equity			472,911,930	383,073,042	23	478,428,210	388,645,438	23
Commitments and contingencies	48	308	288,882,867	269,160,399	7	289,758,239	269,877,849	7
Net asset value per share (LKR)	49	310	166.41	167.58	(1)	185.49	192.51	(4)

We certify that these Financial Statements are in compliance with the requirements of the Companies Act, No. 07 of 2007.



Mrs. Suwendrini Muthukumarana

Acting Group Chief Financial Officer / Assistant Vice President - Finance and Planning

The Board of Directors is responsible for these Financial Statements. Approved and signed for and on behalf of the Board,



Mr. Ananda Atukorala
Director/Chairman



Mr. Dimantha Seneviratne
Director/ Group Chief Executive Officer



Mrs. Shehani Ranasinghe
Company Secretary

18 February 2019

The Notes to the Financial Statements disclosed from pages 230 to 359 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 2017	1,246,479	1,246,479	(565,741)
Total comprehensive income for the year			
Profit for the year	-	-	-
- Other comprehensive income before tax	-	-	648,763
Tax on other comprehensive income	-	-	(308,218)
Total comprehensive income for the year	-	-	340,545
Transactions with equity holders, recognised directly in equity			
Transfer to the statutory reserve fund (Note 44)	-	90,000	-
Expiry of the ELCP option exercise period	-	-	-
Final dividend for 2016: Scrip	962,041	-	-
Final dividend for 2016: Cash	-	-	-
Interim dividend for year 2017 - Cash	-	-	-
Balance as at 31 December 2017	2,208,520	1,336,479	(225,196)
Balance as at 1 January 2018	2,208,520	1,336,479	(225,196)
Transition impact on adoption of SLFRS 9 (Note 20)	-	-	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	-

Fair Value through Other Comprehensive Income Reserve	Revaluation Reserve	General Reserve	Share Based Payment Reserve	Cash Flow Hedge Reserve	Retained Earnings	Total Equity
LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
-	853,456	5,805,707	13,841	56,148	16,088,681	24,745,050
-	-	-	-	-	4,351,629	4,351,629
-	361,948	-	-	(70,339)	(99,429)	840,943
-	(174,143)	-	-	-	(3,037)	(485,398)
-	187,805	-	-	(70,339)	4,249,163	4,707,174
-	-	-	-	-	(90,000)	-
-	-	-	(13,841)	-	-	(13,841)
-	-	-	-	-	(991,113)	(29,072)
-	-	-	-	-	(328,505)	(328,505)
-	-	-	-	-	(342,971)	(342,971)
-	1,041,261	5,805,707	-	(14,191)	18,585,255	28,737,835
-	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

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
GROUP			
Balance as at 1 January 2017	1,246,479	1,246,479	(542,587)
Total comprehensive income for the year			
Profit for the year	-	-	-
- Other comprehensive income before tax	-	-	604,471
Tax on other comprehensive income	-	-	(298,266)
Total comprehensive income for the year	-	-	306,205
Transactions with equity holders, recognised directly in equity			
Transfer to the statutory reserve fund (Note 44)	-	90,000	-
Expiry of the ELCP option exercise period	-	-	-
Final dividend for 2016: Scrip	962,041	-	-
Final dividend for 2016: Cash	-	-	-
Interim dividend for year 2017 - Cash	-	-	-
Balance as at 31 December 2017	2,208,520	1,336,479	(236,382)
Balance as at 1 January 2018	2,208,520	1,336,479	(236,382)
Transition impact on adoption of SLFRS 9 (Note 20)	-	-	236,382
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	-	-
Adjustment due to changes in group companies	-	-	-
Transfer to the statutory reserve fund (Note 44)	-	300,000	-
Dividend attributable to non controlling interest	-	-	-
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	-

Fair Value through Other Comprehensive Income Reserve	Revaluation Reserve	General Reserve	Share Based Payment 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	LKR '000	LKR '000
-	969,795	5,805,707	13,841	56,148	21,140,725	29,936,587	1,076,709	31,013,296
-	-	-	-	-	3,489,752	3,489,752	(57,449)	3,432,303
-	378,100	-	-	(70,339)	(99,546)	812,686	154	812,840
-	(211,241)	-	-	-	(2,902)	(512,409)	-	(512,409)
-	166,859	-	-	(70,339)	3,387,304	3,790,029	(57,295)	3,732,734
-	-	-	-	-	(90,000)	-	-	-
-	-	-	(13,841)	-	-	(13,841)	-	(13,841)
-	-	-	-	-	(991,113)	(29,072)	(53,668)	(82,740)
-	-	-	-	-	(328,505)	(328,505)	-	(328,505)
-	-	-	-	-	(342,971)	(342,971)	-	(342,971)
-	1,136,654	5,805,707	-	(14,191)	22,775,440	33,012,227	965,746	33,977,973
-	1,136,654	5,805,707	-	(14,191)	22,775,440	33,012,227	965,746	33,977,973
(236,382)	-	-	-	-	(2,456,276)	(2,456,276)	2	(2,456,274)
-	-	-	-	-	688,663	688,663	-	688,663
(236,382)	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
(1,347,809)	30,186	-	-	115,502	218,252	(983,869)	13,340	(970,529)
554,595	-	-	-	-	2,308	556,903	-	556,903
(793,214)	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)
(1,029,596)	1,166,840	5,805,707	-	101,311	24,862,382	39,012,446	1,099,042	40,111,488

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.

	BANK		GROUP	
For the year ended 31 December	2018	2017	2018	2017
	LKR '000	LKR '000	LKR '000	LKR '000
Cash flows from operating activities				
Interest received	40,951,417	37,419,186	41,252,618	37,731,389
Fee and commission income received	3,165,779	2,520,532	4,068,512	3,260,952
Dividend income received	568,518	1,098,879	123,146	119,119
Other operating income received	2,943,489	1,606,826	2,943,489	1,626,502
Interest paid	(28,022,485)	(24,292,670)	(28,031,190)	(24,300,757)
Personnel costs paid	(4,348,634)	(3,519,150)	(4,691,092)	(3,747,676)
Other expenses paid	(3,404,759)	(2,825,077)	(3,821,127)	(3,235,552)
Operating profit before changes in operating assets and liabilities	11,853,325	12,008,526	11,844,356	11,453,977
Increase /decrease in operating assets				
Deposits held for regulatory or monetary control purposes	(181,466)	(3,549,643)	(181,466)	(3,549,643)
Financial Assets at amortised cost- loans and receivables to other customers	(73,574,161)	(47,719,008)	(73,574,161)	(47,727,740)
Net (increase)/decrease in operating assets	(1,557,659)	(328,380)	(1,516,458)	(364,477)
Increase /decrease in operating liabilities				
Financial liabilities at amortised - Due to depositors	72,511,339	66,892,475	72,511,339	66,892,475
Financial liabilities at amortised - Due to debt securities holders	(3,132,870)	(16,569,615)	(3,132,870)	(16,569,615)
Financial liabilities at amortised - Due to other borrowers	(2,491,485)	(1,794,077)	(2,487,007)	(1,794,077)
Net increase/(decrease) in other liabilities	1,244,708	1,784,698	1,157,400	1,787,769
Net cash inflow/(outflow) from operating activities before taxation	4,671,731	10,724,976	4,621,133	10,128,669
Tax on financial services paid	(1,893,940)	(1,631,150)	(1,893,940)	(1,631,150)
Income taxes paid	(1,451,843)	(821,084)	(1,531,746)	(994,077)
Net cash (used in)/from operating activities	1,325,948	8,272,742	1,195,447	7,503,442
Cash flows from investing activities				
Net changes in financial investments	(1,002,720)	545,200	(358,785)	1,509,406
Net cash flow from liquidation of associate company	23,400	-	23,400	-
Purchase of intangible assets	(218,304)	(295,216)	(231,436)	(118,798)
Purchase of property plant and equipment	(724,174)	(292,794)	(763,420)	(617,678)
Proceeds from sale of property & plant and equipment	40,690	21,027	40,690	22,224
Net cash (used in)/from investing activities	(1,881,108)	(21,783)	(1,289,551)	795,154
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)	(326,700)	(2,771,590)	(326,700)
Interest paid on debts securities issued	(2,032,758)	(2,061,507)	(2,032,758)	(2,061,507)
Repayment of Institutional borrowings	(6,922,794)	(26,459,112)	(6,922,794)	(26,459,112)
Proceeds from Institutional borrowings	24,822,518	19,045,016	24,822,518	19,045,016
Dividends paid to non-controlling interests	-	-	(46,046)	(99,740)
Dividends paid to shareholders of the Bank	(330,157)	(649,206)	(330,157)	(649,206)
Net cash (used in)/ from financing activities	16,214,895	(10,451,509)	16,218,850	(10,551,249)
Net increase in cash and cash equivalents	15,659,735	(2,200,550)	16,124,746	(2,252,653)
Cash and cash equivalents at the beginning of the year	6,115,150	8,315,700	6,183,998	8,436,651
Cash and cash equivalents at the end of the period	21,774,885	6,115,150	22,308,744	6,183,998

	BANK		GROUP	
For the year ended 31 December	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
Reconciliation of cash and cash equivalents				
Cash in hand (Note 22)	6,537,579	5,274,466	7,071,438	5,343,314
Dues from banks and other financial institutions (Note 24)	15,237,306	840,684	15,237,306	840,684
	21,774,885	6,115,150	22,308,744	6,183,998

(a) Reconciliation of Operating Profit before Changes in Operating Assets and Liabilities

	BANK		GROUP	
For the year ended 31 December	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
Operating profit before tax on financial services	9,494,029	7,547,420	9,421,820	7,191,740
Gains on sale of property, plant & equipment	(28,296)	(19,810)	(31,671)	(22,502)
Accrual for interest / other income	(3,402,879)	300,486	(3,395,178)	110,442
Accrual for interest expenses	1,527,170	2,075,915	1,527,170	2,093,915
Accrual for general expenses	270,594	582,810	285,058	594,058
Contribution made to the pension fund	12,571	9,592	12,571	9,592
Depreciation of property, plant & equipment	331,974	326,169	389,738	373,203
Amortisation of intangible assets	110,195	97,079	119,158	104,496
Gains on disposal of investments	(7,783)	(172,416)	1,905	(172,416)
Impairment allowances for financial assets and investments in subsidiaries	3,581,009	1,258,554	3,764,858	1,290,297
Scrip divined received	(35,259)	-	(35,259)	-
Accrued dividend income	-	16,568	-	-
Fair value adjustments on investment property	-	-	(215,814)	(118,848)
Share based payments	-	(13,841)	-	-
Operating profit before changes in operating assets/ liabilities	11,853,325	12,008,526	11,844,356	11,453,977

(b) Changes in Liabilities Arising from Financing Activities

	Cash flows				
	1-Jan-18	Net of Proceeds and Repayments	Foreign Exchange Movement	Other	31-Dec-18
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
BANK					
Current interest bearing loans and borrowings	10,041,849	1,262,900	(246,540)	-	11,058,209
Non-current interest-bearing loans and borrowings	30,715,569	11,832,476	-	-	42,548,045
Proceeds from issue of ordinary shares (as a right issue)	2,208,520	3,449,676	-	811,127	6,469,323
Dividend payable	72,203	(330,157)	-	336,087	78,133
Total liabilities from financial activities	43,038,141	16,214,895	(246,540)	1,147,214	60,153,710
Group					
Current interest bearing loans and borrowings	10,041,849	1,262,900	(246,540)	-	11,058,209
Non-current interest-bearing loans and borrowings	30,715,569	11,832,476	-	-	42,548,045
Proceeds from issue of ordinary shares	2,208,520	3,499,677	-	761,126	6,469,323
Dividend payable	72,203	(330,157)	-	336,087	78,133
Dividend paid to non-controlling interest	-	(46,046)	-	-	(46,046)
Total liabilities from financial activities	43,038,141	16,218,850	(246,540)	1,097,213	60,107,664

NOTES TO THE FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

1.1 Reporting Entity

The National Development Bank of Sri Lanka was incorporated under the National Development Bank of Sri Lanka Act No. 2 of 1979. In 2005, pursuant to the provisions of the National Development Bank of Sri Lanka (consequential provisions) Act No. 1 of 2005, a company by the name of 'National Development Bank Limited' was incorporated for the purposes of taking over the business of National Development Bank of Sri Lanka. Accordingly, on 15 June 2005, the National Development Bank Limited was incorporated and with effect from that date, the National Development Bank of Sri Lanka Act No. 2 of 1979 was repealed except for certain provisions contained therein.

In terms of the new Companies Act No. 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 2018 was 108 (2017 - 107) and the number of staff employed as at 31 December 2018 was 2,494 (2017 - 2,169).

1.2 Principal Activities of the Bank and the Group

Bank

The principal activities of the Bank consist of 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.

Group

The principal activities of the Group companies comprising of the subsidiaries and the associate companies are summarised below:

Equity	Country of Incorporation	Principal Activities	Holding % - 2018		Holding % - 2017	
			Direct	Indirect	Direct	Indirect
Subsidiaries						
NDB Capital Holdings Limited	Sri Lanka	Full service investment banking	99.9	-	99.9	-
NDB Investment Bank Limited	Sri Lanka	Investment banking	-	99.9	-	99.9
NDB Wealth Management Limited	Sri Lanka	Wealth management	-	99.9	-	99.9
NDB Securities (Pvt) Limited	Sri Lanka	Investment advisory and securities trading	-	99.9	-	99.9
Development Holdings (Pvt) Limited	Sri Lanka	Property management	58.7	-	58.7	-
NDB Capital Limited	Bangladesh	Investment banking	41.8	84.2	77.8	-
NDB Zephyr Partners Limited	Mauritius	Management of private equity funds	-	60.0	-	60.0
NDB Zephyr Partners Lanka (Pvt) Limited	Sri Lanka	Management of private equity funds	-	60.0	-	60.0
Associate Companies						
Ayojana Fund (Pvt) Limited (Under liquidation)	Sri Lanka	Venture capital	50.0	-	50.0	-
NDB Venture Investments (Pvt) Limited (Liquidated in year 2018)	Sri Lanka	Venture capital	-	-	50.0	

1.3 Consolidated Financial Statements

The Consolidated Financial Statements for the year ended 31 December 2018 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 2018 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 221 and 222).
- Statement of Financial Position providing the information on the financial position of the Bank and the Group as at the year end (Refer page 223).
- Statement of Changes in Equity providing the movement in the shareholders' funds during the year ended under review for the Bank and the Group.
- 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 228).
- Accounting Policies and other explanatory notes and information (Refer pages 230 to 359).

2.2 Application of SLFRS 9

The Bank adopted Sri Lanka Financial Reporting Standard 9, (SLFRS 9 Financial Instruments) effective from 1 January 2018. This Standard replaces LKAS-39 Financial Instruments: Recognition and Measurement. The resulting impact on the adoption of SLFRS 9 is disclosed in the table of Transition Disclosures (Refer Note 20) and impact on the adoption of SLFRS 9 on the comparative financial information is incorporated to Equity as at 1 January 2018 in the presentation of these Financial Statements. The comparative figures for the year ended 31 December 2017 remains as audited and published and previous year as per the LKAS 39 Financial Instruments recognition and measurement and the figures and phrases have been rearranged wherever necessary to conform to the current year's Presentation.

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.

Sri Lanka Accounting Standard - SLFRS 15 (Revenue from contract with customers)

Sri Lanka Accounting Standard - SLFRS 15 (Revenue from contract with customers) became effective for the financial periods beginning on or after 1 January 2018. The Bank and the Group did not recognise any material impact on its fee & commission income with the adoption of SLFRS 15 at the transition date, 1 January 2018.

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 Bank and 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 177, 205 and 223 respectively.

2.5 Approval of the Financial Statements

The Financial Statements of the Bank and the Group for the year ended 31 December 2018 (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 2019.

2.6 Basis of Measurement

The Financial Statements of the Bank and 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	Page No.
Derivative financial instruments	Fair value	25	264
Financial assets recognised through profit or loss - measured at fair value	Fair value	26	267
Financial assets measured at fair value through other comprehensive income	Fair value	29	279
Investment property	Fair value	33	284
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.	35	286
Retirement benefit obligations	Recognised at the present value of the defined benefit obligations less the fair value of the assets of the plan.	41	298

NOTES TO THE FINANCIAL STATEMENTS

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 2018. 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 Bank 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 Bank and 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 230 to 359.

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 Bank and its Group companies to continue as a going concern. Therefore, the Financial Statements of the Bank and the Group continue to be prepared on a going concern basis.

3.1 Financial Instruments

(Applicable up to 31 December 2017)

Initial Recognition

All financial assets and liabilities are initially recognised on the trade date, i.e., the date that the Bank and the Group become a party to the contractual provisions of the instrument. This includes purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

3.1.1 Initial Measurement of Financial Instruments

The classification of financial instruments at initial recognition depends on their purpose and characteristics and the management's intention in acquiring them. All financial instruments are measured initially at their fair value plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss as per LKAS 39 on 'Financial Instruments: Recognition and Measurement'.

3.1.2 Classification and Subsequent Measurement of Financial Assets

At inception, a financial asset is classified into one of the following categories:

- At fair value through profit or loss
- Held-for-trading
- Loans and receivables
- Available-for-sale or
- Held-to-maturity

The subsequent measurement of the financial assets depends on their classifications.

3.1.3 Classification and Subsequent Measurement of Other Financial Liabilities

Financial instruments issued by the Bank and the Group that are not designated at fair value through profit or loss, are classified as 'other financial liabilities', where the substance of the contractual arrangement results in the Bank and the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

Other financial liabilities include, amounts due to banks, due to other customers, debt securities and other borrowed funds and subordinated term debts. After initial measurement, other financial liabilities are subsequently measured at amortised cost using the Effective Interest Rate (EIR).

EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instruments or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability.

The calculation of EIR takes into account all contractual terms of the financial instruments (for example – prepayment options) and includes any fees or incremental costs that are directly attributable to the instruments and are an integral part of the EIR, but not future credit losses.

3.1.4 Derecognition of Financial Assets and Financial Liabilities

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

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

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

(b) Financial Liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in the Statement of Profit or Loss.

3.1.5 Re-classification of Financial Assets and Liabilities

The Bank and the Group reclassify non-derivative financial assets out of the 'held-for-trading' category and into the 'available-for-sale', 'loans and receivables', or 'held-to maturity' categories as permitted by the Sri Lanka Accounting Standard - LKAS 39 on 'Financial Instruments: Recognition and Measurement'. Further, in certain circumstances, the Bank and the Group

NOTES TO THE FINANCIAL STATEMENTS

are permitted to reclassify financial instruments out of the 'available-for-sale' category and into the 'loans and receivables' category. Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortised cost.

For a financial asset with a fixed maturity, which has been reclassified out of the 'available-for-sale' category, any previous gain or loss on that asset that has been recognised in Equity is amortised to the Statement of Profit or Loss over the remaining life of the asset using the EIR. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the EIR. In the case of a financial asset that does not have a fixed maturity, the gain or loss is recognised in the Statement of Profit or Loss when such financial asset is sold or disposed of. If the financial asset is subsequently determined to be impaired, then the amount recorded in Equity is recycled to the Statement of Comprehensive Income.

The Bank and the Group may reclassify a non-derivative trading asset out of the 'held-for-trading' category and into the 'loans and receivables' category, if it meets the definition of loans and receivables and the Bank and the Group have the intention and ability to hold the financial asset for the foreseeable future or until maturity. If a financial asset is reclassified, and if the Bank and the Group subsequently increase their estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognised as an adjustment to the EIR from the date of the change in estimate. Reclassification is at the discretion of the management, and is determined on an instrument-by-instrument basis.

The Bank and the Group do not reclassify any financial instrument into the fair value through profit or loss category after initial recognition. Further, the Bank and the Group do not reclassify any financial instrument out of the fair value through profit or loss category if upon initial recognition it was designated as at fair value through profit or loss.

3.1.6 Offsetting of Financial Assets and Liabilities

Financial assets and financial liabilities are offset and the net amount is reported in the Statement of Financial Position if, and only if, there is a 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.

3.1.7 Impairment of Non-Financial Assets Other than Goodwill

The Bank and the Group assess at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Bank and the Group make an estimate of the recoverable amount of the asset. An asset's recoverable amount is the higher of an asset's or cash generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets.

Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset. In determining the fair value less cost to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Bank and the Group estimate the asset's or cash-generating unit's recoverable amount. A

previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the Statement of Profit or Loss.

3.1.8 Significant Accounting Judgements, Estimates and Assumptions on Impairment Losses on Financial Assets

The Bank and the Group assess at each reporting date, whether there is any objective evidence that loans and receivables to other customers are impaired. Loans and receivables to other customers are deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an 'incurred loss event') and that loss event (or events) has an impact on the estimated future cash flows of the loans and receivables that can be reliably estimated.

The Bank and the Group review their individually-significant loans and receivables at each reporting date to assess whether an impairment loss should be recorded in the Statement of Profit or Loss. In particular, the management's judgment is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the impairment allowance.

Loans and receivables to other customers that have been assessed individually and found not to be impaired are assessed together with all individually insignificant loans and advances in groups of assets with similar risk characteristics. This is to determine whether a provision should be made due to incurred loss events for which there is objective evidence, but the effects of which are not yet evident. The collective assessment takes into account data from

the loan portfolio such as, loan ownership types, levels of arrears, industries etc. and judgments on the effect of concentrations of risks and economic data (including levels of unemployment, inflation rate, interest rates, and exchange rates).

Individually Assessed Loans and Receivables to Other Customers

The criteria used to determine that there is such objective evidence includes:

- known cash flow difficulties experienced by the borrower;
- past due contractual payments of either principal or interest;
- breach of loan covenants or conditions;
- the probability that the borrower will enter bankruptcy or other financial realisation; and
- a significant downgrading in credit rating by an external credit rating agency.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the carrying amount of the asset and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the Statement of Profit or Loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Such interest income is recorded as part of 'interest income'.

The present value of the estimated future cash flows is discounted at the financial asset's original EIR of the loan facility. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

Collectively Assessed Loans and Receivables to Other Customers

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the credit risk characteristics such as asset type, industry, past-due status and other relevant factors.

Impairment is assessed on a collective basis in two circumstances:

To cover losses which have been incurred but have not yet been identified on loans subject to individual assessment; and

For homogeneous groups of loans that is not considered individually significant.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the Group.

Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows reflect, and are directly consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the Group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

3.2. Changes in Accounting Policies and Disclosures

In these Financial Statements, the Bank and the Group applied the SLFRS 9 – Financial Instruments and SLFRS 7R – Financial Instruments: Disclosures, effective for annual periods beginning on or after 1 January 2018, for the first time. The Bank and the Group have not early adopted early other standard, interpretation or amendment that has been issued but is not yet effective.

Changes include transition disclosures as shown in Note 20, details of qualitative and quantitative information about the Expected Credit Loss calculation such as the assumptions and inputs used are set out in Note 56.3.4.7.

SLFRS 7R: Financial Instruments: Disclosures

To reflect the difference between SLFRS 9 and LKAS 39, SLFRS 7 Financial Instruments: Disclosures was updated and the Bank has adopted it, together with SLFRS 9, for the year beginning 1 January 2018.

3.2.1 SLFRS 9 Financial Instruments - Applicable from 1 January 2018

SLFRS 9 – Financial Instruments replaces LKAS 39 for annual periods on or after 1 January 2018. The Bank and the Group have not restated comparative information for 2017 for the financial instruments in the scope of SLFRS 9. Therefore, the comparative information for 2017 is reported under LKAS 39 and is not comparable to the information presented for 2018. Differences arising from the adoption of SLFRS 9 have been recognised directly in retained earnings as of 1 January 2018 and are disclosed in Note 20. The Bank also elected, as a policy choice permitted under SLFRS 9, to continue to apply hedge accounting in accordance with LKAS 39.

3.2.2 Changes to 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.

The LKAS 39 measurement categories of financial assets (fair value through profit or loss (FVPL), available for sale (AFS), held-to-maturity and amortised cost) have been replaced by:

- 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

NOTES TO THE FINANCIAL STATEMENTS

- Equity instruments at FVOCI, with no recycling of gains or losses to profit or loss on derecognition
- Financial assets FVPL

The accounting for financial liabilities remains largely the same as it was under LKAS 39.

The Bank and the Group classification of its financial assets and liabilities is explained in Notes 3.2.5 and 3.2.6. The quantitative impact of applying SLFRS 9 as at 1 January 2018 is disclosed in the Transitional Disclosures detailed in Note 20 to these Financial Statements.

Day 1 Recognition

Financial assets and liabilities, with the exception of loans and advances 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 instrument. This includes regular way trades: purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. Loans and advances 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.

3.2.3 Initial Measurement of Financial Instruments

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments, as described in Notes 3.2.6.1 (a) and 3.2.6.1 (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.

3.2.4 Day 1 Profit or Loss

When the transaction price of the instrument differs from the fair value at origination and the fair value is based on

a valuation technique using only inputs observable in market transactions, the Bank recognises the difference between the transaction price and the 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.

3.2.5 Measurement Categories of Financial Assets and Liabilities

From 1 January 2018, the Bank 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 3.2.6.
- Fair Value through Other Comprehensive Income (FVOCI), as explained in Notes 29.
- Fair Value through Profit or Loss

The Bank classifies and measures its derivative and trading portfolio at FVPL as explained in Notes 25 and 26.

Before 1 January 2018, the Bank classified its financial assets as loans and receivables (amortised cost), FVPL, available-for-sale or held-to-maturity (amortised cost), as explained in Notes 3.2.6, 28 and 29.

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.

3.2.6 Financial Assets and liabilities

3.2.6.1 Due from Banks, Loans and Receivables to Other Customers, Financial Investments at Amortised Cost.

Before 1 January 2018, Due from banks and Loans and receivables to other customers, included non-derivative financial assets with fixed or determinable payments that were not quoted in an active market, other than those:

- That the Bank intended to sell immediately or in the near term
- That the Bank, upon initial recognition, designated as at FVPL or as available-for-sale
- For which the Bank may not recover substantially all of its initial investment, other than because of credit deterioration, which were designated as available-for-sale.

From 1 January 2018, the Bank only measures Due from banks, Loans and advances to customers and other financial investments 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 classification of financial liabilities under SLFRS 9 does not follow the approach for the classification on financial assets; rather it remains broadly the same as under LKAS 39. Financial liabilities are measured at amortised cost or fair value through profit or loss (when they held for trading).

The details of conditions of business model assessment and the SPPI test are outlined below.

3.2.6.1 (a) Business Model Assessment

The Bank determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

The Bank's business model 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 Bank's 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.

3.2.6.1 (b) The SPPI Test

As a second step of its classification process the Bank assesses the contractual terms of financial assets to identify whether they meet the SPPI test.

An entity has a business model to hold the financial asset to collect the contractual cash flows. The characteristics of the contractual cash flows are that of solely payments of the principal amount and interest (referred to as "SPPI").

Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Bank 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.

3.2.7 Reclassification of Financial Assets and Liabilities

From 1 January 2018, the Bank does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Bank acquires, disposes of, or terminates a business line.

Financial liabilities are never reclassified. The Bank did not reclassify any of its financial assets or liabilities in 2018.

3.2.8 Derecognition of Financial Instruments

3.2.8 (a) Financial Assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when the rights to receive cash flows from the financial asset have expired.

3.2.8 (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 (Policy Applicable from 1 January 2018)

3.3.1 Overview of the Expected Credit Loss (ECL) Principles

As described in Note 3.2.1 the adoption of SLFRS 9 has fundamentally changed the Bank's loan loss impairment method by replacing LKAS 39's incurred loss approach with a forward-looking Expected Credit Loss (ECL) approach. From 1 January 2018, the Bank has been recording 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 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 Bank's policy for grouping financial assets measured on a collective basis is explained in Note 56.3.4.6.

The Bank 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 56.3.4.5.

Based on the above process, the Bank groups its loans into Stage 1, Stage 2 and Stage 3.

► Stage 1

When loans are first recognised, the Bank 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 56.3.4.1). The Bank records an allowance for the Life time ECLs.

3.3.2 The Calculation of Expected Credit Loss (ECL)

The Bank calculates ECLs under three staging approaches 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.

NOTES TO THE FINANCIAL STATEMENTS

The mechanics of the ECL calculations are outlined below and the key elements are as follows:

► PD

The Probability of Default (PD) 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 of loan and receivables to other customers is further explained in Note 56.3.4.2.

However for placements with Banks and other financial investments classified as amortised cost and fair value through other Comprehensive Income the Bank and the Group relies on external credit rating in determining their respective PDs.

► EAD

The Exposure at Default (EAD) 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 56.3.4.3.

► LGD

The Loss Given Default (LGD) 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 56.3.4.4.

When relevant, the assessment of multiple scenarios also incorporates 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 in Note 3.1.1. 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 LTECL 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. This calculation is made for each of the three scenarios, as explained above.

► 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 56.3.4.1), the Bank recognises the LTECL for these loans. The method is similar to that for Stage 2 assets, with the PD set at 100%.

The Bank recognises the interest income on loans classified under stage 3 at the effective interest rate on amortised cost.

► 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 on the loan.

For credit cards and revolving facilities that include both a loan and an undrawn commitment, ECLs are calculated and presented together with 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 income statement, 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 the 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 with one day's notice. The Bank does not limit its exposure to credit losses to the contractual notice period,

but, instead calculates ECL over a period that reflects the Bank's expectations of the customer behaviour, its likelihood of default and the Bank's future risk mitigation procedures, which could include reducing or cancelling the facilities. Based on past experience and the Bank's expectations, the period over which the Bank calculates ECLs for these products, is one year for corporate and retail products.

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 56.3.4.2, 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 56.3.4.6), 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 the characteristics of the market at the date of the financial statements. Detailed information about these inputs and sensitivity analysis are provided in Note 56.3.4.7.

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. The Bank's accounting policy for collateral assigned to it through its lending arrangements under SLFRS 9 is the same as it was under LKAS 39.

However, the fair value of collateral affects the calculation of ECLs. It is generally assessed, at inception and re-assessed on a regular basis. However, some collateral, for example, cash or securities relating to margin requirements, is valued daily. 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 mortgage brokers, or based on housing price indices.

3.3.6 Write-offs

The Bank's accounting policy under SLFRS 9 remains the same as it was under LKAS 39. 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.

3.3.7 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. If these procedures identify a loss in relation to a loan, it is disclosed and managed as an impaired Stage 3 forborne asset until it is collected or written off.

From 1 January 2018, 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, as set out in Note 56.3.4.5. The Bank also considers whether the assets should be classified as Stage 3. Once an asset has been classified as forborne, it will remain forborne for a maximum 12 months' probation period. In order for the loan to be reclassified out of the forborne category, the customer has to meet all of the following criteria:

- All of its facilities has to be considered performing
- The probation period of one year (maximum) has passed from the date the forborne contract was considered performing
- Regular payments of more than an insignificant amount of principal or interest have been made during at least half of the probation period
- The customer does not have any contract that is more than 30 days past due.

NOTES TO THE FINANCIAL STATEMENTS

3.4 Significant Accounting Judgements, Estimates and Assumptions on Impairment losses on financial assets

The measurement of impairment losses both under SLFRS 9 and LKAS 39 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

3.5 Standards Issued but not yet Effective as at 31 December 2018

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 2018.

3.5.1 SLFRS 16 – Leases

SLFRS 16 was issued in January 2016 and it replaces LKAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. SLFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under LKAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability 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 lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under SLFRS 16 is substantially unchanged from today's accounting under LKAS 17. Lessors will continue to classify all leases using the same classification principle as in LKAS 17 and distinguish between two types of leases: operating and finance leases. SLFRS 16, which is effective for annual periods beginning on or after 1 January 2019, requires lessees and lessors to make more extensive disclosures than under LKAS 17.

Transition to SLFRS 16

The Bank and the Group plans to adopt SLFRS 16 modified retrospectively to each prior reporting period presented. The Group will elect to apply the standard to

contracts that were previously identified as leases applying LKAS 17 and IFRIC 4. The Group will therefore not apply the standard to contracts that were not previously identified as containing a lease applying LKAS 17 and IFRIC 4.

The Bank and the Group will elect to use 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 Bank and the Group has leases of certain office equipment (i.e., personal computers, printing and photocopying machines) that are considered of low value.

During 2018, the Bank and the Group had taken initiatives to perform a detailed impact assessment of SLFRS 16 leases.

4. GROSS INCOME

ACCOUNTING POLICY

The Gross Income represents the Interest Income and the Non-Interest Income earned by the Bank and the Group during the year.

Gross income is recognised to the extent that it is probable that the economic benefits will flow to the Bank and 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.

	Note	BANK		GROUP	
		2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
Interest income	5.1	44,354,296	37,118,699	44,621,712	37,421,114
Fee and commission income	6	3,136,329	2,520,532	3,947,738	3,416,002
Net gains/(losses) from trading	7	1,218,338	1,063,944	1,218,338	1,063,944
Net gains/(losses) from financial investments at fair value through profit or loss	8	(6,712)	8,935	56,194	97,155
Net gains/(losses) from derecognition of financial assets	9	383,565	513,710	449,880	572,400
Other operating income	10	2,017,605	1,294,774	1,777,379	447,144
Total		51,103,421	42,520,594	52,071,241	43,017,759

5. NET INTEREST INCOME

ACCOUNTING POLICY

Recognition of Interest Income and Interest Expense

The Bank and the Group use 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 and the same method followed by the Bank and the Group for the Financial Assets and Financial Liabilities classified as held for trading and as available-for-sale and financial Assets and Liabilities measured at amortised cost under LKAS 39 in the comparative year.

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 Bank and the Group revise 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.

NOTES TO THE FINANCIAL STATEMENTS

5.1 Interest Income

	BANK		GROUP	
	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
Placements with banks	325,683	203,995	325,683	217,664
Financial assets recognised through profit or loss	331,743	-	331,743	-
Financial assets held for trading	-	538,524	-	538,040
Financial assets measured at fair value through other comprehensive income	4,840,443	-	5,048,129	-
Financial investments - available-for-sale	-	4,035,110	-	4,035,110
Financial assets at amortised cost - loans and receivables to other customers	37,157,480	29,652,152	37,157,480	29,662,296
Financial assets at amortised cost - debt and other instruments	1,695,317	-	1,696,934	-
Financial investments - held-to-maturity	-	437,020	-	559,663
Financial investments - loans and receivables	-	2,250,185	-	2,406,628
Other interest income	3,630	1,713	61,743	1,713
Total interest income (a)	44,354,296	37,118,699	44,621,712	37,421,114

5.2 Interest Expenses

	BANK		GROUP	
	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
Due to banks	971,226	889,768	971,226	889,768
Financial liabilities at amortised cost				
- Due to depositors	23,912,033	19,513,347	23,880,360	19,479,549
- Due to debt securities holders	696,934	1,589,190	696,934	1,589,190
- Due to other borrowers	1,703,208	2,097,719	1,703,208	2,097,719
Debt securities issued	2,266,255	2,278,561	2,266,255	2,278,561
Total interest expenses (b)	29,549,656	26,368,585	29,517,983	26,334,787
Net interest income (a)-(b)	14,804,640	10,750,114	15,103,729	11,086,327

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 incomes 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	
	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
Interest income				
Financial assets measured at fair value - profit or loss	331,743	538,524	331,743	538,524
Financial assets measured at fair value - other comprehensive income	4,840,444	4,035,110	4,840,444	4,035,110
Financial assets at amortised cost - debt and other instruments	1,323,443	1,271,706	1,325,060	1,271,706
	6,495,630	5,845,340	6,497,247	5,845,340
Less : Interest expenses				
Securities sold under repurchase agreements	437,083	1,092,325	437,083	1,092,325
Net interest income from Sri Lanka Government Securities	6,058,547	4,753,015	6,060,164	4,753,015

5.4 Interest Income on Impaired Financial Assets

	BANK		GROUP	
	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
Interest income on impaired loans and receivables to other customers	370,368	254,934	370,368	254,934

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 Bank and 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 (2017 - LKR 511.1 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 Bank and the Group recognise 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 Recognitions.

The fee and commission income are recognised by the Bank and the Group within the scope of SLFRS 15 (Revenue Recognition) only when all of the following criteria are met:

- 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;
- The entity can identify each party's rights regarding the services to be transferred;
- The entity can identify the payment terms for the services to be transferred;
- 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
- 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 and Group issue 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 Bank and the Group recognise the Rental Income arising from an 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.

NOTES TO THE FINANCIAL STATEMENTS

6. FEE AND COMMISSION INCOME (CONTD.)

	BANK		GROUP	
	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
Fees and commission income on				
Cards	460,348	305,853	460,348	305,853
Due to depositors	391,605	307,074	391,605	307,074
Guarantees	437,126	356,326	437,126	356,326
Loans and receivables to other customers	762,099	600,391	762,099	600,391
Remittances	240,849	228,553	240,849	228,553
Trade finance	646,898	533,207	646,898	533,207
Other financial services	104,592	98,984	287,664	247,278
Bancassurance	89,728	82,184	89,728	82,184
Investment banking and wealth management	-	-	409,818	505,851
Brokerage	-	-	65,907	90,642
Rental income	3,084	7,960	155,696	158,643
Total	3,136,329	2,520,532	3,947,738	3,416,002

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	
	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
Income from foreign exchange				
- With banks	824,475	725,700	824,475	725,700
- With other customers	393,863	338,244	393,863	338,244
Total	1,218,338	1,063,944	1,218,338	1,063,944

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	
	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
Financial assets recognised fair value through profit or loss				
Unrealised revaluation gains / (losses);				
Sri Lanka Government Securities - Treasury bills / bonds	(6,712)	8,935	(6,712)	8,935
Equity securities	-	-	(37,648)	(16,723)
Investment in unit trusts	-	-	96,191	104,943
Private equity funds	-	-	4,363	-
Total	(6,712)	8,935	56,194	97,155

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	
	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
Net gains/(losses) from derecognition of financial assets				
Recognised at:				
Fair value through profit or loss (Note 9.1)	(15,131)	175,969	51,185	234,658
Fair value through other comprehensive income (Note 9.2)	398,696	337,741	398,695	337,742
Total	383,565	513,710	449,880	572,400

	BANK		GROUP	
	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
9.1 Financial assets – Fair value through Profit or Loss				
Debt securities	(15,131)	27,023	(15,131)	27,023
Equities	-	148,946	31,396	144,795
Unit trusts	-	-	34,920	62,840
Sub total	(15,131)	175,969	51,185	234,658
9.2 Financial assets – Fair value through Other Comprehensive Income				
Debt securities	398,696	337,741	398,695	337,742
Sub total	398,696	337,741	398,695	337,742
Total	383,565	513,710	449,880	572,400

NOTES TO THE FINANCIAL STATEMENTS

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.

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	
	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
Dividend income from securities				
– Quoted investments	49,859	46,912	65,368	62,354
– Non-quoted investments	32,433	28,697	90,287	45,869
Dividend income from group investments				
– Non-quoted investments	521,485	1,006,702	-	-
Foreign exchange gains	1,376,595	148,081	1,378,981	148,235
Gains on sale of property, plant & equipment	28,296	19,810	31,671	22,502
Gains on investment properties	-	-	215,814	118,848
Others	8,937	44,572	(4,742)	49,336
Total	2,017,605	1,294,774	1,777,379	447,144

11. IMPAIRMENT CHARGES

ACCOUNTING POLICY (Policy applicable from 01 January 2018)

The Bank and the Group assess impairment charges based on the expected credit loss method in accordance with SLFRS 9 as described in Note 3.3.

ACCOUNTING POLICY (Policy applicable up to 31 December 2017)

The Bank and the Group assessed impairment charges based on the historical loss method in accordance with LKAS 39 up to 31 December 2017 as described in Note 3.1.8.

11.1 Movement in the Impairment Charges During the Year

	BANK		GROUP	
	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
Loans and receivables to other customers				
Charges/(reversals) to the statement of profit or loss				
– Impairment on individually significant loans [Note 27.5 (e)]	2,827,052	340,330	2,827,052	340,330
– Impairment on collective loan portfolio [Note 27.5 (e)]	770,069	662,238	770,069	662,238
– Write-offs/(recoveries)	-	246,157	-	246,157
Total impairment charges for loan and receivables to other customers	3,597,121	1,248,725	3,597,121	1,248,725
– Impairment on financial investments	44,582	-	167,737	41,572
– Charges/(reversals) of impairment on investments in subsidiaries	(60,694)	9,829	-	-
Total	3,581,009	1,258,554	3,764,858	1,290,297

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
	2018 LKR '000	2018 LKR '000
Financial assets at amortised cost - loans and receivables		
Stage 1	78,350	78,350
Stage 2	(93,083)	(93,083)
Stage 3	3,607,222	3,607,222
	3,592,489	3,592,489
Contingent liabilities & commitments [Note 48.1 (b)]		
Stage 1	15,153	15,153
Stage 2	25,698	25,698
Stage 3	(36,219)	(36,219)
	4,632	4,632
Total impairment charges on loans and receivables to other customers and contingent liabilities and commitments [Note 27.5 (a)]	3,597,121	3,597,121
Financial assets at amortised cost – debt instruments		
Stage 1	(2,388)	(2,388)
Stage 2	20,318	20,318
Stage 3	-	-
	17,930	17,930
Financial assets measured at fair value through other comprehensive income [Note 29(b)]		
Stage 1	16,308	59,869
Stage 2	-	79,594
Stage 3	10,344	10,344
	26,652	149,807
Total impairment charges on financial investments	44,582	167,737
Impairment provision reversal of investment in subsidiaries (Note 31.1)	(60,694)	-
Total impairment charges	3,581,009	3,764,858

NOTES TO THE FINANCIAL STATEMENTS

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 Bank and 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.

Share Based Payments

Share-based payments represent the Bank's cost on the Equity Linked Compensation Plan (ELCP) which is more fully described in Note 43.4 to these Financial Statements.

	BANK		GROUP	
	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
Salary and bonus	3,539,566	2,852,441	3,917,229	3,206,779
Contribution to Employees' Provident Fund	300,121	264,683	322,166	276,838
Contribution to Employees' Trust Fund	60,024	52,937	65,151	55,564
Contribution to defined benefit plan				
– Pension Fund [Note 41.2 (a)]	12,571	9,592	12,571	9,592
– Gratuity [Note 41.1 (a)]	82,590	82,596	99,556	117,456
Share-based payments [Note 43.4]	-	(13,841)	-	(13,841)
Others	448,923	362,931	481,725	372,463
Total	4,443,795	3,611,339	4,898,398	4,024,851

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 Bank and the Group do not charge depreciation on freehold land. The depreciation rates are determined separately for each significant part of the assets.

The Bank and the Group review 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 2018 and 2017, are as follows:

Class of Assets	Period (Years)	% per Annum
Freehold buildings	50	2
Leasehold buildings	5	20
Motor vehicles	4	25
Office equipment and furniture	5	20
ATMs *	8	13
Computer servers *	6	17
Computer equipment	3-5	20-33
Mobile phones	2	50
Sundry fittings	4	25

* With effect from 1 January 2018, ATMs and Computer Servers are segregated according to their useful life based on technical assessment.

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 2018 and 2017 are given below:

Class of Assets	Period (Years)	% per Annum
Computer software	5	20

	BANK		GROUP	
	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
Depreciation of property, plant & equipment	331,974	326,169	389,737	373,203
Amortisation of intangible assets	110,195	97,079	119,158	104,496
Total	442,169	423,248	508,895	477,699

14. OTHER EXPENSES

ACCOUNTING POLICY

Other expenses include operating expenses of the Bank and 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. All expenditure incurred in the running of the business and in maintaining the property, plant & equipment in a state of efficiency has been charged to the Statement of Profit or Loss in arriving at the profit for the year. Other expenses excluding depreciation of property, plant & equipment and amortisation of intangible assets are recognised on an accrual basis.

Depreciation of property, plant & equipment and amortisation of intangible assets are based on their useful economic lifetime. The basis of measurement and useful economic lifetime of intangible assets and property plant and equipment are given in Notes 34 and 35 to these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

14. OTHER EXPENSES (CONTD.)

	BANK		GROUP	
	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
Directors' emoluments	40,878	31,401	49,952	35,212
Auditors' remuneration	8,896	8,391	13,159	11,084
Fees for other audit services	3,994	2,858	3,994	2,858
Non-audit fees to auditors	7,590	9,509	8,864	13,283
Professional and legal expenses	108,128	81,722	138,636	97,702
Office administration and establishment expenses	1,629,938	1,476,559	1,938,940	1,807,730
Deposit insurance expenses	323,416	251,231	323,416	251,231
Others	1,469,923	1,449,777	1,482,326	1,479,285
Total	3,592,763	3,311,448	3,959,287	3,698,385

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 is 15%. (2017- 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 is 2% (2017 – 2%).

Debt Repayment Levy (DRL)

Debt Repayment Levy has been imposed by the Finance Act, No. 35 of 2018 for a period of three years commencing from 1 October 2018 would be effective until 31 December 2021. 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 is 7%.

	BANK & GROUP	
	2018 LKR '000	2017 LKR '000
Value Added Tax on financial services	1,710,172	1,364,409
Nation Building Tax on financial services	227,923	183,041
Debt Repayment Levy	235,426	-
Total	2,173,521	1,547,450

16. SHARE OF ASSOCIATE COMPANIES' PROFITS/(LOSSES)

The Group's share of profit/(loss) 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 32 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.

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

17. INCOME TAX EXPENSES (CONTD.)

ACCOUNTING POLICY

Significant Accounting Estimates & Assumptions

The amount of current tax receivable or payable is the best estimate of the tax amount expected to be received or paid that reflects uncertainty related to income taxes, if any.

Management periodically evaluates the positions taken in the tax returns, with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

The components of the income tax expenses for the years ended 31 December 2018 and 2017 are:

	BANK		GROUP	
	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
Current tax expense				
Taxation based on the profit for the year	3,016,762	1,333,766	3,164,657	1,432,720
Adjustments in respect of current income tax of the prior years	(66,216)	220,106	(53,215)	240,070
Total current tax expense	2,950,546	1,553,872	3,111,442	1,672,790
Deferred tax expense				
Origination and reversal of temporary differences (Note 40)	(1,178,430)	94,469	(1,139,130)	539,197
Total income tax charged to the statement of profit or loss (Note 17.1)	1,772,116	1,648,341	1,972,312	2,211,987
Effective tax rate (including deferred tax) (%)	19	22	21	31
Effective tax rate (excluding deferred tax) (%)	31	21	33	23

17.1 Reconciliation of the Accounting Profit to Income Tax Expense

	BANK		GROUP	
	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
Operating profit before tax on financial services	9,494,029	7,547,420	9,421,820	7,191,740
Income tax expenses for the year (accounting profit @ applicable tax rate)	2,658,224	2,112,940	2,824,773	2,316,083
Tax effect on				
Disallowable expenses	3,113,939	2,261,142	3,129,732	2,265,734
Tax deductible expenses	(2,477,839)	(2,343,427)	(2,485,493)	(2,349,791)
Exempt income	(270,775)	(750,497)	(297,568)	(856,427)
Tax effect of leasing/tax losses	(6,787)	53,608	(6,787)	57,121
Taxation based on the profits for the year	3,016,762	1,333,766	3,164,657	1,432,720
Adjustments in respect of current income tax of the prior years	(66,216)	220,106	(53,215)	240,070
Total current tax expense	2,950,546	1,553,872	3,111,442	1,672,790
Origination and reversal of temporary difference (Note 40)	(1,178,430)	94,469	(1,139,130)	539,197
Total income tax charged to the statement of profit or loss	1,772,116	1,648,341	1,972,312	2,211,987

17.2 Applicable Income Tax Rates

The applicable income tax rates of the Bank and the subsidiary companies for the years 2018 and 2017 are as follows:

		2018 %	2017 %
National Development Bank PLC		28	28
NDB Capital Holdings Limited		28	28
Development Holdings (Pvt) Limited	On rental income	2 on turnover	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 - upto 31/03/2018	10	10
	- from 01/04/2018	28	
	On other income	28	28
NDB Zephyr Partners Lanka (Pvt) Limited		15	Tax exempted
NDB Zephyr Partners Limited* (Mauritius)		15	15
NDB Capital Limited (Bangladesh)		0.3	0.3

*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	
	2018	2017	2018	2017
Deferred tax assets	(137,272)	130,888	(73,769)	544,438
Deferred tax liabilities	(1,041,158)	(36,419)	(1,065,361)	(5,241)
Deferred tax (credit) / charge to the statement of profit or loss	(1,178,430)	94,469	(1,139,130)	539,197

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. EARNINGS PER SHARE ON PROFIT

ACCOUNTING POLICY

The Bank and 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 right issue 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	
	2018	2017	2018	2017
Amount used as the numerator				
Profit attributable to equity holders of the parent (LKR '000)	5,548,392	4,351,629	5,136,168	3,489,752
Amount used as the denominator				
Weighted average number of ordinary shares [Note 18.1 (a)]	195,066,456	177,463,062	195,066,456	177,463,062
Basic / diluted earnings per share (LKR)	28.44	24.52	26.33	19.66

The Earning Per Share for the comparative year has been restated to reduce the effect of scrip dividends paid during the year 2018 for the year 2017. The reported Earnings Per Share in the Annual Report of the year 2017 was LKR 25.38 and LKR 20.35 for the Bank and the Group respectively.

NOTES TO THE FINANCIAL STATEMENTS

18.1 (a) Weighted Average Number of Ordinary Shares for Basic / Diluted EPS

BANK & GROUP		
	2018	2017
Number of shares held as at 01 January	171,485,705	165,185,506
Add : Weighted average effect of number of shares issued due to the Right Issue (Note 43.3)	6,120,755	-
	177,606,460	165,185,506
Add: Number of shares issued due to final scrip dividend for the year 2016	-	6,300,199
Add: Number of shares issued due to final scrip dividend for the year 2017 (Note 43)	5,977,357	5,977,357
Add: Number of shares issued due to final scrip dividend for the year 2018	11,482,639	-
Number of shares held as at 31 December	195,066,456	177,463,062

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 8.00 per share for the year 2018, comprising of a cash dividend of LKR 1.50 per share and a scrip dividend of LKR 6.50 per share. Accordingly, the total dividend per share for the year 2018 was LKR 8.00. The Bank paid a total dividend of LKR 9.00 per share comprising of a cash dividend of LKR 4.00 per share and a scrip dividend of LKR 5.00 share for the year 2017.

BANK & GROUP		
	2018 LKR	2017 LKR
Interim dividend per share - Cash	-	2.00
Final dividend per share - Cash	1.50	2.00
Final dividend per share - Scrip	6.50	5.00
Total dividend per share	8.00	9.00

Dividend Paid during the Year

BANK & GROUP				
	Dividend per Share LKR	2018 LKR '000	Dividend per Share LKR	2017 LKR '000
Final scrip dividend paid for the prior year	5.00	857,429	6.00	991,113
Final cash dividend paid for the prior year	2.00	342,971	2.00	330,371
Interim dividend paid for the current year	-	-	2.00	342,971
Gross dividends paid during the year	7.00	1,200,400	10.00	1,664,455
Reversal of dividends declared in prior years	-	(6,884)	-	(1,866)
Dividends to equity holders		1,193,516		1,662,589

20. TRANSITION DISCLOSURES - SLFRS 9, FINANCIAL INSTRUMENTS

The following tables set out the transition impact of adoption of SLFRS 9 financial instruments on the Statement of Financial Position, and the retained earnings including the effect of replacing LKAS 39 financial instruments recognition and measurement incurred credit loss calculations with SLFRS 9's Expected Credit Losses (ECLs).

The reconciliation between the carrying amount under LKAS 39 to the balances reported under SLFRS 9 as of 01 January 2018 is as follows.

BANK	LKAS 39 Measurement		Re-classification		Remeasurement		SLFRS 9	
	Category	Amount	Amount	ECL	Other	Amount	Measurement	Line item in the Statement of Financial Position
Assets		LKR '000	LKR '000	LKR '000	LKR '000	LKR '000		
Financial Assets								
Cash and cash equivalents	Loans and receivables	5,274,466	-	(483)	-	5,273,983	Amortised cost	Cash and cash equivalents
Balances with the Central Bank of Sri Lanka	Loans and receivables	15,364,920	-	-	-	15,364,920	Amortised cost	Balances with the Central Bank of Sri Lanka
Placements with banks	Loans and receivables	840,684	-	(164)	-	840,520	Amortised cost	Placements with banks
Derivative financial instruments	Fair value through profit or loss	2,471,706	-	-	-	2,471,706	Fair value through profit and loss	Derivative financial instruments
Financial Assets - Held for trading	Fair value through profit or loss	1,216,439	-	-	-	1,216,439	Fair value through profit and loss	Financial assets recognised through profit or loss - measured at fair value
Loans and receivables to banks	Loans and receivables	15,478	-	-	-	15,478	Amortised cost	Financial assets at amortised cost - loans and receivables to other customers
Loans and receivables to other customers	Loans and receivables	274,013,970	-	(2,338,407)	-	271,675,563	Amortised cost	Financial assets at amortised cost - loans and receivables to other customers
Financial investments - Available-for-sale	Available-for-sale	52,620,584	(52,620,584)	-	-	-	N/A	
Debt instruments at fair value through other comprehensive income	N/A	N/A	51,064,941	-	-	51,064,941	Fair value through other comprehensive income	Financial assets measured at fair value through other comprehensive income
Equity instruments at fair value through other comprehensive income	N/A	N/A	1,555,643	-	-	1,555,643	Fair value through other comprehensive income	Financial assets measured at fair value through other comprehensive income
Financial investments - Loans and receivables	Loans and receivables	21,171,508	(21,171,508)	-	-	-	N/A	-
Financial investments - Held to maturity	Held to maturity	3,524,051	(3,524,051)	-	-	-	N/A	-
Debt instruments at amortised cost	N/A	N/A	24,695,559	(117,959)	-	24,577,600	Amortised cost	Financial assets at amortised cost - debt and other instruments
Other financial assets	Loans and receivables	19,565	-	-	-	19,565	Amortised cost	Other Assets
Total financial assets		376,533,371	-	(2,457,013)	-	374,076,358		
Non Financial Assets								
Investments - Held for sale	N/A	18,526	-	-	-	18,526	N/A	
Investments in subsidiary companies	N/A	2,106,021	-	-	-	2,106,021	N/A	
Investment Property	N/A	-	-	-	-	-	N/A	
Intangible assets	N/A	384,369	-	-	-	384,369	N/A	
Property, plant & equipment	N/A	2,356,679	-	-	-	2,356,679	N/A	
Deferred tax assets	N/A	-	-	687,964	-	687,964	-	
Other assets	N/A	1,674,076	-	-	-	1,674,076	N/A	
Total assets		383,073,042	-	(1,769,049)	-	381,303,993		

NOTES TO THE FINANCIAL STATEMENTS

20. TRANSITION DISCLOSURES (CONTD.)

Liabilities	LKAS 39 Measurement		Re-classification		Remeasurement		SLFRS 9	
	Category	Amount LKR '000	LKR '000	LKR '000	ECL LKR '000	Other LKR '000	Amount LKR '000	Measurement
Financial liabilities								
Due to banks	Other financial liabilities	20,236,719	-	-	-	-	20,236,719	Amortised cost
Derivative financial instruments	Fair value through profit or loss							Fair value through profit or loss
		936,754	-	-	-	-	936,754	
Due to other customers	Other financial liabilities	273,369,023	-	-	-	-	273,369,023	Amortised cost
Debt securities issued and other borrowed funds	Other financial liabilities	28,107,045	-	-	-	-	28,107,045	Amortised cost
Subordinated term debts	Other financial liabilities	19,336,855	-	-	-	-	19,336,855	Amortised cost
Non financial liabilities								
Retirement benefit obligations	N/A	363,138					363,138	
Tax liabilities	N/A	1,578,447	-	-	-	-	1,578,447	N/A
Deferred tax liabilities	N/A	1,371,659	-	-	-	-	1,371,659	N/A
Other liabilities	N/A	9,035,567	-	-	-	-	9,035,567	N/A
Total liabilities		354,335,207					354,335,207	

The impact of transition to SLFRS 9 on Equity is as follows:

	BANK LKR '000
Retained Earnings	
Closing balance under LKAS 39 as at 31 December 2017	18,585,255
Reclassification adjustments in relation to the adoption of SLFRS 9	-
Recognition of expected credit losses under SLFRS 9 for loans and receivable to other customers	(2,338,407)
Recognition of expected credit losses under SLFRS 9 for debt instruments at amortised cost	(118,606)
Deferred tax in relation to the above	687,964
Closing balance as at 31 December 2017 as per SLFRS 9	16,816,206

The following table reconciles the opening impairment allowances under LKAS 39 and the impairment allowance under SLFRS 9.

	BANK	
	Impairment allowance under LKAS 39 as at 31 December 2017 LKR '000	Re-Measurement under SLFRS 9 as at 01 January 2018 LKR '000
Impairment allowance for On balance sheet items		
Loans and receivables as per LKAS 39/Financial Assets at amortised cost under SLFRS 9	4,787,097	1,761,512
Financial Investments - Held to Maturity /Loan and receivables as per LKAS 39 and debt instruments at amortised cost as per SLFRS 9	-	118,606
	4,787,097	1,880,118
Off balance sheet items		
Guarantees	-	298
Documentary credits	-	15,389
Undrawn commitments	-	561,209
	-	576,896
	4,787,097	2,457,013
		7,244,111

GROUP	LKAS 39 Measurement		Re-classification		Remeasurement			SLFRS 9	
	Category	Amount	Amount	ECL	Other	Amount	Measurement	Line item in the Statement of Financial Position	
Assets		LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000		
Financial Assets									
Cash and cash equivalents	Loans and receivables	5,343,314	-	(483)	-	5,342,831	Amortised Cost	Cash and cash equivalents	
Balances with the Central Bank of Sri Lanka	Loans and receivables	15,364,920	-	-	-	15,364,920	Amortised Cost	Balances with the Central Bank of Sri Lanka	
Placements with banks	Loans and receivables	840,684	-	(164)	-	840,520	Amortised Cost	Placements with banks	
Derivative financial instruments	Fair value through profit or loss	2,471,706	-	-	-	2,471,706	Fair Value through Profit and Loss	Derivative financial instruments	
Financial assets - Held for trading	Fair value through profit or loss	2,659,883	-	-	-	2,659,883	Fair Value through Profit and Loss	Financial assets recognised through profit or loss - measured at fair value	
Loans and receivables to banks	Loans and receivables	15,478	-	-	-	15,478	Amortised Cost	Financial assets at amortised cost - loans and receivables to other customers	
Loans and receivables to other customers	Loans and receivables	274,063,310	-	(2,338,407)	-	271,724,903	Amortised Cost	Financial assets at amortised cost - loans and receivables to other customers	
Financial Investments - Available-for-sale	Available-for-sale	52,975,690	(52,975,690)	-	-	-	N/A		
Debt instruments at fair value through other comprehensive income	N/A	N/A	51,422,261	(1,476)	-	51,420,785	Fair Value through Other Comprehensive Income	Financial assets measured at fair value through other comprehensive income	
Equity instruments at fair value through other comprehensive income	N/A	N/A	1,555,643	-	-	1,555,643	Fair Value through Other Comprehensive Income	Financial assets measured at fair value through other comprehensive income	
Financial investments - Loans and receivables	Loans and receivables	23,316,328	(23,316,328)	-	-	-	N/A	N/A	
Financial investments - Held to maturity	Held to maturity	4,077,096	(4,077,096)	-	-	-	N/A	N/A	
Debt instruments at amortised cost	N/A	N/A	27,393,424	(117,959)	-	27,275,465	Amortised Cost	Financial assets at amortised cost - debt and other instruments	
Other financial assets	Loans and Receivables	446,909	-	-	-	446,909	Amortised Cost	Other Assets	
Total financial assets		381,575,318	2,214	(2,458,489)	-	379,119,043			
Non Financial Assets									
Investments - Held for sale	N/A	33,302	-	-	-	33,302	N/A		
Investments in subsidiary companies	N/A	-	-	-	-	-	N/A		
Investments in associate companies	N/A	-	-	-	-	-	N/A		
Investment property	N/A	1,894,848	-	-	-	1,894,848	N/A		
Intangible assets	N/A	397,053	-	-	-	397,053	N/A		
Property, plant & equipment	N/A	2,917,017	-	-	-	2,917,017	N/A		
Deferred tax assets	N/A	-	-	688,663	-	688,663	N/A		
Other assets	N/A	1,827,900	-	-	-	1,827,900	N/A		
Total assets		388,645,438	2,214	(1,769,826)	-	386,877,826			

NOTES TO THE FINANCIAL STATEMENTS

20. TRANSITION DISCLOSURES (CONTD.)

GROUP	LKAS 39 Measurement		Re-classification		Remeasurement		SLFRS 9	
	Category	Amount LKR '000	LKR '000	LKR '000	ECL LKR '000	Other LKR '000	Amount LKR '000	Measurement
Financial liabilities								
Due to banks	Other financial liabilities	20,236,719	-	-	-	-	20,236,719	Amortised cost
Derivative financial instruments	Fair value through profit or loss	936,754	-	-	-	-	936,754	FVPL
Due to other customers	Other financial liabilities	273,041,417	-	-	-	-	273,041,417	Amortised cost
Debt securities issued and other borrowed funds	Other financial liabilities	28,107,045	-	-	-	-	28,107,045	Amortised cost
Subordinated term debts	Other financial liabilities	19,336,855	-	-	-	-	19,336,855	Amortised cost
Non financial liabilities								
Retirement benefit obligations	N/a	460,080	-	-	-	-	460,080	N/A
Tax liabilities	N/a	1,575,091	-	-	-	-	1,575,091	N/A
Deferred tax liabilities	N/a	1,796,492	-	-	-	-	1,796,492	N/A
Other liabilities	N/a	9,177,012	-	-	-	-	9,177,012	N/A
Total liabilities		354,667,465					354,667,465	

The impact of transition to SLFRS 9 on Equity is as follows:

GROUP	
	LKR '000
Retained earnings	
Closing balance under LKAS 39 as at 31 December 2017	22,775,440
Reclassification adjustments in relation to the adoption of SLFRS 9	2,214
Recognition of Expected Credit Losses under SLFRS 9 for Loans and receivable to other customers	(2,338,407)
Recognition of Expected Credit Losses under SLFRS 9 for Debt instruments at amortised cost and FVOCI	(120,083)
Deferred tax in relation to the above	688,663
Closing Balance as at 31 December 2017 as per SLFRS 9	21,007,827

The following table reconciles the opening Impairment allowances under LKAS 39 and the Impairment allowances under SLFRS 9.

	GROUP		
	Impairment allowance under LKAS 39 as at 31 December 2017	Re-Measurement	Impairment allowance (Expected Credit Loss) under SLFRS 9 as at 01 January 2018
	LKR '000	LKR '000	LKR '000
On balance sheet items			
Impairment allowance for Loans and receivables as per LKAS 39	4,787,097	1,761,512	6,548,609
Financial Investments -Held to Maturity/Loan and receivables as per LKAS 39 and Debt instruments at amortised cost as per SLFRS 9	-	118,606	118,606
Financial Investments -Held to Maturity/Loan and receivables as per LKAS 39 and Debt instruments at FVOCI as per SLFRS 9	4,787,097	1,476	1,476
		1,881,594	6,668,691
Off balance sheet items			
Guarantees	-	298	298
Documentary credits	-	15,389	15,389
Undrawn commitments	-	561,209	561,209
	4,787,097	2,458,490	7,245,587

21. ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS

21.1 Analysis of financial instruments by measurement basis as at 31 December 2018.

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
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

	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

NOTES TO THE FINANCIAL STATEMENTS

21. ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS (CONTD.)

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

GROUP

	Held-for- Trading	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 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

21.2 Analysis of financial instruments by measurement basis as at 31 December 2017.

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 – LKAS 39 – ‘Financial Instruments: Recognition and Measurement’ under headings of the Statement of Financial Position:

	BANK				
	Held-for- Trading	Held-to- Maturity	Loans and Receivables	Available-for- Sale	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Assets					
Cash and cash equivalents	-	-	5,274,466	-	5,274,466
Balances with the Central Bank of Sri Lanka	-	-	15,364,920	-	15,364,920
Placements with banks	-	-	840,684	-	840,684
Derivative financial instruments	2,471,706	-	-	-	2,471,706
Financial assets held-for-trading	1,216,439	-	-	-	1,216,439
Loans and receivables to banks	-	-	15,478	-	15,478
Loans and receivables to other customers	-	-	274,013,970	-	274,013,970
Financial investments – loans and receivables	-	-	21,171,508	-	21,171,508
Financial investments – available-for-sale	-	-	-	52,620,584	52,620,584
Financial investments – held-to-maturity	-	3,524,051	-	-	3,524,051
Other financial assets	-	-	19,565	-	19,565
Total financial assets	3,688,145	3,524,051	316,700,591	52,620,584	376,533,371

	BANK			
	Held-for- Trading	Amortised Cost		Total
	LKR '000	LKR '000		LKR '000
As at 31 December 2017				
Liabilities				
Due to banks	-	20,236,719		20,236,719
Derivative financial instruments	936,754	-		936,754
Due to other customers	-	273,369,023		273,369,023
Debt securities issued and other borrowers	-	28,107,045		28,107,045
Subordinated term debts	-	19,336,855		19,336,855
Other financial liabilities	-	3,053,299		3,053,299
Total financial liabilities	936,754	344,102,941		345,039,695

NOTES TO THE FINANCIAL STATEMENTS

21. ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS (CONTD.)

	GROUP				
As at 31 December 2017	Held-for-Trading	Held-to-Maturity	Loans and Receivables	Available-for-Sale	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Assets					
Cash and cash equivalents	-	-	5,343,314	-	5,343,314
Balances with the Central Bank of Sri Lanka	-	-	15,364,920	-	15,364,920
Placements with banks	-	-	840,684	-	840,684
Derivative financial instruments	2,471,706	-	-	-	2,471,706
Financial assets held-for-trading	2,659,883	-	-	-	2,659,883
Loans and receivables to banks	-	-	15,478	-	15,478
Loans and receivables to other customers	-	-	274,063,310	-	274,063,310
Financial investments – loans and receivables	-	-	23,316,328	-	23,316,328
Financial investments – available-for-sale	-	-	-	52,975,690	52,975,690
Financial investments – held-to-maturity	-	4,077,096	-	-	4,077,096
Other financial assets	-	-	446,909	-	446,909
Total financial assets	5,131,589	4,077,096	319,390,943	52,975,690	381,575,318

As at 31 December 2017	GROUP		
	Held-for- Trading	Amortised Cost	Total
	LKR '000	LKR '000	LKR '000
Liabilities			
Due to banks	-	20,236,719	20,236,719
Derivative financial instruments	936,754	-	936,754
Due to other customers	-	273,041,417	273,041,417
Debt Securities issued and other borrowers	-	28,107,045	28,107,045
Subordinated term debts	-	19,336,855	19,336,855
Other financial liabilities	-	3,085,308	3,085,308
Total Financial Liabilities	936,754	343,807,344	344,744,098

22 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, net of unfavourable Nostro balances.

	BANK		GROUP	
	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
Local currency in hand	3,299,602	2,801,793	3,300,225	2,801,888
Foreign currency in hand	143,772	109,071	143,812	109,111
Balances with banks	3,094,205	2,363,602	3,627,401	2,432,315
Total	6,537,579	5,274,466	7,071,438	5,343,314

23. 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)
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%
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%

The reserve requirement on the Rupee deposit liabilities for the previous year was 7.5%.

	BANK		GROUP	
	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
Statutory balances with the Central Bank of Sri Lanka	15,546,386	15,364,920	15,546,386	15,364,920
Total	15,546,386	15,364,920	15,546,386	15,364,920

24. 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 Bank and 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	
	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
Placements – in Sri Lanka	15,241,770	840,684	15,241,770	840,684
Less : Impairment allowance	(4,464)	-	(4,464)	-
Total	15,237,306	840,684	15,237,306	840,684

NOTES TO THE FINANCIAL STATEMENTS

24. PLACEMENTS WITH BANKS (CONTD.)

b. Movement in impairment allowance during the year

	BANK	GROUP
	2018 LKR '000	2018 LKR '000
Stage 1		
Opening balance as at 1 January 2018	164	164
Charges/(Reversals) for the year	4,300	4,300
Closing balance as at 31 December 2018	4,464	4,464

25. 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, futures, 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 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).

Hedge Accounting

The Bank and 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 Bank and 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 Bank and 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 2018 LKR '000	Financial Liabilities 2018 LKR '000	Financial Assets 2017 LKR '000	Financial Liabilities 2017 LKR '000
Currency options	174	174	-	-
Forward foreign exchange contracts	2,891,899	2,906,398	1,125,844	936,754
Currency SWAP	1,045,774	-	1,345,862	-
Total	3,937,847	2,906,572	2,471,706	936,754

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 2018 and are indicative of neither the market risk nor the credit risk.

	Assets 2018 LKR '000	Liabilities 2018 LKR '000	Notional Amount 2018 LKR '000	Assets 2017 LKR '000	Liabilities 2017 LKR '000	Notional Amount 2017 LKR '000
Currency options						
- Sales	174	-	134,087	-	-	-
- Purchases	-	174	134,087	-	-	-
Forward foreign exchange contracts						
- Sales	90,139	2,818,071	121,944,610	968,875	95,914	96,607,160
- Purchases	2,801,760	88,327	122,665,487	156,969	840,840	97,197,548
Currency SWAP						
- Sales	-	-	-	-	-	-
- Purchases	1,045,774	-	5,285,250	1,345,862	-	5,741,250
Total	3,937,847	2,906,572	250,163,521	2,471,706	936,754	199,545,958

25.1 Currency SWAP

The Bank entered in to a SWAP arrangement with the Central Bank of Sri Lanka against 50 percent 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:

NOTES TO THE FINANCIAL STATEMENTS

25.1 Currency SWAP (Contd.)

25.1 (a) SWAP Agreement

Details	Description of the Hedge
Hedged instrument	SWAP contract – Renewable every year Counterparty – Central Bank of Sri Lanka Notional amount – USD 29 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 2019.
The periods when the cash flows are expected to occur	As given above
The amount recognised in other comprehensive income during the year	LKR 115.5 Mn credit to the cash flow hedge reserve
Fair value of the hedged item as at 31 December 2018	LKR 8,548 Mn
Fair value of the hedged instrument as at 31 December 2018	LKR 1,046 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

25.1 (b) Total Amount Recognised in the Statement of Comprehensive Income Relating to the Cash Flow Hedge

	BANK & GROUP	
	2018 LKR '000	2017 LKR '000
Gains/(losses) on adjustment of fair value [Note 55(b)]	531,092	203,242
Amortisation adjustment of day one difference on the SWAP transaction	(415,590)	(273,581)
Total	115,502	(70,339)

26. FINANCIAL ASSETS RECOGNISED THROUGH PROFIT OR LOSS - MEASURED AT FAIR VALUE

ACCOUNTING POLICY (Policy applicable from 01 January 2018)

The Bank 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.

LKAS 39 required held-for-trading financial instruments to be measured at fair value through profit or loss. SLFRS 9 requires financial instruments to be classified based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics. For financial assets that are debt instruments, held for trading is a business model objective that results in measurement at FVPL. The criteria for classifying financial assets as recognised through profit or loss of SLFRS 9 are similar to those under LKAS 39.

ACCOUNTING POLICY (Policy applicable upto 31 December 2017)

Financial assets held-for-trading 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.

The changes in the fair value during the year are recognised in 'Net gains/(losses) from financial investments' in the Statement of Profit or Loss. Dividend income is recorded in 'Net gains/(losses) from financial investments' according to the terms of the contract, or when the right to receive the payment has been established.

26.1 Financial assets recognised through profit or loss under SLFRS 9

Financial assets held for trading under LKAS 39 in year 2017

	BANK		GROUP	
	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
Sri Lanka Government Securities – treasury bills	-	743,752	-	743,752
Sri Lanka Government Securities – treasury bonds	1,947,242	472,687	1,947,242	472,687
Equity securities	-	-	483,913	496,269
Investment in private equity fund	-	-	605,684	-
Non-quoted ordinary shares	-	-	150,000	-
Investment in unit trusts	-	-	865,570	947,175
Total	1,947,242	1,216,439	4,052,409	2,659,883

NOTES TO THE FINANCIAL STATEMENTS

26. FINANCIAL ASSETS RECOGNISED THROUGH PROFIT OR LOSS - MEASURED AT FAIR VALUE (CONTD.)

26.2

	BANK		GROUP	
	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
By collateralisation				
Pledged as collateral	-	49,460	-	49,460
Unencumbered	1,947,242	1,166,979	1,950,000	1,152,580
Gross total	1,947,242	1,216,439	1,950,000	1,202,040
By currency				
Sri Lanka Rupee	1,947,242	1,216,439	4,052,409	2,659,883
United States Dollar	-	-	-	-
Gross total	1,947,242	1,216,439	4,052,409	2,659,883

27. 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 Bank and the Group intend to sell immediately or in the near term and those that the Bank and the Group, upon initial recognition, designate as at fair value through profit or loss.
- Those that the Bank and the Group, upon initial recognition, designate as available-for-sale.
- Those for which the Bank and 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 applies by the Bank and Group for collateral valuations, write-off of loans and receivables to other customers and rescheduled loan facilities are described in Note 3.3.5, 3.3.6 and 3.3.7.

	BANK		GROUP	
	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
Gross loans and receivables to other customers	353,369,649	278,816,546	353,442,723	278,865,886
Less: Impairment allowance for loans and receivables to other customers [Note 27.5 (a)]	9,166,360	4,787,098	9,166,360	4,787,098
Net loans and receivables to other customers	344,203,289	274,029,448	344,276,363	274,078,788

Financial Assets at Amortised Cost – Loans and Receivables to Other Customers

	BANK	GROUP
	2018 LKR '000	2018 LKR '000
Gross loans and receivables to other customers		
Stage 1	267,222,321	267,295,395
Stage 2	58,981,634	58,981,634
Stage 3	27,165,694	27,165,694
Table (a)	353,369,649	353,442,723
Less: Impairment allowance under:		
Stage 1	1,801,385	1,801,385
Stage 2	2,121,671	2,121,671
Stage 3	5,243,304	5,243,304
Total (b)	9,166,360	9,166,360
Net loans and advances (a) - (b)	344,203,289	344,276,363

27.1 Loans and Receivables to Other Customers – By Product

	BANK		GROUP	
	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
Long-term loans	86,364,494	68,478,462	86,364,494	68,478,462
Medium and short-term loans	82,857,374	62,482,588	82,857,374	62,482,588
Overdrafts	54,409,073	46,975,860	54,382,204	46,928,035
Trade finance loans	46,844,464	38,211,361	46,844,464	38,211,361
Consumer loans	29,071,486	23,280,985	29,071,486	23,280,985
Leasing and hire purchases (Note 27.6)	20,767,106	16,037,265	20,767,106	16,037,265
Housing loans	12,916,132	10,256,059	12,916,132	10,256,059
Islamic loans	10,769,802	5,944,141	10,769,802	5,944,141
Auto finance loans	3,979,135	3,449,394	3,979,135	3,449,394
Credit Cards	3,216,388	1,910,923	3,216,388	1,910,923
Staff loans	1,762,873	1,588,628	1,862,816	1,685,793
Pawning	411,063	185,402	411,063	185,402
Others	259	15,478	259	15,478
Total	353,369,649	278,816,546	353,442,723	278,865,886

NOTES TO THE FINANCIAL STATEMENTS

27.2 Loans and Receivables to Other Customers – By Currency

	BANK		GROUP	
	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
Sri Lanka Rupee	274,967,796	211,806,656	275,040,870	211,855,996
United States Dollar	77,470,557	66,792,035	77,470,557	66,792,035
Great Britain Pound	202,755	31,991	202,755	31,991
Euro	715,595	173,121	715,595	173,121
Others	12,946	12,743	12,946	12,743
Total	353,369,649	278,816,546	353,442,723	278,865,886

27.3 Loans and Receivables to Other Customers – By Industry

	BANK			
	2018		2017	
	LKR '000	%	LKR '000	%
Food, beverages and tobacco	16,681,429	5	14,001,050	5
Agriculture, agro-business and fisheries	41,402,349	11	32,629,800	12
Textiles and garments	26,330,412	7	18,969,889	7
Wood and paper products	5,665,020	2	5,020,287	2
Leather and plastic products	4,664,632	1	5,053,344	2
Metals, chemicals and engineering	31,047,132	9	25,207,149	9
Hotels and tourism	16,363,162	5	15,493,771	6
Utilities	21,993,612	6	18,821,031	7
Constructions and housing finance	34,279,823	10	29,547,101	11
Services	76,704,009	22	51,600,731	19
Transport	11,086,810	3	7,165,192	3
Consumer	28,153,607	8	21,427,910	8
Trading	38,939,123	11	33,836,643	12
Others	58,529	-	42,648	-
Total	353,369,649	100	278,816,546	100

27.4 Loans and Receivables to Other Customers – By Province

	BANK		GROUP	
	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
Western Province	302,441,441	235,750,465	302,514,515	235,799,805
Southern Province	10,485,316	9,415,339	10,485,316	9,415,339
North-Western Province	10,929,306	10,103,699	10,929,306	10,103,699
Central Province	9,643,935	7,916,888	9,643,935	7,916,888
Northern Province	2,929,775	2,121,447	2,929,775	2,121,447
Sabaragamuwa Province	6,070,760	4,703,422	6,070,760	4,703,422
North-Central Province	4,637,722	3,858,322	4,637,722	3,858,322
Eastern Province	2,853,816	2,157,425	2,853,816	2,157,425
Uva Province	3,377,578	2,789,539	3,377,578	2,789,539
Total	353,369,649	278,816,546	353,442,723	278,865,886

The province-wise disclosure is made based on the location of the branch from which the facilities have been disbursed.

27.5 Impairment Allowance for Loans and Receivables to Other Customers

27.5 (a) Movement in impairment allowance during the year

	Collective			Individual	
	Stage - 1 LKR '000	Stage - 2 LKR '000	Stage - 3 LKR '000	Stage - 3 LKR '000	Total LKR '000
Balance as at 01 January 2018	1,707,882	2,189,057	1,671,587	1,556,979	7,125,505
Charges/(Reversals) for the year	93,503	(67,386)	743,952	2,827,052	3,597,121
Amount written off	-	-	(238,408)	(1,317,858)	(1,556,266)
Closing balance as at 31 December	1,801,385	2,121,671	2,177,131	3,066,173	9,166,360

27.5 (b) Sensitivity Analysis of impairment allowance for loans and receivables to other customers as at 31.12.2018

Changed criteria	Changed factor	Sensitivity effect on impairment allowance increase LKR '000
Loss given default (LGD)	Increase by 2%	117,539
Credit conversion factor (CCF)	Increase by 5% (where applicable)	75,408
Probability of default (PD) in each stage	Increase by 1%	39,337
Economic Factor Adjustment	Worst case degrades by 5%	41,525
Property realisation timing	Delay by 1 year	98,384

NOTES TO THE FINANCIAL STATEMENTS

27.5 (c) Impairment allowance for Loans and Receivables to other customers

BANK & GROUP

As at 31 December	Long-term Loans	Medium and Short-term Loans	Overdrafts	Trade Finance Loans	Consumer Loans	Leasing & Hire Purchases	Housing Loans	Credit Cards	Pawning	Islamic Banking Loans	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 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	2,686	7,125,505
Charges/(Reversals) for the year	574,797	872,240	1,003,520	233,301	341,521	281,824	70,206	260,225	(2,799)	(36,374)	(1,339)	3,597,121
Amount written-off	(71,762)	(915,913)	(122,885)	(57,110)	(82,871)	(27,551)	(31,000)	(247,174)	-	-	-	(1,556,266)
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
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	-	-	-	19,130	-	7,866,092

27.5 (d) Impairment allowance for Loans and Receivables to Other Customers

BANK & GROUP

As at 31 December 2017	Long-term Loans	Medium and Short-term Loans	Overdrafts	Trade Finance Loans	Consumer Loans	Leasing & Hire Purchases	Housing Loans	Credit Cards	Pawning	Islamic Banking Loans	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 2017	1,134,339	2,694,590	1,019,074	436,110	429,708	195,614	47,980	72,876	4,626	846	3,509	6,039,272
Charges/(Reversals) for the year	29,822	256,688	547,564	(79,408)	119,658	(10,181)	(221)	138,197	(392)	937	(96)	1,002,568
Amounts written off	(60,233)	(1,621,652)	(82,967)	(107,359)	(331,249)	(32,639)	-	(18,643)	-	-	-	(2,254,742)
As at 31 December 2017	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
Individual impairment	332,448	859,448	268,182	67,525	-	22,811	-	-	3,879	-	2,686	1,556,979
Collective impairment	771,480	470,178	1,215,489	181,818	218,117	129,983	47,759	192,430	355	1,783	727	3,230,119
Total	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
Gross amount of loans individually determined to be impaired, before deduction of individually assessed impairment allowances	4,774,468	10,273,352	4,949,395	10,910,528	-	335,960	88,287	-	10,489	-	2,686	31,345,165
Gross amount of loans individually impaired, before deduction of individually assessed impairment allowances	2,092,929	1,782,612	1,216,215	251,952	-	68,089	-	-	9,771	-	2,686	5,424,254
Gross amount of loans individually impaired, after deduction of individually assessed impairment allowances	1,760,481	923,164	948,033	184,427	-	45,278	-	-	5,892	-	-	3,867,275

NOTES TO THE FINANCIAL STATEMENTS

27.5 (e) Movement in the individual and collective impairment allowance for loans and receivables to other customers during the year

	BANK & GROUP	
	2018 LKR '000	2017 LKR '000
Individual Impairment		
As at 01 January	1,556,979	3,028,934
Charges/(Reversals) for the year	2,827,052	340,330
Amounts written off	(1,317,858)	(1,812,285)
As at 31 December	3,066,173	1,556,979
Collective Impairment		
As at 01 January	3,230,119	3,010,338
Transition impact on adoption of SLFRS 9	2,338,407	-
Charges/(Reversals) for the year	770,069	662,238
Amounts written off	(238,408)	(442,457)
As at 31 December	6,100,187	3,230,119
Total	9,166,360	4,787,098

27.6 Leasing and Hire Purchases

	BANK & GROUP	
	2018 LKR '000	2017 LKR '000
Gross lease and hire purchase rental receivables	26,681,867	16,230,335
Less: Unearned income	5,914,760	193,070
Total lease and hire purchase rental receivables	20,767,107	16,037,265
Less: Impairment allowance [Note 27.6.(a)]	663,948	152,794
Total	20,103,159	15,884,471

27.6 (a) Impairment allowance

	Collective			Individual	Total
	Stage -1 LKR '000	Stage -2 LKR '000	Stage -3 LKR '000	Stage -3 LKR '000	LKR '000
Balance as at 01 January	73,401	150,118	163,345	22,811	409,675
Charges/(Reversals) for the year	21,267	119,677	80,019	60,861	281,824
Amount written off	-	-	-	(27,551)	(27,551)
Balance as at 31 December	94,668	269,795	243,364	56,121	663,948

27.6 (b) Movement in impairment allowance

	BANK & GROUP	
	2018	2017
	LKR '000	LKR '000
As at 01 January	152,794	195,614
Transition impact on adoption of SLFRS 9	256,881	-
Charges/(reversals) for the year	281,824	(10,181)
Amounts written off	(27,551)	(32,639)
As at 31 December	663,948	152,794
Individual impairment	56,121	22,811
Collective impairment	607,827	129,983
Total	663,948	152,794
Gross amount of loans individually determined to be impaired, before deduction of the individually assessed impairment allowance	427,546	335,960
Gross amount of loans individually impaired, before deduction of the individually assessed impairment allowance	98,835	68,089
Gross amount of loans individually impaired, after deduction of the individually assessed impairment allowance	42,714	45,278

27.6 (c) Movements in Individual and Collective impairment allowance for Leasing & Hire Purchase Rentals Receivables during the year

	BANK & GROUP	
	2018	2017
	LKR '000	LKR '000
Individual Impairment		
As at 1 January	22,811	10,944
Transition impact on adoption of SLFRS 9	-	-
Charges/(reversals) for the year	60,861	11,867
Amounts written off	(27,551)	-
As at 31 December	56,121	22,811
Collective Impairment		
As at 1 January (LKAS 39)	129,983	184,670
Transition impact on adoption of SLFRS 9	256,881	-
Charges/(reversals) for the year	220,963	(22,048)
Amounts written off	-	(32,639)
As at 31 December	607,827	129,983
Total	663,948	152,794

NOTES TO THE FINANCIAL STATEMENTS

27.7 Maturity of Leasing and Hire Purchases

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

BANK & GROUP

	2017			
	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	825,295	15,230,402	293,586	16,349,283
Less: Accumulated impairment	56,370	94,822	1,602	152,794
Interest in suspense	116,690	2,258	-	118,948
Unearned income	18,396	171,757	2,917	193,070
Net rentals receivables	633,839	14,961,565	289,067	15,884,471

28. FINANCIAL ASSETS AT AMORTISED COST - DEBT AND OTHER INSTRUMENTS

ACCOUNTING POLICY (Policy applicable from 01 January 2018)

In line with the requirements of the SLFRS 9, the Bank and 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 Bank and the Group determines its business model at the level that best reflect how it manages groups of Financial Assets to achieve its business objective.

Accordingly the Financial assets classified as Loans and receivables and Held to maturity as per the LKAS 39 Financial Instruments : classification and measurement were reclassified and remeasured based on the business models of the Bank and the Group and has been classified as Financial assets at amortised cost.

The details of the accounting policy on financial assets at amortised cost are described in Note 3.2.6.

ACCOUNTING POLICY (Policy applicable up to 31 December 2017)

Financial investments - Loans and receivables

Financial investments – Loans and receivables include Government Securities, unquoted Debt Instruments and Securities purchased under resale agreements and quoted Debentures. After initial measurement, these are subsequently measured at amortised cost using the EIR, less provision for impairment. 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 other losses.

Financial investments – Held-to-maturity

Financial investments – held-to-maturity are non-derivative financial assets with fixed or determinable payments and fixed maturities, which the Bank and the Group have the intention and ability to hold to maturity. After initial measurement, financial investments – held-to-maturity are subsequently recorded at amortised cost using the EIR, less impairment. The amortisation is included in 'interest income' in the Statement of Profit or Loss.

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

28.1 Financial assets at amortised cost – Debt on other instruments - as at 31 December 2018

	BANK	GROUP
	2018	2018
	LKR '000	LKR '000
Sri Lanka Government Securities – treasury bonds	2,600,746	2,705,727
Sri Lanka Development Bonds	18,198,862	18,198,862
Sovereign Bonds	1,408,921	1,408,921
Quoted debentures	1,993,466	1,993,466
Sub Total	24,201,995	24,306,976
Less: Impairment allowance for investments	(131,630)	(131,630)
Total	24,070,365	24,175,346

28.2 Financial Investments - Loans and receivables - as at 31 December 2017

	BANK	GROUP
	2017	2017
	LKR '000	LKR '000
Sri Lanka Development Bonds	21,171,508	21,171,508
Sovereign Bonds	-	-
Quoted debentures	-	1,757,128
Investment in private equity fund	-	527,110
Less: Impairment allowance for investments	-	(139,418)
Total	21,171,508	23,316,328

NOTES TO THE FINANCIAL STATEMENTS

28.3 Financial Investments - Held-to-maturity - as at 31 December 2017

	BANK	GROUP
	2017	2017
	LKR '000	LKR '000
Sri Lanka Government Securities – treasury bonds	739,361	739,361
Quoted Debentures	2,784,690	3,337,735
Total	3,524,051	4,077,096

28.4 Analysis

	BANK		GROUP	
	2018	2017	2018	2017
	LKR '000	LKR '000	LKR '000	LKR '000
By collateralisation				
Pledged as collateral	262,000	250,000	262,000	250,000
Unencumbered	21,946,529	20,921,508	21,946,529	20,921,508
Gross total	22,208,529	22,171,508	22,208,529	22,171,508
By currency				
Sri Lanka Rupee	4,594,212	3,524,051	4,699,193	6,221,916
United States Dollar	19,607,783	21,171,508	19,607,783	21,171,508
Gross total	24,201,995	24,695,559	24,306,976	27,393,424

b. Movements in impairment during the year

	BANK	GROUP
	2018	2018
	LKR '000	LKR '000
Stage 1		
Balance as at 01 January 2018	97,755	97,755
Charges/(reversals) to statement of profit or loss	(7,161)	(7,161)
Balance as at 31 December 2018	90,594	90,594
Stage 2		
Balance as at 01 January 2018	20,204	20,204
Charges/(reversals) to statement of profit or loss	20,832	20,832
Balance as at 31 December 2018	41,036	41,036
Total	131,630	131,630

29. FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

ACCOUNTING POLICY (Policy applicable from 01 January 2018)

Debt Instruments at Fair Value through Other Comprehensive Income (FVOCI)

The Bank 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).

These instruments largely comprise of assets that had previously been classified as financial investments available for sale under LKAS 39.

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 28. 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 LKAS 32, Financial Instruments: Presentation and 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 Bank 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.

ACCOUNTING POLICY (Policy applicable up to 31 December 2017)

Available-for-sale investments include equity and Government Securities. Equity investments classified as available-for-sale are those which are neither classified as held-for-trading nor designated at fair value through profit or loss.

Government Securities in this category are intended to be held for an indefinite period of time and may be sold in response to needs for liquidity or in response to changes in the market conditions.

The Bank and the Group have not designated any loans or receivables as available-for-sale. After initial measurement, available-for-sale financial investments are subsequently measured at fair value.

Unrealised gains and losses are recognised directly in equity (Other Comprehensive Income) in the 'Available-for-Sale Reserve'. When the investment is disposed of, the cumulative gain or loss previously recognised in equity is recognised in the Statement of Profit or Loss in 'Net gain/(loss) from financial investments'. Where the Bank and the Group hold more than one investment in the same security, they are deemed to be disposed of on a first-in first-out basis. Interest earned whilst holding available-for-sale financial investments is reported as interest income using the effective interest rate (EIR).

Dividends earned whilst holding available-for-sale financial investments are recognised in the Statement of Profit or Loss as 'other operating income' when the right to receive has been established.

Impairment of Financial Investments – Available-for-Sale

The Bank and the Group review their debt securities classified as available-for-sale investments to assess whether they are impaired by performing a counter party risk assessment at each reporting date.

The Bank and the Group also record impairment charges on available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is 'significant' or 'prolonged' requires judgment. In making this judgment, the Bank and the Group identify facilities which have been impaired for more than six months and considers impairment adjustments if the impairment is more than 20% of the carrying value of the investment. The losses arising from impairment of such investments are recognised in the Statement of Profit or Loss in 'impairment for loans and receivables and other losses' and is removed from the 'Available-for-Sale Reserve'.

NOTES TO THE FINANCIAL STATEMENTS

29. FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (CONTD.)

Financial assets measured at fair value through other comprehensive income in 2018 and as available for sale in 2017

	BANK		GROUP	
	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
Sri Lanka Government Securities – treasury bills	22,301,615	35,644,195	22,301,615	35,644,195
Sri Lanka Government Securities – treasury bonds	26,006,111	15,594,731	26,006,111	15,594,731
Sovereign bonds	3,343,505	-	3,343,505	-
Quoted ordinary shares (Note 29.1)	1,252,900	1,366,515	1,252,900	1,571,621
Non-quoted ordinary shares (Note 29.2)	14,519	15,143	14,519	165,143
Quoted debentures	-	-	1,578,921	-
Sub total	52,918,650	52,620,584	54,497,571	52,975,690
Less: Impairment allowance	(10,344)	-	(10,344)	-
Total	52,908,306	52,620,584	54,487,227	52,975,690

a. Analysis

	BANK		GROUP	
	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
By collateralisation				
Pledged as collateral	5,125,473	5,000,310	5,125,473	5,000,310
Unencumbered	46,525,758	46,238,616	46,525,758	46,238,616
	51,651,231	51,238,926	51,651,231	51,238,926
By currency				
Sri Lanka Rupee	49,575,145	52,620,584	51,154,066	52,975,690
United States Dollar	3,343,505	-	3,343,505	-
Gross total	52,918,650	52,620,584	54,497,571	52,975,690

b. Movements in impairment during the year

	BANK	GROUP
	2018 LKR '000	2018 LKR '000
Stage 2		
Balance as at 01 January	-	-
Impairment charges credited to other comprehensive income	16,308	98,275
Charges/(reversals) to statement of profit or loss	10,344	10,344
Balance at 31 December	26,652	108,619

29.1 Quoted ordinary shares

BANK

	2018		2017	
	No of Ordinary Shares	LKR '000	No of Ordinary Shares	LKR '000
Cost of Investments as at 01 January	15,671,043	1,644,559	15,363,640	1,698,683
Scrip dividend received during the year	391,776	35,260	317,259	31,091
Disposal of Investments	-	-	(9,856)	(85,215)
Cost of the Investments as at 31 December	16,062,819	1,679,819	15,671,043	1,644,559
Gains / (Losses) from Mark to Market as at 01 January		(278,044)		(201,653)
Realised gains / (losses) recognised to Statement of Profit or Loss		-		(63,731)
Unrealised gains / (losses) during the year		(148,875)		(12,660)
Gains / (Losses) from Mark to Market as at 31 December		(426,919)		(278,044)
Market Value		1,252,900		1,366,515

GROUP

	2018		2017	
	No of Ordinary Shares	LKR '000	No of Ordinary Shares	LKR '000
Cost of investments as at 01 January	26,435,263	1,893,212	26,127,860	1,947,336
Reclassification of investments to recognised through profit or loss - measured at fair value	(10,764,220)	(248,653)	-	-
Scrip dividend received during the year	391,776	35,260	317,259	31,091
Disposal of the investments	-	-	(9,856)	(85,215)
Cost of investments as at 31 December	16,062,819	1,679,819	26,435,263	1,893,212
Gain / (Losses) from Mark to Market as at 01 January		(321,591)		(201,065)
Reclassification of investments to recognised through profit or loss - measured at fair value		43,547		-
Realised gains / (losses) recognised to statement of profit or loss		-		(63,731)
Unrealised gains / (losses) during the year		(148,875)		(56,795)
Gain / (Losses) from Mark to Market as at 31 December		(426,919)		(321,591)
Market Value		1,252,900		1,571,621

29.2 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.

NOTES TO THE FINANCIAL STATEMENTS

30. INVESTMENTS – HELD-FOR-SALE

ACCOUNTING POLICY

Non-current assets and disposal groups are classified as Investments – ‘held-for-sale’ when their carrying amounts will be recovered principally through sale, they are available-for-sale in their present condition and their sale is highly probable. Non-current assets held-for-sale and disposal groups are measured at the lower of their carrying amount and fair value less cost to sell, except for those assets that are not within the scope of the measurement requirements of SLFRS 5 – ‘Non current Assets Held-for-Sale and Discontinued Operations’ such as deferred taxes, financial instruments, investment properties, insurance contracts and assets and liabilities arising from retirement benefits.

Investments – held-for-Sale included the investment in NDB Venture Investments (Pvt) Limited, an associate company, which was under liquidation. A special resolution was passed by the Board of Directors of the Company to wind up the affairs voluntarily and appointed the liquidator, for the distribution of the assets in year 2017.

During the year 2018, the company concluded the liquidation process as approved by the Board of the Directors of the Company and the Bank received the proceed of LKR 23.4 Mn as a settlement of the investment value.

	BANK		GROUP	
	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
NDB Venture Investments (Pvt) Limited	-	18,526	-	33,302
Total	-	18,526	-	33,302

31. 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.

		2018		2017	
	Corporate Status	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 31.1)	Non-quoted	41.8	180,552	77.8	180,552
Sub total		-	2,210,791	-	2,210,791
Less: Impairment allowance of investments (Note 31.2)			(44,077)		(104,770)
Total			2,166,714		2,106,021

31.1 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 right 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%.

31.2 Movement in the impairment allowance for investments

	2018 LKR '000	2017 LKR '000
As at 01 January	104,770	94,941
Charges/(reversals) to the Statement of Profit or Loss (Note 31.2)	(60,694)	9,829
As at 31 December	44,077	104,770

31.3 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 2018 has increased from LKR 93.3 Mn to LKR 327.4 Mn as disclosed in note number 31.4 summarised Financial Information of the Group's Investments in Subsidiaries. Accordingly, an impairment allowance of LKR 60.6 Mn was reversed during the year 2018 to reflect the Bank's share of the net assets position of the Company as at 31 December 2018.

31.4 Summarised Financial Information of the NDB Group's Investments in Subsidiaries

	Total	Development Holdings (Pvt) Limited	NDB Capital Limited	NDB Capital Holdings Limited (NCAP)	NDB Investment Bank Limited (Held through NCAP)	NDB Wealth Management Limited (Held through NCAP)	NDB Securities 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	675,992	229,970	114,247
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
2017								
Total assets	9,134,648	2,704,143	157,195	4,100,450	823,117	842,084	402,148	105,511
Total liabilities	788,885	511,827	63,825	35,698	38,492	22,308	103,629	13,106
Net assets	8,332,708	2,179,262	93,370	4,064,751	784,624	819,776	298,520	92,405
Gross income	1,602,619	345,476	153,908	305,656	233,627	295,305	138,809	129,838
Profits / (Losses)	256,547	(169,593)	50,854	209,066	88,080	74,024	(31,852)	35,968

Development Holding (Pvt) Limited, made a cumulative provision for deferred tax amounting to LKR 450 Mn on revaluation gains on investment property in line with LKAS 12, income tax which was included in profit for the year 2017 (Note 40.5).

32. 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.

32.1 Bank

Corporate Status	2018		2017	
	Percentage Holding	Cost	Percentage Holding	Cost
	%	LKR '000	%	LKR '000
Ayojana Fund (Pvt) Limited	50	100	50	100
Less: Impairment allowance for investments		100		100
Total		-		-

NOTES TO THE FINANCIAL STATEMENTS

33. INVESTMENT PROPERTY

ACCOUNTING POLICY

Distinction Between Investment Properties and Owner-Occupied Properties

The Bank and the Group determine 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 Bank and the Group account 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 Bank and the Group consider 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 Bank and 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 2018, 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 (2017 - 40%)
- Capitalise YP at 16% (2017 - 16%)

	GROUP	
	2018 LKR '000	2017 LKR '000
As at 01 January	1,894,848	1,776,000
Change in the fair value during the year	246,000	135,000
Less: Fair value of the owner-occupied portion	30,187	16,152
As at 31 December	2,110,661	1,894,848

Statement of Income and Expenditure of the Investment Property

	2018 LKR '000	2017 LKR '000
Rental income derived from investment properties	178,069	177,163
Direct operating expenses (including repair and maintenance) generating rental income	(34,371)	(36,765)
Direct operating expenses (including repair and maintenance) that did not generate rental income	(20,633)	(25,672)
Profit arising from investment properties carried at fair value	123,065	114,726

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.

34. INTANGIBLE ASSETS

Intangible assets of the Bank and 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 Bank and 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.

34.1 Computer Software

	BANK		GROUP	
	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
Cost				
As at 01 January	1,006,445	816,223	1,106,043	912,379
Additions during the year	103,010	192,213	116,141	195,655
Transfers/Adjustments	(68)	(1,991)	(74)	(1,991)
As at 31 December	1,109,387	1,006,445	1,222,110	1,106,043
Depreciation/Amortisation				
As at 01 January	653,568	556,489	740,482	635,986
Charge for the year	110,195	97,079	119,158	104,496
As at 31 December	763,763	653,568	859,640	740,482
Net book value as at 31 December (a)	345,624	352,877	362,470	365,561

34.2 Software Under Development

	BANK		GROUP	
	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
Cost				
As at 01 January	31,492	108,349	31,492	108,349
Additions during the year	115,295	102,880	115,295	102,880
Transfer to computer software during the year	(112,515)	(179,737)	(112,515)	(179,737)
As at 31 December (b)	34,272	31,492	34,272	31,492
Net book value of total intangible assets (a) + (b)	379,896	384,369	396,742	397,053

NOTES TO THE FINANCIAL STATEMENTS

35. 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 Bank and 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 Bank and the Group apply 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 Bank and the Group apply 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 Bank and 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 Bank and the Group engaged an Independent Professional Valuer, A A M Fathihu, B.Sc. (Hons.) EMV, FIV Sri Lanka to determine the fair value of freehold land and buildings. In estimating the fair values, the Independent Valuer considered current market prices of similar assets.

A letter of confirmation is obtained from the Independent Professional Valuer in every year 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 are does not significantly vary from their carrying amounts.

Accordingly the Bank obtained a certification from the valuer affirming the fair value 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 Bank and 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 Bank and 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.

35.1 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 2017	431,500	992,431	358,693	974,799	246,324	790,320	12,102	3,806,169
Additions during the year	-	22,332	26,169	88,286	33,300	79,778	42,929	292,794
Disposals during the year	-	(1,244)	(34)	(78,759)	(79,500)	(4,284)	-	(163,821)
Revaluation adjustment during the year	305,500	56,448	-	-	-	-	-	361,948
Transfers/adjustments	-	(1,352)	1,481	2,947	-	(1,366)	(51,048)	(49,338)
As at 31 December 2017	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
(b) Depreciation/Amortisation								
As at 01 January 2017	-	91,568	259,993	642,287	160,975	572,776	-	1,727,599
Charge for the year	-	43,816	35,639	118,592	38,012	90,110	-	326,169
On disposals	-	(269)	(34)	(78,745)	(79,500)	(4,147)	-	(162,695)
As at 31 December 2017	-	135,115	295,598	682,134	119,487	658,739	-	1,891,073
Charge for the year	-	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
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
Net book value as at 31 December 2017	737,000	933,500	90,711	305,139	80,637	205,709	3,983	2,356,679

NOTES TO THE FINANCIAL STATEMENTS

35.2 Details of Revalued Freehold Land and Buildings – Bank

As at 31 December 2018

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 no gains/(losses) on revaluation of land and building has been recognised during the year.

Date of valuation - 31 December 2017

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 7	20.00	720,000	420,000	300,000
Head Office No. 40, Navam Mawatha, Colombo 02	1.43	17,000	11,500	5,500
Sub Total (a)	21.43	737,000	431,500	305,500

Date of valuation - 31 December 2017

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 7	41,143	327,500	305,435	22,065
Head Office No. 40, Navam Mawatha, Colombo 02	95,343	606,000	571,617	34,383
Sub Total (b)	136,486	933,500	877,052	56,448
Total (a)+(b)		1,670,500	1,308,552	361,948

35.3 Freehold Land and Buildings on the Cost Basis – Bank

The carrying amount of Bank's revalued freehold land and buildings that would have been included in the Financial Statements and the assets being carried at cost less depreciation is as follows:

	2018			2017		
	Cost	Accumulated Depreciation	Net book value	Cost	Accumulated Depreciation	Net Book Value
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Class of assets						
Freehold land	165,016	-	165,016	165,016	-	165,016
Freehold buildings	510,527	419,392	91,135	495,683	407,992	87,691
Total	675,543	419,392	256,151	660,699	407,992	252,707

35.4 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 2017	431,500	1,413,077	358,693	1,030,236	342,062	922,377	13,010	4,510,955
Additions during the year	-	53,113	26,169	97,284	33,300	186,167	44,908	440,941
Disposals during the year	-	(1,244)	(34)	(86,902)	(79,500)	(34,679)	-	(202,359)
Revaluation of owner occupied portion of freehold buildings	305,500	72,600	-	-	-	-	-	378,100
Transfers/adjustments	-	(1,352)	1,481	2,947	-	(1,366)	(51,049)	(49,339)
As at 31 December 2017	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
(b) Depreciation/Amortisation								
As at 01 January 2017	-	117,568	259,993	687,568	211,786	705,782	-	1,982,697
Charge for the year	-	45,542	35,639	126,611	54,884	110,527	-	373,203
On disposals	-	(269)	(34)	(86,888)	(79,500)	(27,928)	-	(194,619)
As at 31 December 2017	-	162,841	295,598	727,291	187,170	788,381	-	2,161,281
Charge for the year	-	49,668	41,020	126,212	45,445	127,393	-	389,738
On disposals	-	-	(7,098)	(14,236)	(69,340)	(10,598)	-	(101,272)
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
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
Net book value as at 31 December 2017	737,000	1,373,353	90,711	316,274	108,692	284,118	6,869	2,917,017

35.5 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 2018 are as follows:

	BANK		GROUP	
	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
Freehold buildings	1,067	625	1,067	625
Leasehold building	232,954	211,916	232,954	211,916
Motor vehicles	547	55,376	24,906	64,775
Office equipment and furniture	521,655	453,381	569,989	492,953
Computer equipment	462,940	424,643	503,411	449,468
Computer software	498,957	474,933	565,578	538,551
Total	1,718,120	1,620,874	1,897,905	1,758,288

NOTES TO THE FINANCIAL STATEMENTS

36. OTHER ASSETS

ACCOUNTING POLICY

The Bank and the Group classify 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	
	2018	2017	2018	2017
	LKR '000	LKR '000	LKR '000	LKR '000
Other financial assets	21,756	19,565	381,626	446,909
Other non-financial assets (Note 36.1)	2,325,886	1,674,076	2,551,015	1,827,900
Total	2,347,642	1,693,641	2,932,641	2,274,809

36.1 Other Non-Financial Assets

	BANK		GROUP	
	2018	2017	2018	2017
	LKR '000	LKR '000	LKR '000	LKR '000
Sundry receivables	1,013,746	600,527	1,096,685	634,343
Deposits and prepayments	236,677	238,906	348,563	331,128
Unamortised staff cost (Note 36.2)	1,075,463	834,643	1,105,767	862,429
Total	2,325,886	1,674,076	2,551,015	1,827,900

36.2 Unamortised Staff Cost

	BANK		GROUP	
	2018	2017	2018	2017
	LKR '000	LKR '000	LKR '000	LKR '000
As at 1 January	834,643	690,065	862,429	713,848
Add: Adjustment for new grants and settlements	358,583	238,313	368,210	249,766
Charged to personnel expenses	(117,763)	(93,735)	(124,872)	(101,185)
As at 31 December	1,075,463	834,643	1,105,767	862,429

37. 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	
	2018	2017	2018	2017
	LKR '000	LKR '000	LKR '000	LKR '000
Borrowings from local banks	8,447,421	7,902,542	8,447,421	7,902,542
Borrowings from foreign banks	6,600,060	12,334,177	6,600,060	12,334,177
Total	15,047,481	20,236,719	15,047,481	20,236,719

37.1 Due to Banks - By Currency

	BANK		GROUP	
	2018	2017	2018	2017
	LKR '000	LKR '000	LKR '000	LKR '000
Local currency	5,733,421	75,751	5,733,421	75,751
Foreign currency	9,314,060	20,160,968	9,314,060	20,160,968
Total	15,047,481	20,236,719	15,047,481	20,236,719

38. FINANCIAL LIABILITIES AT AMORTISED COST

	BANK		GROUP	
	2018	2017	2018	2017
	LKR '000	LKR '000	LKR '000	LKR '000
Due to depositors	347,511,223	273,369,023	347,169,564	273,041,417
Due to debt securities holders	6,394,211	8,719,243	6,382,024	8,719,243
Due to other borrowers	37,040,987	19,387,802	37,040,987	19,387,802
Total	390,946,421	301,476,068	390,592,575	301,148,462

38.1 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'.

NOTES TO THE FINANCIAL STATEMENTS

Analysis of Amounts due to Depositors

38.1 (a) Due to Depositors – By Product

	BANK		GROUP	
	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
Savings deposits	52,800,964	38,111,637	52,744,185	38,107,013
Time deposits	270,495,917	214,497,185	270,194,718	214,179,380
Demand deposits	22,893,184	19,921,249	22,909,503	19,916,072
Margin deposits	1,152,372	635,444	1,152,372	635,444
Other deposits	168,786	203,508	168,786	203,508
Total	347,511,223	273,369,023	347,169,564	273,041,417

38.1 (b) Due to Depositors – By Deposit Composition

	BANK				GROUP			
	2018		2017		2018		2017	
	LKR '000	%	LKR '000	%	LKR '000	%	LKR '000	%
Local currency deposits								
Savings deposits	36,178,767	11	26,369,749	10	36,123,035	10	26,365,125	10
Time deposits	206,114,077	59	176,174,612	64	205,812,878	59	175,856,807	64
Demand deposits	18,593,207	5	17,334,004	6	18,609,526	5	17,328,827	6
Margin deposits	910,432	-	559,155	1	910,432	-	559,155	1
Other deposits	19,943	-	62,631	-	19,943	-	62,631	-
Sub total	261,816,426	75	220,500,151	81	261,475,814	75	220,172,545	81
Foreign currency deposits								
Savings deposits	16,622,197	5	11,741,888	4	16,621,150	5	11,741,888	4
Time deposits	64,381,840	19	38,322,573	14	64,381,840	19	38,322,573	14
Demand deposits	4,299,977	1	2,587,245	1	4,299,977	1	2,587,245	1
Margin deposits	241,940	-	76,289	-	241,940	-	76,289	-
Other deposits	148,843	-	140,877	-	148,843	-	140,877	-
Sub total	85,694,797	25	52,868,872	19	85,693,750	25	52,868,872	19
Total	347,511,223	100	273,369,023	100	347,169,564	100	273,041,417	100

38.1 (c) Due to Depositors - By Currency

	BANK		GROUP	
	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
Sri Lanka Rupee	261,816,426	220,500,151	261,475,814	220,172,545
United States Dollar	69,725,720	42,547,497	69,724,673	42,547,497
Great Britain Pound	3,521,126	3,399,815	3,521,126	3,399,815
Euro	7,912,672	3,928,943	7,912,672	3,928,943
Australian Dollar	3,536,979	2,285,385	3,536,979	2,285,385
Other currencies	998,300	707,232	998,300	707,232
Total	347,511,223	273,369,023	347,169,564	273,041,417

38.1 (d) Due to Depositors - By Institutions/Customers

	BANK		GROUP	
	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
Deposits from banks	15,246,394	15,736,011	15,246,394	15,736,011
Deposits from finance companies	11,538,581	8,021,388	11,538,581	8,021,388
Deposits from other customers	320,726,248	249,611,624	320,384,589	249,284,018
Total	347,511,223	273,369,023	347,169,564	273,041,417

38.1 (e) Due to Depositors - By Province

	BANK		GROUP	
	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
Western Province	308,032,087	236,655,029	307,690,428	236,327,423
North-Western Province	7,656,981	9,713,935	7,656,981	9,713,935
Southern Province	5,869,689	4,760,432	5,869,689	4,760,432
Central Province	10,436,473	9,522,747	10,436,473	9,522,747
Sabaragamuwa Province	5,660,148	4,828,548	5,660,148	4,828,548
Northern Province	3,139,188	2,284,404	3,139,188	2,284,404
Eastern Province	2,001,555	1,613,141	2,001,555	1,613,141
North-Central Province	2,872,392	2,337,528	2,872,392	2,337,528
Uva Province	1,842,710	1,653,259	1,842,710	1,653,259
Total	347,511,223	273,369,023	347,169,564	273,041,417

38.2 Due to Debt Securities Holders

ACCOUNTING POLICY

The Bank and the Group sell a financial asset 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 Bank and the Group, as the Bank and 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	
	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
Securities sold under repurchase agreements	6,394,211	8,719,243	6,382,024	8,719,243
	6,394,211	8,719,243	6,382,024	8,719,243

NOTES TO THE FINANCIAL STATEMENTS

38.3 Due to Other Borrowers

ACCOUNTING POLICY

Due to other borrowers funds represent the funds borrowed by the Bank and 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	
	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
Concessionary credit lines	5,109,719	4,138,956	5,109,719	4,138,956
Refinance borrowings	3,830,046	4,107,155	3,830,046	4,107,155
Foreign borrowings	28,101,222	11,141,691	28,101,222	11,141,691
Total	37,040,987	19,387,802	37,040,987	19,387,802

38.4 Maturity Analysis of Debt Securities holders and other borrowers

	BANK		GROUP	
	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
Payable within 12 Months				
Concessionary credit lines	1,099,558	337,259	1,099,558	337,259
Refinance borrowings	689,896	2,616,816	689,896	2,616,816
Foreign borrowings	7,513,317	2,357,072	7,513,317	2,357,072
Securities sold under repurchase agreements	6,394,211	8,719,243	6,382,024	8,719,243
Sub total	15,696,982	14,030,390	15,684,795	14,030,390
Payable after 12 Months				
Concessionary credit lines	4,010,161	3,801,697	4,010,161	3,801,697
Refinance borrowings	3,140,150	1,490,339	3,140,150	1,490,339
Foreign borrowings	20,587,905	8,784,619	20,587,905	8,784,619
Sub total	27,738,216	14,076,655	27,738,216	14,076,655
Total	43,435,198	28,107,045	43,423,011	28,107,045

39 DEBT SECURITIES ISSUED

ACCOUNTING POLICY

Debt securities issued represent the funds borrowed by the Bank and 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		
	2018	2017
	LKR '000	LKR '000
As at 01 January	19,336,855	19,446,501
Additions during the year	-	-
Redemptions of capital and interest	(2,771,590)	(326,700)
Balance before adjusting for amortised interest	16,565,265	19,119,801
Net effect on amortised interest payable	246,543	217,054
As at 31 December (Note 39.1)	16,811,808	19,336,855

39.1 Debentures

BANK & GROUP						
	Interest Payable Frequency	Issued Date	Maturity Date	Effective Annual Yield %	2018	2017
					LKR '000	LKR '000
Fixed Rate Debenture Issuance – December 2013						
Type A – 13.00% – (60 Months)	Semi-Annually	19 December 2013	19 December 2018	12.79	-	1,241,119
Type B – 13.40% – (60 Months)	Annually	19 December 2013	19 December 2018	12.77	-	1,526,873
Type C – 13.90% – (120 Months)	Annually	19 December 2013	19 December 2023	13.17	3,626,121	3,624,548
Type D – 14.00% – (144 Months)	Annually	19 December 2013	19 December 2025	13.26	3,576,082	3,574,913
Total (a)					7,202,203	9,967,453
Fixed Rate Debenture Issuance – June 2015						
Type A – 9.40% – (60 Months)	Annually	24 June 2015	24 June 2020	9.19	6,988,887	6,977,687
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 June 2015	24 June 2020	9.18	2,620,718	2,391,715
Total (b)					9,609,605	9,369,402
Debt securities issued (a)+(b)					16,811,808	19,336,855
The maturity of the debt securities issued are given below:						
Due within one year					-	2,767,992
Due after one year					16,811,808	16,568,863
					16,811,808	19,336,855

40 DEFERRED TAX (ASSETS)/LIABILITIES

40.1 Summary of Net Deferred Tax (Assets)/Liabilities

	BANK		GROUP	
As at 31 December	2018	2017	2018	2017
	LKR '000	LKR '000	LKR '000	LKR '000
Recognised under assets	(1,059,485)	-	(1,059,485)	-
Recognised under liabilities	-	1,371,659	471,281	1,796,492
	(1,059,485)	1,371,659	(588,204)	1,796,492

NOTES TO THE FINANCIAL STATEMENTS

40.2 Movement in Net Deferred Tax (Asset) / Liability

For the year ended/as at 31 December,	BANK				GROUP			
	2018		2017		2018		2017	
	Temporary difference	Tax effect	Temporary difference	Tax effect	Temporary difference	Tax effect	Temporary difference	Tax effect
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Balance as at 01 January	4,898,781	1,371,659	2,827,829	791,792	6,416,043	1,796,492	2,660,307	744,886
Amount originating/(reversing) to Statement of Profit or Loss	(4,208,678)	(1,178,430)	337,389	94,469	(4,068,321)	(1,139,130)	1,925,704	539,197
Amount originating/(reversing) to Other Comprehensive Income	(2,016,965)	(564,750)	1,733,564	485,398	(1,988,939)	(556,903)	1,830,032	512,409
Transition impact on adoption of SLFRS 9	(2,457,013)	(687,964)	-	-	(2,459,510)	(688,663)	-	-
Balance as at 31 December	(3,783,875)	(1,059,485)	4,898,782	1,371,659	(2,100,727)	(588,204)	6,416,043	1,796,492

40.3 Reconciliation of Net Deferred Tax (Assets) / Liabilities - Bank

	BANK					
	Statement of Financial Position		Statement of Profit or Loss		Other Comprehensive Income	
	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
Deferred tax liabilities						
Accelerated depreciation for tax purposes	83,792	72,703	11,089	16,846	-	-
Revaluation gains on freehold land and buildings	404,873	404,873	-	-	-	174,143
Finance leases	677,535	825,896	(148,361)	114,042	-	-
Gains on financial investments – available-for-sale	-	223,474	-	-	(223,474)	223,474
Total	1,166,200	1,526,946	(137,272)	130,888	(223,474)	397,617
Deferred tax assets						
Defined benefit plans	114,325	101,679	(10,338)	(11,978)	(2,308)	3,037
Carry forward losses on leasing business	-	53,608	53,608	(24,441)	-	-
Losses on financial investments – available-for-sale	-	-	-	-	-	84,744
Losses on fair value adjustment of investment in debt instruments	338,968	-	-	-	(338,968)	-
Impairment allowances						
- On loans and receivables to other customers	1,074,842	-	(1,074,842)	-	-	-
- On other financial assets	9,586	-	(9,586)	-	-	-
- On transition impact on adoption of SLFRS 9 (Note 20)	687,964	-	-	-	-	-
Total	2,225,685	155,287	(1,041,158)	(36,419)	(341,276)	87,781
Deferred tax effect on Statement of Profit or Loss and Other Comprehensive Income for the year			(1,178,430)	94,469	(564,750)	485,398
Net deferred tax (assets)/liabilities as at 31 December	(1,059,485)	1,371,659				

40.4 Reconciliation of Net Deferred Tax (Assets) / Liabilities - Group

GROUP

	Statement of Financial Position		Statement of Profit or Loss		Other Comprehensive Income	
	2018	2017	2018	2017	2018	2017
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Deferred tax liabilities						
Accelerated depreciation for tax purposes	92,841	79,899	12,942	17,799	-	-
Revaluation gains on freehold land and buildings	441,970	441,970	-	-	-	211,241
Revaluation gains on investment property	473,026	412,597	60,428	412,597	-	-
Finance leases	677,535	825,896	(148,361)	114,042	-	-
Gains on financial investments – available-for-sale	-	223,474	-	-	(223,474)	223,474
Gains on fair value adjustment of investments in debt instruments	1,222	-	1,222	-	-	-
Total	1,686,594	1,983,836	(73,769)	544,438	(223,474)	434,715
Deferred tax assets						
Defined benefit plans	129,938	115,373	(12,256)	(10,607)	(2,308)	2,902
Carry forward losses on leasing business	-	53,608	53,608	(24,441)	-	-
Losses on other operations	6,006	6,006	-	29,807	-	-
Losses on financial investments – available-for-sale	-	12,357	-	-	12,357	74,792
Losses on fair value adjustment of investments in debt instruments	343,478	-	-	-	(343,478)	-
Impairment allowances						
- On loans and receivables to other customers	1,074,842	-	(1,074,842)	-	-	-
- On other financial assets	31,871	-	(31,871)	-	-	-
- On transition impact on adoption of SLFRS 9 (Note 20)	688,663	-	-	-	-	-
Total	2,274,798	187,344	(1,065,361)	(5,241)	(333,429)	77,694
Deferred tax effect on Statement of Profit or Loss and Other Comprehensive Income for the year			(1,139,130)	539,197	(556,903)	512,409
Net deferred tax (assets)/liabilities as at 31 December	(588,204)	1,796,492				

40.5 With the introduction of the new Inland Revenue Act No. 24 of 2017 which will be effective from 1 April 2018, the Bank and Group have recorded the deferred tax liability on the cumulative revaluation gains on freehold land and investment property amounting to LKR 160 Mn and LKR 412.5 Mn respectively in year 2017.

NOTES TO THE FINANCIAL STATEMENTS

41. RETIREMENT BENEFIT OBLIGATIONS

ACCOUNTING POLICY

Retirement benefit obligation 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. The costs of retirement gratuities are determined by a qualified Actuary using the projected unit credit method. Actuarial gains and losses are recognised as income or expense in the Statement of Comprehensive Income, during the financial year in which it arose.

Pension Fund

"The Bank operates an approved employee non-contributory pension fund for the payment of pensions to members of its permanent staff, who qualify for such payments when retiring. Employees who joined after 1999, are not covered under the said pension scheme. These employees are entitled to retirement gratuity. Up to 31 December 2002, annual contributions to the pension fund was payable by the Bank, based on a percentage of gross salaries, as stipulated in the pension deed. However, following the formulation of a revised pension deed, which has been approved by the Department of Inland Revenue, the contributions in subsequent years are determined on the basis of an actuarial valuation carried out each year."

Basis of Measurement

The cost of the defined benefit plans (retirement gratuity and 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 Bank and the Group.

41.1 Provision for Retirement Gratuity

	BANK		GROUP	
	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
As at 01 January	363,138	331,211	460,080	394,666
Provision made during the year				
Statement of Profit or Loss [Note 41.1 (a)]	82,590	82,596	99,556	117,456
Other Comprehensive Income [Note 41.1 (a)]	8,244	(10,847)	9,862	(11,255)
Contribution made for retirement gratuity	90,834	71,749	109,418	106,201
Benefits paid by the plan	(45,664)	(39,822)	(67,967)	(40,787)
As at 31 December	408,308	363,138	501,531	460,080

41.1 (a) Contribution made for Retirement Gratuity

	BANK		GROUP	
	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
Current service cost	44,497	42,850	54,254	72,566
Interest cost	38,093	39,746	45,302	44,890
Amount recognised in the Statement of Profit or Loss	82,590	82,596	99,556	117,456
Liability experience loss/(gain)	25,930	5,265	28,900	6,307
Liability loss/(gain) due to changes in:				
Financial assumptions	(17,686)	(16,112)	(19,038)	(17,562)
Demographic assumptions	-	-	-	-
Amount recognised in the Other Comprehensive Income	8,244	(10,847)	9,862	(11,255)

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 2018 and 31 December 2017 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'.

	2018	2017
Actuarial assumptions		
Discount rate	11.97%	10.49%
Salary increment rate	9%	8%
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.

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

Increase/ (Decrease) in Discount Rate	Increase/ (Decrease) in Salary Increment Rate	2018		2017	
		Sensitivity Effect on the Other Comprehensive Income Increase/(Decrease) in Comprehensive Income for the Year	Sensitivity Effect on Provision for Retirement Gratuity Increase/(Decrease) in Liability	Sensitivity Effect on the Other Comprehensive Income Increase/(Decrease) in Comprehensive Income for the Year	Sensitivity Effect on Provision for Retirement Gratuity Increase/(Decrease) in Liability
%	%	LKR Mn	LKR Mn	LKR Mn	LKR Mn
1		33.02	(33.02)	31.04	(31.04)
(-1)		(37.83)	37.83	(35.77)	35.77
	1	(37.46)	37.46	(35.18)	35.18
	(-1)	33.25	(33.25)	31.09	(31.09)

GROUP

Increase/ (Decrease) in Discount Rate	Increase/ (Decrease) in Salary Increment Rate	2018		2017	
		Sensitivity Effect on the Other Comprehensive Income Increase/(Decrease) in Comprehensive Income for the Year	Sensitivity Effect on Provision for Retirement Gratuity Increase/(Decrease) in Liability	Sensitivity Effect on the Other Comprehensive Income Increase/(Decrease) in Comprehensive Income for the Year	Sensitivity Effect on Provision for Retirement Gratuity Increase/(Decrease) in Liability
%	%	LKR Mn	LKR Mn	LKR Mn	LKR Mn
1		37.03	(37.03)	34.72	(34.72)
(-1)		(42.42)	42.42	(40.00)	40.00
	1	(42.04)	42.04	(39.39)	39.39
	(-1)	37.32	(37.32)	34.81	(34.81)

NOTES TO THE FINANCIAL STATEMENTS

41.1 (c) The expected Benefit Payout in the future years for Retirement Gratuity

	BANK	
	2018 LKR '000	2017 LKR '000
Within next 12 months	35,479	39,596
Between 2 and 5 years	300,491	229,702
Beyond 5 years	808,019	641,278

The expected benefits are estimated, based on the same assumptions used to measure the retirement benefit obligation of the Bank at the end of the year and include benefits attributable to estimated future employee service.

The average duration of the defined benefit obligation is 12.5 years (2017 – 12.5 years).

41.2 Pension Fund

The amount recognised in the Statement of Financial Position is as follows:

	BANK & GROUP	
	2018 LKR '000	2017 LKR '000
Present value of the funded obligation as at 31 December	799,296	830,579
Fair value of plan assets as at 31 December	(1,090,802)	(960,241)
Retirement Benefit (Asset)/Liability*	(291,506)	(129,662)

* The over payment is recognised as prepaid expenses in Other Assets.

41.2 (a) Contribution made to the Pension Fund

	BANK & GROUP	
	2018 LKR '000	2017 LKR '000
Current service cost	23,659	21,577
Interest cost	(11,088)	(11,985)
Amount recognised in the Statement of Profit or Loss	12,571	9,592
Assets loss/(gain) arising during the year	11,691	9,004
Liability experience loss	7,506	4,073
Actuarial (gain)/loss due to changes in;		
Financial assumptions	(103,933)	97,199
Demographic assumptions	-	-
Amount recognised in the Other Comprehensive Income	(84,736)	110,276

41.2 (b) Defined Benefit Obligation Reconciliation

	BANK & GROUP	
	2018 LKR '000	2017 LKR '000
Defined Benefit Obligation as at 01 January	830,579	678,741
Current service cost	23,659	21,577
Interest cost	88,290	86,540
Actual benefits paid from plan	(46,805)	(57,551)
Actuarial (gain)/loss due to changes in assumptions	(103,933)	97,199
Actuarial (gain)/loss due to experience adjustments	7,506	4,073
Defined Benefit Obligation as at 31 December	799,296	830,579

41.2 (c) Fair Value of Plan Assets Reconciliation

	BANK & GROUP	
	2018 LKR '000	2017 LKR '000
Fair value of plan assets as at 1 January	960,241	803,919
Expected return on assets	99,377	98,525
Actual employer contributions	89,680	124,352
Actual benefit paid from plan	(46,805)	(57,551)
Actuarial (loss)/gain from plan assets	(11,691)	(9,004)
Fair Value of plan assets as at 31 December	1,090,802	960,241

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 2018 and 31 December 2017 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	
	2018	2017
Actuarial Assumptions		
Discount rate	12.10%	10.63%
Salary increment rate	8%	8%
Annual return on assets	8.50%	9.84%
Mortality	UP 1984 Mortality Table	UP 1984 Mortality Table
Retirement age	Normal retirement age	Normal retirement age

NOTES TO THE FINANCIAL STATEMENTS

41.2 (d) Assumptions and the sensitivity of the assumptions used for the Pension Fund (Contd.)

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					
Increase/ (Decrease) in Discount Rate	Increase/ (Decrease) in Salary Increment Rate	2018		2017	
		Sensitivity Effect on the Other Comprehensive Income Increase/(Decrease) in Comprehensive Income for the Year	Sensitivity Effect on Retirement Benefit Obligation Increase/(Decrease) in Net Pension Liability	Sensitivity Effect on the Other Comprehensive Income Increase/(Decrease) in Comprehensive Income for the Year	Sensitivity Effect on Retirement Benefit Obligation Increase/(Decrease) in Net Pension Liability
%	%	LKR Mn	LKR Mn	LKR Mn	LKR Mn
1		59.65	(59.65)	69.13	(69.13)
(-1)		(68.33)	68.33	(80.19)	80.19
	1	(19.48)	19.48	(23.99)	23.99
	(-1)	18.62	(18.62)	22.76	(22.76)

BANK & GROUP				
Increase/ (Decrease) in Life Expectancy	2018		2017	
	Sensitivity Effect on the Other Comprehensive Income Increase/(Decrease) in Comprehensive Income for the Year	Sensitivity Effect on Retirement Benefit Obligation Increase/(Decrease) in Net Pension Liability	Sensitivity Effect on the Other Comprehensive Income Increase/(Decrease) in Comprehensive Income for the Year	Sensitivity Effect on Retirement Benefit Obligation Increase/(Decrease) in Net Pension Liability
%	LKR Mn	LKR Mn	LKR Mn	LKR Mn
+1 Year	(8.80)	8.80	(10.19)	10.19
- 1 Year	9.18	(9.18)	10.59	(10.59)

The fair value of the total plan assets are as follows:

BANK & GROUP		
	2018	2017
	LKR '000	LKR '000
Investments in Government Securities	838,614	810,745
Investments in Time Deposits	156,000	149,496
Total	994,614	960,241

41.2 (e) The Expected Benefit Payout from the Pension Fund in Future Years

BANK & GROUP		
	2018	2017
	LKR '000	LKR '000
Within next 12 months	60,134	52,721
Between 2 and 5 years	337,448	296,151
Beyond 5 years	773,665	699,514

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 20.4 years as at 31 December 2018 (2017 – 21 years).

41.2 (f) The total amount recognised in the Other Comprehensive Income relating to retirement benefit obligations

	BANK		GROUP	
	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
Retirement Gratuity [Note 41.1 (a)]	8,244	(10,847)	9,862	(11,255)
Pension Fund [Note 41.2 (a)]	(84,736)	110,276	(84,736)	110,276
Total	(76,492)	99,429	(74,874)	99,021

42. OTHER LIABILITIES

ACCOUNTING POLICY

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 Bank and 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	
	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
Other financial liabilities (Note 42.1)	2,751,011	3,053,299	2,798,750	3,085,308
Other non-financial liabilities (Note 42.2)	5,965,136	5,982,268	6,039,500	6,091,704
Total	8,716,147	9,035,567	8,838,250	9,177,012

42.1 Other Financial Liabilities

	BANK		GROUP	
	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
Unpresented cheques/pay orders	2,655,759	2,979,186	2,656,182	2,979,556
Unpresented cheques – Dividend Payable (Note 42.3)	78,133	72,203	78,133	72,203
Others	17,119	1,910	64,435	33,549
Total	2,751,011	3,053,299	2,798,750	3,085,308

NOTES TO THE FINANCIAL STATEMENTS

42.2 Other Non-Financial Liabilities

	BANK		GROUP	
	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
Accrued expenses	1,090,249	792,820	1,149,215	824,021
Provision for deposit insurance	90,647	68,675	90,647	68,675
Other liabilities	4,784,240	5,120,773	4,799,638	5,199,008
Total	5,965,136	5,982,268	6,039,500	6,091,704

42.3 Dividend Payable

	BANK & GROUP	
	2018 LKR '000	2017 LKR '000
Balance as at 01 January	72,203	49,933
Final dividend declared for the prior year	342,971	330,371
Interim dividend declared for the current year	-	342,971
Reversal of dividends declared in prior years [Note 42.3 (a)]	(6,884)	(1,866)
Dividend paid	(330,157)	(649,206)
As at 31 December	78,133	72,203

42.3 (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			
	2018		2017	
	Number of Shares	LKR '000	Number of Shares	LKR '000
Issued and fully paid	171,485,705	2,208,520	165,185,506	1,246,479
Shares issued due to scrip dividend (Note 43.2)	5,977,357	811,127	6,300,199	962,041
Right Issue (Note 43.3)	32,854,055	3,449,676	-	-
Total	210,317,117	6,469,323	171,485,705	2,208,520

43.2 On 20 February 2018, the Bank declared a 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 2017 (2016 - Cash dividend of LKR 2.00 per share and a scrip dividend of LKR 6.00 per share). Accordingly 5,977,357 ordinary shares were issued amounting to LKR 811 Mn, as a result of the scrip dividends declared for the year ended 31 December 2017.

43.3 During the year the Bank proposed to issue 59,154,354 shares by way of a Rights Issue at a issue price of LKR 105/- 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.

43.4 (a) Issue of Share under the Equity Linked Compensation Plan (ELCP)

The Bank had a shareholder approved Equity Linked Compensation Plan (ELCP) in 2010 which enabled the management staff in the rank of Assistant Vice-President and above of the Bank to take part in the voting ordinary share capital of the Bank, subject to certain limits, terms and conditions. Accordingly, the ELCP created a maximum of 3% of the ordinary voting shares, half of such shares are to be awarded as share options and the other half as share grants in equal proportions. Each of the five tranches would amount to a maximum of 0.6% of the voting shares. This plan expired on 30 June 2017.

43.4 (b) Employee Share Option Scheme (ESOS) - 2016

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 Limited and NDB Securities (Pvt) Limited to take part in the voting ordinary share capital of the Bank, subject to certain limits, terms and conditions.

As per the ESOS 2016, the Bank will offer Share Options relating to voting shares to the eligible employees up to a maximum of 5% of the total number of shares issued by the Bank. The shares under the said scheme shall be issued during a period of five years from the year 2017 (performance year 2016) subject to the performance criteria set out in the Circular to Shareholders dated 01 March 2016, and each year the Share Options will be limited to 1.25% of the total number of shares then issued by the Bank.

Although the scheme commenced in the year 2017, the Bank failed to meet the 'Qualifying Criteria' set out in the Circular to Shareholders dated 01 March 2016 and accordingly no shares were issued during the years 2017 and 2018.

44. STATUTORY RESERVE FUND

The Statutory Reverse 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	
	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
As at 01 January	1,336,479	1,246,479	1,336,479	1,246,479
Transferred from retained earnings (Note 45)	300,000	90,000	300,000	90,000
As at 31 December	1,636,479	1,336,479	1,636,479	1,336,479

45. RETAINED EARNINGS

	BANK					
	2018			2017		
	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	18,585,255	24,390,962	5,805,707	16,088,681	21,894,388
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	-	5,643,500	5,643,500	-	4,249,163	4,249,163
Transferred to the Statutory Reserve Fund	-	(300,000)	(300,000)	-	(90,000)	(90,000)
Dividends to equity holders	-	(1,193,516)	(1,193,516)	-	(1,662,589)	(1,662,589)
As at 31 December	5,805,707	20,966,190	26,771,897	5,805,707	18,585,255	24,390,962

NOTES TO THE FINANCIAL STATEMENTS

45. RETAINED EARNINGS (CONTD.)

	GROUP					
	2018			2017		
	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	22,775,440	28,581,147	5,805,707	21,140,725	26,946,432
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	-	5,356,728	5,356,728	-	3,387,304	3,387,304
Transferred to Statutory Reserve Fund	-	(300,000)	(300,000)	-	(90,000)	(90,000)
Adjustment due to changes in group companies	-	(8,657)	(8,657)	-	-	-
Dividends paid to equity holders	-	(1,193,516)	(1,193,516)	-	(1,662,589)	(1,662,589)
As at 31 December	5,805,707	24,862,382	30,668,089	5,805,707	22,775,440	28,581,147

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 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 (a)]	-	(1,022,229)	(1,022,229)	-	(1,029,596)	(1,029,596)
Available for Sale Reserve [Note 46.2 (b)]	(225,196)	225,196	-	(236,382)	236,382	-
Share based payment reserve (Note 46.3)	-	-	-	-	-	-
Cash flow hedge reserve [Note 25.1 (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

	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 2017						
Revaluation reserve (Note 46.1)	853,456	187,805	1,041,261	969,795	166,859	1,136,654
Available-for-sale reserve [Note 46.2 (b)]	(565,741)	340,545	(225,196)	(542,587)	306,205	(236,382)
Share based payment reserve (Note 46.3)	13,841	(13,841)	-	13,841	(13,841)	-
Cash flow hedge reserve [Note 25.1 (b)] 3	56,148	(70,339)	(14,191)	56,148	(70,339)	(14,191)
Total	357,704	444,170	801,874	497,197	388,884	886,081

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	
	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
As at 01 January	1,041,261	853,456	1,136,654	969,795
Revaluation of freehold land and building	-	361,948	30,186	361,948
Adjustment for revaluation of owner occupied portion of Investment Property	-	-	-	16,152
Deferred tax effect on revaluation gains/(losses)	-	(174,143)	-	(211,241)
	-	187,805	30,186	166,859
As at 31 December	1,041,261	1,041,261	1,166,840	1,136,654

46.2 (a) 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
	2018	2018
	LKR '000	LKR '000
As at 01 January	-	-
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	(1,635,797)	(1,624,131)
Fair value gains/(losses) realised and reclassified to the Statement of Profit or Loss during the year	276,322	276,322
Tax effect on fair value through other comprehensive income reserve	562,442	554,595
	(1,022,229)	(1,029,596)
As at 31 December	(1,022,229)	(1,029,596)

46.2 (b) Available for Sale Reserve

	BANK	GROUP
	2017	2017
	LKR '000	LKR '000
As at 01 January	(565,741)	(542,587)
Net gains/(losses) on re-measuring financial investments – available-for-sale	229,905	185,613
Fair value gains/(losses) realised and reclassified to the Statement of Profit or Loss during the year	418,858	418,858
Tax effect on available-for-sale reserve	(308,218)	(298,266)
	340,545	306,205
As at 31 December	(225,196)	(236,382)

46.3 Share-Based Payment Reserve

The share-based payment reserve represents the fair value of the options available as per the Equity-Linked Compensation Plan.

	BANK		GROUP	
	2018	2017	2018	2017
	LKR '000	LKR '000	LKR '000	LKR '000
As at 01 January	-	13,841	-	13,841
Capitalisation of the fair value of the options exercised	-	-	-	-
Cancellation due to the expiry of the ELCP option plan [Note 43.4 (a)]	-	(13,841)	-	(13,841)
As at 31 December	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS

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	
	2018 LKR '000	2017 LKR '000
Balance as at 01 January	965,746	1,076,709
Transition impact on adoption of SLFRS 9	2	-
Profit for the year	139,819	(57,449)
Other comprehensive income, net of tax	13,340	154
Adjustment due to changes in group companies	30,660	-
Dividends to equity holders	(50,525)	(53,668)
Balance as at 31 December	1,099,042	965,746

48. COMMITMENTS AND CONTINGENCIES

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 Bank and 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 Bank and the Group to make payments on behalf of customers in the event of a specific act, generally related to import or export of goods. The guarantees and standby letters of credit carry a similar credit risk of that loans/contingent liabilities and are not recognised in the Statement of Financial Position but are disclosed unless they are remote.

48.1 Business Commitments

	BANK		GROUP	
	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
Contingencies				
Guarantees	28,525,622	24,121,887	28,479,671	24,075,936
Performance Bonds	13,250,796	8,342,200	13,250,796	8,342,200
Documentary Credits	9,907,038	13,222,730	9,907,038	13,222,730
Other Contingencies [Note 48.1 (a)]	138,408,104	109,112,786	138,408,104	109,112,786
Commitments				
Undrawn commitments	98,791,307	114,360,796	99,712,630	115,124,197
Total	288,882,867	269,160,399	289,758,239	269,877,849
Less: Impairment allowance [Note 48.1 (b)]	576,896	-	576,896	-
Net of impairment	288,305,971	269,160,399	289,181,343	269,877,849

The maturity analysis of the commitments and contingencies is disclosed in Note 56.

48.1 (a) Other Contingencies

	BANK		GROUP	
	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
Forward Exchange Contracts	121,944,610	96,607,160	121,944,610	96,607,160
Currency Swap Agreement	5,204,340	5,737,500	5,204,340	5,737,500
Acceptances	11,125,067	6,768,126	11,125,067	6,768,126
Currency Options	134,087	-	134,087	-
Sub total	138,408,104	109,112,786	138,408,104	109,112,786

48.1 (b) Impairment allowance for commitments and contingencies

Movement in impairment allowance	Stage -1 LKR '000	Stage -2 LKR '000	Stage -3 LKR '000	Total LKR '000
Balance as at 01 January	374,809	115,182	82,273	572,264
Charges/(Reversals) during the year	15,153	25,698	(36,219)	4,632
Amount written off	-	-	-	-
Balance as at 31 December	389,963	140,880	46,054	576,896

48.1 (c) Commitments and contingencies analysis

	BANK		GROUP	
	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
Domestic Currency				
Guarantees	20,800,622	18,973,137	20,754,671	18,927,186
Performance Bonds	6,246,936	5,514,842	6,246,936	5,514,842
Documentary Credits	158,559	195,213	158,559	195,213
Forward Exchange Contracts	44,120,035	36,342,555	44,120,035	36,342,555
Currency Swap Agreement	-	-	-	-
Acceptances	46,456	45,675	46,456	45,675
Currency options	-	-	-	-
Undrawn commitments	98,012,490	113,495,804	98,933,813	114,259,205
Sub Total	169,385,098	174,567,226	170,260,470	175,284,676
Foreign Currency				
Guarantees	7,725,000	5,148,749	7,725,000	5,148,749
Performance Bonds	7,003,860	2,827,359	7,003,860	2,827,359
Documentary Credits	9,748,480	13,027,517	9,748,480	13,027,517
Forward Exchange Contracts	77,824,574	60,264,605	77,824,574	60,264,605
Currency Swap Agreement	5,204,340	5,737,500	5,204,340	5,737,500
Acceptances	11,078,611	6,722,451	11,078,611	6,722,451
Currency options	134,087	-	134,087	-
Undrawn commitments	778,817	864,992	778,817	864,992
Sub Total	119,497,769	94,593,173	119,497,769	94,593,173
Total	288,882,867	269,160,399	289,758,239	269,877,849

NOTES TO THE FINANCIAL STATEMENTS

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	
	2018	2017	2018	2017
	LKR '000	LKR '000	LKR '000	LKR '000
Commitments in relation to intangible assets				
Approved and contracted for	62,100	22,400	62,100	22,400
Total	62,100	22,400	62,100	22,400

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 loan agreements. As of the date of the Statement of Financial Position, thirty one 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/Group Companies

The following tax assessments are outstanding, against which the Bank/ Group Companies have duly appealed.

1. The income tax assessment received by the Bank for the Year of Assessment 2011/2012 amounting to LKR 298.9 Mn and the assessments on VAT on financial services for the years of 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. VAT and NBT on financial services and VAT assessments of the Bank amounting to LKR 42.3 Mn for the year 2014 are pending hearings by the Appeal Branch of the Department of Inland Revenue.
3. The assessments on VAT on financial services issued to NDB Capital Holdings Limited for the years 2012 and 2013 amounting to LKR 183.8 Mn which were determined by the Commissioner General of Inland Revenue as payable have been forwarded to the Tax Appeals Commission for their determinations. The Company has taken up the position that it is not in the business of provision of loans, as charged in the assessments/ determinations.
4. The income tax assessment received by NDB Capital Holdings Limited for the Year of Assessment 2015/2016 amounting to LKR 34.2 Mn is pending hearing by the Appeal Branch of the Department of Inland Revenue.

The Bank and the Group Companies are of the view that the above assessments will not have any material adverse impact on the financial statements.

49. NET ASSETS VALUE PER ORDINARY SHARE

	BANK		GROUP	
	2018	2017	2018	2017
Amount used as the Numerator:				
Total equity attributable to equity holders of the Bank (LKR '000)	34,998,042	28,737,835	39,012,446	33,012,227
Number of Ordinary Shares used as the Denominator:				
Total number of shares	210,317,117	171,485,705	210,317,117	171,485,705
Net Assets value per share (LKR)	166.41	167.58	185.49	192.51

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 2018	BANK		
	Within 12 Months LKR '000	After 12 Months LKR '000	Total 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

NOTES TO THE FINANCIAL STATEMENTS

50. MATURITY ANALYSIS (CONTD.)

	BANK		
As at 31 December 2017	Within 12 Months	After 12 Months	Total
	LKR '000	LKR '000	LKR '000
Assets			
Cash and cash equivalents	5,274,466		5,274,466
Balances with the Central Bank of Sri Lanka	14,733,500	631,420	15,364,920
Placements with banks	840,684		840,684
Derivative financial instruments	2,471,706		2,471,706
Financial assets held-for-trading	1,216,439		1,216,439
Loans and receivables to banks	13,625	1,853	15,478
Loans and receivables to other customers	170,371,674	103,642,296	274,013,970
Financial investments - loans and receivables	15,047,508	6,124,000	21,171,508
Financial investments - available-for-sale	52,620,584		52,620,584
Financial investments - held-to-maturity	1,088,034	2,436,017	3,524,051
Investments - held-for-sale	18,526		18,526
Investments in subsidiary companies		2,106,021	2,106,021
Intangible assets	-	384,369	384,369
Property, plant & equipment	-	2,356,679	2,356,679
Other assets	731,978	961,663	1,693,641
Total Assets	264,428,724	118,644,318	383,073,042
Liabilities			
Due to banks	20,236,719	-	20,236,719
Derivative financial instruments	936,754		936,754
Due to other customers	262,134,954	11,234,069	273,369,023
Debt securities issued and other borrowed funds	14,030,390	14,076,655	28,107,045
Tax liabilities	686,599	891,848	1,578,447
Deferred tax liabilities		1,371,659	1,371,659
Retirement benefit obligations	39,596	323,542	363,138
Other liabilities	5,507,176	3,528,391	9,035,567
Subordinated term debts	2,697,942	16,638,913	19,336,855
Total Liabilities	306,270,130	48,065,077	354,335,207
Maturity GAP	(41,841,406)	70,579,241	28,737,835

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.

As at 31 December 2018	GROUP		
	Within 12 Months	After 12 Months	Total
	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	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

NOTES TO THE FINANCIAL STATEMENTS

50. MATURITY ANALYSIS (CONTD.)

As at 31 December 2017	GROUP		
	Within 12 Months	After 12 Months	Total
	LKR '000	LKR '000	LKR '000
Assets			
Cash and cash equivalents	5,343,314		5,343,314
Balances with the Central Bank of Sri Lanka	14,733,500	631,420	15,364,920
Placements with banks	840,684		840,684
Derivative financial instruments	2,471,706		2,471,706
Financial assets held-for-trading	2,659,883		2,659,883
Loans and receivables to banks	13,625	1,853	15,478
Loans and receivables to other customers	170,338,480	103,724,830	274,063,310
Financial investments - loans and receivables	15,417,777	7,898,551	23,316,328
Financial investments - available-for-sale	52,975,690		52,975,690
Financial investments - held-to-maturity	1,435,168	2,641,928	4,077,096
Investments - held-for-sale	33,302	-	33,302
Investment Property	-	1,894,848	1,894,848
Intangible assets	-	397,053	397,053
Property, plant & equipment	-	2,917,017	2,917,017
Other assets	1,313,146	961,663	2,274,809
Total Assets	267,576,275	121,069,163	388,645,438
Liabilities			
Due to banks	20,236,719	-	20,236,719
Derivative financial instruments	936,754		936,754
Due to other customers	261,807,348	11,234,069	273,041,417
Debt securities issued and other borrowed funds	14,030,390	14,076,655	28,107,045
Tax liabilities	700,198	874,893	1,575,091
Deferred tax liabilities		1,796,492	1,796,492
Retirement benefit obligations	39,596	420,484	460,080
Other liabilities	5,648,621	3,528,391	9,177,012
Subordinated term debts	2,697,942	16,638,913	19,336,855
Total Liabilities	306,097,568	48,569,897	354,667,465
Maturity GAP	(38,521,293)	72,499,266	33,977,973

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 2018 or 2017.

For the year ended 31 December	Banking		Capital Markets		Property Investment		Others		Consolidated	
	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
Revenue										
Interest Income	44,354,296	37,118,699	235,381	268,617	-	-	-	-	44,589,677	37,387,316
Net Fee and Commission Income	3,136,329	2,520,532	496,360	460,569	152,611	143,700	124,848	129,784	3,910,148	3,254,585
Foreign exchange profit	1,218,338	1,063,944	-	-	-	-	-	-	1,218,338	1,063,944
Net gain/(loss) from financial investments at fair value through Profit or Loss	(6,712)	8,935	62,906	88,220	-	-	-	-	56,194	97,155
Net gains/(losses) from derecognition of financial assets	383,564	513,710	66,316	58,690	-	-	-	-	449,880	572,400
Other income	1,496,121	288,072	65,445	159,072	215,814	118,848	-	-	1,777,379	565,992
Total revenue from external customers	50,581,936	41,513,892	926,407	1,035,168	368,425	262,548	124,848	129,784	52,001,616	42,941,392
Inter-segment revenue	-	-	12,725	9,590	56,900	66,777	-	-	69,625	76,367
Total Revenue	50,581,936	41,513,892	939,132	1,044,758	425,325	329,325	124,848	129,784	52,071,241	43,017,759
Impairment (Charge)/reversal for loans & other losses	(3,597,121)	(1,248,726)	(167,737)	(41,571)	-	-	-	-	(3,764,858)	(1,290,297)
Segment expenses	(37,996,710)	(33,680,819)	(760,245)	(748,448)	(22,860)	(15,252)	(104,749)	(91,202)	(38,884,564)	(34,535,722)
Total segment expenses	(41,593,831)	(34,929,545)	(927,982)	(790,019)	(22,860)	(15,252)	(104,749)	(91,202)	(42,649,422)	(35,826,019)
Inter-segment expenses			-	-					-	-
Segment results	8,988,105	6,584,347	11,150	254,739	402,465	314,073	20,099	38,582	9,421,820	7,191,740
Share of associate companies' profit before taxation	-	-	-	-	-	-	-	-	-	-
Income tax expense									1,972,312	2,211,987
Tax on financial services									2,173,521	1,547,450
Profit after taxation									5,275,987	3,432,303
Other information										
Segment assets	472,910,839	383,068,679	3,018,627	3,319,579	2,405,461	2,146,142	93,277	77,736	478,428,205	388,612,136
Investment in associate	-	-	-	-	-	-	-	-	-	-
Investment in associates	-	-	-	-	-	-	-	-	-	-
Investments -Held for sale	-	-	-	-	-	-	-	33,302	-	33,302
Consolidated total assets									478,428,205	388,645,438
Segment liabilities	437,563,290	354,000,010	187,183	149,119	552,266	510,249	13,986	8,087	438,316,725	354,667,465
Consolidated total liabilities									438,316,725	354,667,465
Segmental cash flows										
Cash flows from operating activities	1,325,947	8,272,742	(185,451)	(834,323)	53,626	70,653	1,325	(5,630)	1,195,448	7,503,442
Cash flows from investing activities	(1,881,108)	(21,783)	294,330	825,603	310,744	(8,666)	(13,517)	-	(1,289,551)	795,154
Cash flows from financing activities	16,214,895	(10,451,509)	44,236	(47,258)	(40,272)	(40,292)	(9)	(12,190)	16,218,850	(10,551,249)

NOTES TO THE FINANCIAL STATEMENTS

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.

52.3 Key Management Personnel (KMP) of the Bank and 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 the 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 282. 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		GROUP	
	2018	2017	2018	2017
	LKR '000	LKR '000	LKR '000	LKR '000
Short-term employee benefits	61,138	41,927	61,138	41,927
Directors' emoluments	40,878	31,401	44,453	34,660
Post-employment benefits	10,295	30,966	10,295	30,966
	112,311	104,294	115,886	107,553

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	
	2018	2017	2018	2017	2018	2017
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Items in the Statement of Financial Position						
Assets						
Financial assets at amortised cost						
- loans and receivables to other customers	21,424	1,200	12,713	12	12,052	1,586
	21,424	1,200	12,713	12	12,052	1,586
Liabilities						
Financial liabilities at amortised cost						
- due to depositors			75,622	3,682	107,543	9,378
			75,622	3,682	107,543	9,378

	During the year	
	2018 LKR '000	2017 LKR '000
Items in the Statement of Profit or Loss excluding compensation to KMP		
Interest income	701	41
Interest expenses	2,797	3,064
Fee and commission income	4	30

Share investments in the Bank and dividend paid to the KMPs and their Close Family Members are given below.

	2018	2017
Investments in ordinary shares including the shares held in the slash account (Number of shares) as at 31 December	5,489,947	4,146,248
Rights issue exercised (Number of shares)	1,117,570	-
Scrip dividends paid (Number of shares) during the year	144,665	154,003
Cash dividends paid (LKR '000) during the year	8,301	16,368

52.3. (c) Transactions involving entities which are controlled/ jointly controlled by the KMP and their Close Family Members.

	Limit		Outstanding Balance		Average Balance	
	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
Items in the Statement of Financial Position						
Assets						
Financial assets at amortised cost						
- loans and receivables to other customers	150,512	-	108,363	-	147,451	136
	150,512	-	108,363	-	147,451	136
Liabilities						
Financial liabilities at amortised cost						
- due to depositors			7,753	8,466	14,906	11,645
- due to debt securities holders			-	-	40,261	8,000
			7,753	8,466	55,167	19,645

	During the year	
	2018 LKR '000	2017 LKR '000
Items in the Statement of Profit or Loss		
Interest income	7,389	16
Interest expenses	343	159
Fee and commission income	204	286
Other expenses	1,689	3,361

NOTES TO THE FINANCIAL STATEMENTS

52.3. (c) Transactions involving entities which are controlled/ jointly controlled by the KMP and their Close Family Members. (Contd.)

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.

	2018	2017
Investments in ordinary shares (Number of shares) as at 31 December	17,933,724	11,982,782
Rights issue exercised (Number of shares)	3,165,305	-
Scrip dividends paid (Number of shares) during the year	417,671	424,039
Cash dividends paid (LKR '000) during the year	23,966	46,202

52.4 Transactions with the Government of Sri Lanka and its Related Entities

The Bank and 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 as follows.

	Outstanding Balance		Average Balance	
	2018	2017	2018	2017
	LKR '000	LKR '000	LKR '000	LKR '000
Items in the Statement of Financial Position				
Assets				
Financial assets at amortised cost				
- loans and receivables to other customers (gross)	21,440,543	20,449,298	20,690,317	18,194,656
Financial assets measured at fair value through other comprehensive income	4,175	-	4,175	-
Financial investments - available-for-sale	-	4,175	-	4,175
	21,444,718	20,453,473	20,694,492	18,198,831
Liabilities				
Financial liabilities at amortised cost				
- due to depositors	24,914,805	19,728,906	22,166,663	11,971,878
- due to debt securities holders	4,144,385	3,100,002	4,803,313	2,530,742
- due to other borrowed funds	8,942,542	8,248,870	10,632,608	9,668,570
Debt securities issued	5,233,800	6,032,750	5,966,171	6,032,750
	43,235,532	37,110,528	43,568,755	30,203,940
Commitments and contingencies				
Forward exchange contracts	14,752,804	4,061,464	2,097,998	3,922,093
Other contingencies	-	-	-	14,277
Undrawn commitments	1,829,500	3,796,905	3,329,986	2,452,072
	16,582,304	7,858,369	5,427,984	6,388,442

	During the year	
	2018 LKR '000	2017 LKR '000
Items in the Statement of Profit or Loss		
Interest income	2,546,248	2,255,700
Interest expenses	3,458,172	2,704,813
Fee and commission income	2,662	2,032
Net gains/ (losses) from trading	2,101	6,932
Other operating income	32,433	28,303
Rights issue exercised (Number of shares)	12,035,221	-
Scrip dividends paid (Number of shares) during the year	2,038,593	2,145,973
Cash dividends paid (LKR '000) during the year	116,972	229,354

52.4 (b) Further transactions as 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
- 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 29 Mn. The SWAP arrangement will be renewed annually over the tenure of the borrowings.

NOTES TO THE FINANCIAL STATEMENTS

52.5 Transactions with Related Entities

52.5 (a) The transactions entered by the Bank with the Subsidiaries and Associates.

	Subsidiaries of the Bank						Associates of the Bank			
	Limit		Outstanding Balance		Average Balance		Outstanding Balance		Average Balance	
	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
Items in the Statement of Financial Position										
Assets										
Financial assets at amortised cost										
- loans and receivables to other customers	100,000	100,000	13,983	34,997	20,123	30,112	-	-	-	-
Other assets			523	3,510	842	260,397	-	-	-	-
Investments in subsidiary companies [Note (i)]			2,166,714	2,106,021	2,120,153	2,076,538	-	-	-	-
Investments held for sale			-	-	-	-	-	18,526	3,088	18,526
Liabilities										
Financial liabilities at amortised cost										
- due to depositors			365,630	333,428	459,011	351,647	-	-	-	-
- due to debt securities holders			12,000	-	189,500	-	-	-	-	-
Other liabilities			-	15	19	283	-	-	-	-
Commitments and contingencies										
Guarantees	300,000	500,000	45,951	45,951	45,951	71,102	-	-	-	-

	During the year	
	2018 LKR '000	2017 LKR '000
Items in the Statement of Profit or Loss in relation to transactions with subsidiaries and associates of the Bank		
Interest income	1,629	4,013
Interest expense	32,920	35,062
Fee and commission income	11,626	15,350
Net gains/ (losses) from trading	510	283
Other expenses	38,992	27,567
Other operating income	521,485	1,006,702
Gain on liquidation of NDB Venture Investment (Pvt) Limited [Note (ii)]	4,874	-
Charge/ (release) on impairment	(60,693)	9,829

Refer Note 30, 31 and note 32 for details of subsidiary and associate companies.

(i) Investments in subsidiary companies are stated net of impairment allowance amounting to LKR 44.1 Mn for the year ended 31 December 2018 and LKR 104.8 Mn for the year ended 31 December 2017.

(ii) NDB Venture Investment (Pvt) Limited concluded the liquidation process as approved by the Board of the directors of the company and the Bank received the proceed of LKR 23.4 Mn as a settlement of the investment value.

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.

	2018 LKR '000	2017 LKR '000
Financial liabilities at amortised cost		
- due to depositors	185,945	33,692
Interest paid	15,442	4,759
Contribution by the Bank	298,755	264,130

52.5 (c) NDB Wealth Management Limited, a subsidiary of the Bank, had the under mentioned financial dealings with the NDB Provident Fund.

	2018 LKR '000	2017 LKR '000
Portfolio under management	2,175,274	2,035,284

52.5 (d) The Bank had the under-mentioned financial dealings with the NDB Pension Fund during the year.

	2018 LKR '000	2017 LKR '000
Financial liabilities at amortised cost		
- due to depositors	156,000	140,490
Interest paid	22,188	26,037
Contribution by the Bank	89,680	124,352

NOTES TO THE FINANCIAL STATEMENTS

53. EVENTS OCCURRING AFTER THE DATE OF THE STATEMENT OF FINANCIAL POSITION

Non Adjusting Events

- 53.1** 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 LKR 6.50 per share, for the financial year 2018 (2017- cash dividend of LKR 4.00 per share and a scrip dividend of LKR 5.00 per share).

Out of the dividend LKR 5.13 per share will be liable to dividend tax at 14% and the balance LKR 2.87 per share will be paid out of dividend income, exempt from tax.

Accordingly, stated capital of the Bank will be increased to LKR 7,685 Mn (LKR 6,469 Mn as at 31 December 2018), as a result of the scrip dividends declared for the year ended 31 December 2018.

- 53.2** On 18 February 2019, at an Extraordinary General Meeting, the shareholders of the Bank present in person and proxy approved and passed the special resolution for the issue of the five year Basel 111 complaint Tier 2, listed rated unsecured, subordinated, redeemable debentures issue with a non-viability conversion, to raise LKR 5 Bn with an option to raise a further LKR 1.5 Bn.

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 Profit or Loss

As reported previously	Current presentation	BANK		GROUP	
		Reclassified	As disclosed in 2017	Reclassified	As disclosed in 2017
Net gains/(losses) from financial investments		-	569,558		733,679
Other operating income		-	1,247,862		383,020
	Net gains/(losses) from financial investments at fair value through profit or loss	8,935		97,155	
	Net gains/(losses) from derecognition of financial assets	513,711		572,400	
	Other operating income	1,294,774		447,144	
		1,817,420	1,817,420	1,116,699	1,116,699

Statement of Financial Position

As reported previously	Current presentation	BANK		GROUP	
		Reclassified	As disclosed in 2017	Reclassified	As disclosed in 2017
Loans and receivables to banks	Financial Assets at amortised cost - loans and receivables to other customers	15,478	15,478	15,478	15,478
Subordinated term debts	Debt Securities issued	19,336,855	19,336,855	19,336,855	19,336,855

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 Bank's and 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 35)

Freehold buildings - valuations are performed by an independent the valuer based on the cost approach (current replacement cost - Note 35).

Investment Property - valuations are performed based on the income approach using the current market rent by the valuer to value the Investment Property (Income approach- Note 33).

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 Bank and 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 in every year 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 are does not significantly vary from their carrying amounts.

NOTES TO THE FINANCIAL STATEMENTS

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 2018	BANK			
	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	-	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

BANK

31 December 2017	Fair Value Measurement Using			Total
	Quoted Prices	Significant	Significant	
	in Active	Observable	Unobservable	
	Markets Level 1	Inputs Level 2	Inputs Level 3	
	LKR '000	LKR '000	LKR '000	LKR '000
Financial Assets				
Derivative Financial Instruments				
Forward foreign exchange contracts	-	1,125,844	-	1,125,844
Currency SWAP	-	-	1,345,862	1,345,862
Financial Assets – Held-for-Trading				
Sri Lanka Government Securities - Treasury bills	743,752	-	-	743,752
Sri Lanka Government Securities - Treasury bonds	472,687	-	-	472,687
Financial Investments – Available-for-Sale				
Sri Lanka Government Securities - Treasury bills	35,644,195	-	-	35,644,195
Sri Lanka Government Securities - Treasury bonds	15,594,731	-	-	15,594,731
Quoted ordinary shares	1,366,515	-	-	1,366,515
Total Financial Assets	53,821,880	1,125,844	1,345,862	56,293,586
Non-Financial Assets				
Freehold land	-	-	737,000	737,000
Freehold buildings	-	-	933,500	933,500
Total Non-Financial Assets	-	-	1,670,500	1,670,500
Financial Liabilities				
Derivative Financial Instruments				
Forward foreign exchange contracts	-	936,754	-	936,754
Total Financial Liabilities	-	936,754	-	936,754

NOTES TO THE FINANCIAL STATEMENTS

55. (a) Determination of Fair Value of Financial Instruments and Non Financial Instruments by Hierarchy (Contd.)

31 December 2018	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	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

GROUP				
31 December 2017	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	-	-	-	-
Forward foreign exchange contracts	-	1,125,844	-	1,125,844
Currency SWAP	-	-	1,345,862	1,345,862
Financial Assets – Held-for-Trading				
Sri Lanka Government Securities - Treasury bills	743,752	-	-	743,752
Sri Lanka Government Securities - Treasury bonds	472,687	-	-	472,687
Equity securities	496,269	-	-	496,269
Investment in unit trusts	947,175	-	-	947,175
Financial Investments – Available-for-Sale				
Sri Lanka Government Securities - Treasury bills	35,644,195	-	-	35,644,195
Sri Lanka Government Securities - Treasury bonds	15,594,731	-	-	15,594,731
Quoted ordinary shares	1,571,621	-	-	1,571,621
Non-quoted ordinary shares	-	-	150,000	150,000
Total Financial Assets	55,470,430	1,125,844	1,495,862	58,092,136
Non-Financial Assets				
Freehold land	-	-	737,000	737,000
Freehold buildings	-	-	1,373,353	1,373,353
Investment Property	-	-	1,894,848	1,894,848
Total Non-Financial Assets	-	-	4,005,201	4,005,201
Financial Liabilities				
Derivative Financial Instruments				
Currency options	-	-	-	-
Forward foreign exchange contracts	-	936,754	-	936,754
Total Financial Liabilities	-	936,754	-	936,754

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.

BANK						
31 December 2018	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 25.1 (b)]	Derivative financial instruments	1,345,862	(831,180)		531,092	1,045,774
Non-Financial Assets						
Freehold land [Note 35]	Property, plant & equipment	737,000	-	-	-	737,000
Freehold buildings [Note 35]	Property, plant & equipment	933,501	18,058	(49,635)	-	901,924
GROUP						
31 December 2018	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 25.1 (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 35]	Property, plant & equipment	737,000	-	-	-	737,000
Freehold buildings [Note 35]	Property, plant & equipment	1,373,353	17,463	(47,908)	-	1,342,908
Investment property [Note 33]	Investment property	1,894,848	-	215,814	-	2,110,662

BANK						
31 December 2017	Included in	As at 1 January 2017	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 2017
		LKR '000	LKR '000	LKR '000	LKR '000	LKR '000

Financial Assets

Currency SWAP [Note 25.1 (b)]	Derivative financial instruments	1,142,620	-	-	203,242	1,345,862

Non-Financial Assets

Freehold land [Note 35]	Property, plant & equipment	431,500	-	-	305,500	737,000
Freehold buildings [Note 35]	Property, plant & equipment	900,863	19,737	(43,547)	56,448	933,501

GROUP						
31 December 2017	Included in	As at 1 January 2017	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 2017
		LKR '000	LKR '000	LKR '000	LKR '000	LKR '000

Financial Assets

Currency SWAP [Note 25.1 (b)]	Derivative financial instruments	1,142,620	-	-	203,242	1,345,862
Non-quoted ordinary shares	Financial investments - available-for-sale	150,000	-	-	-	150,000

Non-Financial Assets

Freehold land [Note 35]	Property, plant & equipment	431,500	-	-	305,500	737,000
Freehold buildings [Note 35]	Property, plant & equipment	1,295,509	50,517	(45,273)	72,600	1,373,353
Investment property [Note 33]	Investment property	1,776,000	-	118,848	-	1,894,848

NOTES TO THE FINANCIAL STATEMENTS

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 2018 and as at 31 December 2017 in measuring non-financial instruments categorised as Level 3 in the fair value hierarchy:

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

Financial Assets

GROUP

Type of Instrument	Fair Values as at the 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

As at 31 December 2018

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 190.00	Positive impact to the fair value from both factors

As at 31 December 2017

Financial Assets

BANK

Type of Instrument	Fair Values as at the 31 December 2017	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 1,345 Mn	Forecasted cash flow valuation method	Forward Exchange Rate	One year market premium USD/LKR- 10.625	Positive impact to the fair value

Non Financial Assets

BANK

Type of Instrument	Fair Values as at the Valuation Date	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 606 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

NOTES TO THE FINANCIAL STATEMENTS

55. (c) Unobservable Inputs Used in Measuring the Fair Value of financial and non financial instruments (Contd.)

Non Financial Assets

BANK

Type of Instrument	Fair Values as at the Valuation Date	Valuation Technique	Significant Unobservable Inputs	Range of Estimates (Weighted Average) for Unobservable Inputs	Fair Value Measurement Sensitivity to Unobservable Inputs
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 327.5 Mn	Current replacement cost	Replacement cost/ depreciation factor rate	LKR 14,000 per square feet and discount factor - 0.56	Positive impact to the fair value from both factors

Financial Assets

GROUP

Type of Instrument	Fair Values as at the 31 December 2017	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 1,345 Mn	Forecasted cash flow valuation method	Forward Exchange Rate	One year market premium USD/LKR- 10.625	Positive impact to the fair value

Non Financial Assets

GROUP

Type of Instrument	Fair Values as at the Valuation Date	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 606 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 327.5 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 2,260 Mn (Including the fair value of owner occupied portion of LKR 277 Mn)	Income approach	Rent per square feet	Rentable area at LKR 180/- Non-rentable area at LKR 106/-	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					
Fair Value Classification		2018		2017	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
		LKR '000	LKR '000	LKR '000	LKR '000
Financial Assets					
Cash and cash equivalents	Note 55 (e)	6,537,579	6,537,579	5,274,466	5,274,466
Balances with the Central Bank of Sri Lanka	Note 55 (e)	15,546,386	15,546,386	15,364,920	15,364,920
Placements with banks	Note 55 (e)	15,237,306	15,237,306	840,684	840,684
Financial assets at amortised cost -loans and receivables to other customers	Level 2	344,203,289	338,407,786	-	-
Loans and receivables to banks	Level 2	-	-	15,478	15,481
Loans and receivables to other customers	Level 2	-	-	274,013,970	271,371,924
Financial assets at amortised cost - Debt and other instruments	Level 2	24,070,365	24,582,952	-	-
Financial investments - loans and receivables	Level 2	-	-	21,171,508	21,612,652
Financial investments - held-to-maturity	Level 1	-	-	3,524,051	3,570,696
Other financial assets	Note 55 (e)	21,756	21,756	19,565	19,565
Total Financial Assets		405,616,681	400,333,765	320,224,642	318,070,388
Financial Liabilities					
Due to banks	Note 55 (e)	15,047,481	15,047,481	20,236,719	20,236,719
Financial Liabilities at amortised cost					
- due to depositors	Level 2	347,511,223	347,183,282	-	-
- due to debt securities holders	Note 55 (e)	6,394,211	6,394,213	-	-
- due to other borrowers	Note 55 (e)	37,040,987	37,040,987	-	-
Due to other customers	Level 2			273,369,023	272,986,679
Debt securities issued	Level 2	16,811,808	15,686,830		
Debt securities issued and other borrowed funds	Level 2			28,107,045	28,107,045
Subordinated term debts	Level 2			19,336,855	18,695,319
Other financial liabilities	Note 55 (e)	2,751,011	2,751,011	3,053,299	3,053,299
Total Financial Liabilities		425,556,721	424,103,804	344,102,941	343,079,061

NOTES TO THE FINANCIAL STATEMENTS

55. (d) Fair Value of the Financial Assets and Financial Liabilities that are not carried at Fair Value in the Financial Statements. (Contd.)

		GROUP			
		2018		2017	
	Fair Value Classification	Carrying Amount	Fair Value	Carrying Amount	Fair Value
		LKR '000	LKR '000	LKR '000	LKR '000
Financial Assets					
Cash and cash equivalents	Note 55 (e)	7,071,438	7,071,438	5,343,314	5,343,314
Balances with the Central Bank of Sri Lanka	Note 55 (e)	15,546,386	15,546,386	15,364,920	15,364,920
Placements with banks	Note 55 (e)	15,237,306	15,237,306	840,684	840,684
Financial assets at amortised cost - loans and receivables to other customers	Level 2	344,276,363	338,473,058		
Loans and receivables to banks	Level 2	-	-	15,478	15,481
Loans and receivables to other customers	Level 2	-	-	274,063,310	271,413,242
Financial assets at amortised cost - Debt and other instruments		24,175,346	24,688,484	-	-
Financial investments - loans and receivables	Level 2	-	-	23,316,328	24,077,021
Financial investments - held-to-maturity	Level 1	-	-	4,077,096	4,305,619
Other financial assets	Note 55 (e)	381,626	381,626	446,909	446,909
Total Financial Assets		406,688,465	401,398,298	323,468,039	321,807,190
Financial Liabilities					
Due to banks	Note 55 (e)	15,047,481	15,047,481	20,236,719	20,236,719
Financial Liabilities at amortised cost					
- due to depositors	Level 2	347,169,564	347,517,073	-	-
- due to debt securities holders	Note 55 (e)	6,382,024	6,382,024		
- due to other borrowers	Note 55 (e)	37,040,987	37,040,987		
Due to other customers	Level 2			273,041,417	272,658,832
Debt securities issued	Level 2	16,811,808	15,686,830		
Debt securities issued and other borrowed funds	Level 2			28,107,045	28,107,045
Subordinated term debts	Level 2			19,336,855	18,695,319
Other financial liabilities	Note 55 (e)	2,798,750	2,798,750	3,085,308	3,085,308
Total Financial Liabilities		425,250,614	424,473,145	343,807,344	342,783,223

55. (e) Basis of Measurement for the Fair Value of Financial Assets and Financial Liabilities Not Carried at Fair Value

Given below are the methodologies and assumptions used to determine the fair values for financial instruments which are not already recorded at fair value in the Financial Statements:

Assets for which Fair Value Approximates Carrying Value

For financial assets and financial liabilities that have a short-term maturity (less than three months) it is assumed that the carrying amounts approximate their fair value. This assumption is also applied to demand deposits and savings accounts without a specific maturity.

Fixed Rate Financial Instruments

The fixed rate financial instruments include financial assets at amortised cost - loans and receivable to other customers, financial assets at amortised cost - debt and other instruments, financial liabilities at amortised cost - due to depositors, due to other borrowers and debt securities issued.

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates for similar financial instruments. The estimated fair value of fixed interest-bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and maturity. For quoted debt instruments issued, the fair values are determined based on quoted market prices. For instruments issued where quoted market prices are not available, a discounted cash flow model is used based on a current interest rate yield curve appropriate for the remaining term to maturity and credit spreads. For other variable rate instruments, an adjustment is also made to reflect the change in the required credit spread since the instrument was first recognised.

56. RISK MANAGEMENT DISCLOSURES

56.1 Introduction

Taking risks is inherent in any bank's strategic plan but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. Bank's risk strategy focuses on managing principal risks faced by the Bank while striking a fair balance between the risk return trade-off and the efficient capital allocation across the risk exposures.

The Bank is mainly exposed to credit risk, liquidity risk, market risk and operational risk. Market risk could be further subdivided into trading and non-trading risks. Exposure to country risk and any risks due to changes in environment, technology and industry is managed through the Bank's strategic planning process.

56.2 Risk Management Framework

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's Risk Management Framework. The Board has delegated its authority to the Integrated Risk Management Committee (IRMC) for the overall Risk Management approach and for approving the risk management strategies and principles. IRMC meets quarterly to review and assess the Bank's overall risks and to focus on policy recommendations and strategies in an integrated manner and the Board of Directors are duly updated of its activities.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank/Group to set appropriate risk limits and controls and to monitor adherence to established limits.

The Bank's Assets and Liabilities Committee (ALCO) reviews all market and liquidity related exposures, excesses on a monthly basis and decisions are made to facilitate the business requirements. These decisions are further reviewed at IRMC and by the Board.

The Credit and Market Risk Policy Committee and Operational Risk Policy Committee are in operation to formulate policies and to focus more clearly on defined risk areas. The membership of these committees comprises the 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.

NOTES TO THE FINANCIAL STATEMENTS

56.2.2 Risk Mitigation

The Bank obtains various types of collateral and establishes maximum prudential limits as a 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 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 (Policy applicable prior up to 31 December 2017)

56.3.3.1 Impairment of Financial Assets

The Bank has in place a detailed impairment policy which was approved by the Board of Directors.

For accounting purposes, the Bank uses an incurred loss model for the recognition of losses on impaired financial assets. At each reporting date the Bank/Group assesses whether there is objective evidence of a specific loss event.

56.3.3.2 Individually Assessed Allowances

The Bank determines the allowances appropriate for each individually significant loans or receivables on an individual basis if there is any objective evidence of a loss based on the above. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance if it is in a financial difficulty, projected receipts and the expected payout should bankruptcy arise, the availability of other financial support, the realisable value of collateral and the timing of the expected cash flows.

Impairment allowances are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

56.3.3.3 Collectively-Assessed Allowances

Allowances are assessed collectively for losses on loans and receivables that are not individually significant (including personal loans, leases and pawning) and for individually significant loans and receivables that have been assessed individually and found not to be impaired.

The Bank generally bases its analyses on historical experience and market factors. These factors include, depending on the characteristics of the individual or collective assessment: unemployment rates, current levels of bad debts, changes in laws, changes in regulations and other relevant consumer data. The Bank may use the aforementioned factors as appropriate to adjust the impairment allowances.

Allowances are evaluated separately at each reporting date with each portfolio. The collective assessment is made for groups of assets with similar risk characteristics, in order to determine whether provision should be made due to incurred loss events for which there is objective evidence, but the effects of which are not yet evident in the individual loans assessments. The collective assessment takes account of data from the loan portfolio (such as loan types, industry codes, and level of arrears).

56.3.4 Impairment Assessment (Policy applicable from 01 January 2018)

56.3.4.1 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 instalments 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;
- When reasonable and supportable forecasts of future economic conditions directly affect the performance of a customer/group of customers, portfolios or instruments;
- When the value of collateral is significantly reduced and/or realisability of collateral is doubtful. Limits shall be set and documented by licensed banks;
- Modification of terms resulting in concessions, including extensions, deferment of payments, waiver of covenants etc.;
- When the customer is deceased/insolvent;
- When the bank is unable to contact or find the customer;

It is the Bank's policy to consider a financial instrument as 'cured' and therefore re-classified out of Stage 3 when none of the default criteria have been present for at least six consecutive months. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated credit grade, at the time of the cure, and whether this indicates there has been a significant increase in credit risk compared to initial recognition.

NOTES TO THE FINANCIAL STATEMENTS

56.3.4.2 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 $[t_{i-1} \text{ to } t_i]$ 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 9 days	100% PD

56.3.4.3 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 will all need to be estimated based on past experience and future expectations, for sections of the portfolio that are segmented so that they have similar credit characteristics.

56.3.4.4 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.

56.3.4.5 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 56.3.4.1 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 applies the following in the categorisation of credit facilities/exposures in to stages for computation of Expected Credit Loss.

- **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.
 - 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)
 - Under-performing credit facilities/exposures
- **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.
 - All restructured loans, which are restructured more than twice
 - All rescheduled loans, other than credit facilities/exposures (other than upgraded restructured facilities, satisfactory performing period of a minimum 90 days considered subsequent to the due date of the 1st capital and/or interest installment post-restructure)
 - All credit facilities/customers classified as non-performing as per CBSL Directions.
 - Non-performing credit facilities/customers

NOTES TO THE FINANCIAL STATEMENTS

56.3.4.6 Grouping financial assets measured on a collective basis

As explained in Note 3.3.1 dependant on the factors below, the Bank calculates ECLs either on a collective or an individual basis.

An individual impairment assessment is performed for exposures over the Individually Significant Threshold of LKR 25 Mn 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, 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 were found to have no such evidence of expected loss
- Exposures that have been individually assessed and were found not to be impaired on an individual basis based on the cash flow estimation

The bank groups these exposure in to homogeneous portfolios to extent possible so as ensure that data point available for meaningful calculations .

56.3.4.7 Analysis of inputs to the ECL model under multiple economic scenarios

The Bank obtains the data used from third party sources (CBSL, International Monetary Fund and/or World Bank in all instances where such projections are available). 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 as at 31 December 2017 and 2018.

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 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

31 December 2017	ECL Scenarios	Assigned Probabilities	2019	2020	2021	2022	2023	2024	2025
Key Drivers		%	%	%	%	%	%	%	%
GDP Growth	Best Case	25	3.47	3.55	3.63	3.71	3.80	3.89	3.98
	Base Case	50	3.31	3.31	3.31	3.31	3.31	3.31	3.31
	Worst Case	25	3.16	3.09	3.01	2.94	2.88	2.81	2.74
Inflation (YoY) (CCPI)	Best Case	25	6.30	6.20	6.10	5.90	5.80	5.70	5.60
	Base Case	50	6.60	6.60	6.60	6.60	6.60	6.60	6.60
	Worst Case	25	6.90	7.00	7.20	7.30	7.50	7.60	7.80
Interest Rate (AWPLR)	Best Case	25	10.70	10.47	10.35	10.13	9.80	9.80	9.80
	Base Case	50	11.33	11.33	11.33	11.33	11.33	11.33	11.33
	Worst Case	25	12.00	12.42	12.92	13.27	13.53	13.53	13.53
Exchange Rate (US\$:LKR)	Best Case	25	156.55	158.31	160.08	161.88	163.70	165.54	167.40
	Base Case	50	160.06	167.35	174.97	182.94	191.27	199.98	209.09
	Worst Case	25	203.88	235.28	271.52	300.00	300.00	300.00	300.00
Unemployment	Best Case	25	3.98	3.97	3.97	3.96	3.95	3.95	3.95
	Base Case	50	4.00	4.00	4.00	4.00	4.00	4.00	4.00
	Worst Case	25	4.02	4.03	4.05	4.06	4.07	4.07	4.07

56.3.4.8 Analysis of Gross Exposure on Credit Risk and Impairment

The table below shows the credit quality by class of asset for financial assets exposed to credit risk, based on the Bank's classification of assets. The amounts presented are net of impairment allowances.

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

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56.3.4.8 Analysis of Gross Exposure on Credit Risk and Impairment (Contd.)

BANK

31 December 2017	Neither past due nor impaired or individually impaired LKR '000	Past Due but not Impaired						Individually Impaired LKR '000	Total LKR '000
		Less than 1 month LKR '000	1-3 months LKR '000	3-6 months LKR '000	6-12 months LKR '000	12-18 months LKR '000	More than 18 months LKR '000		
Cash and cash equivalents	5,274,466								5,274,466
Balances with the Central Bank of Sri Lanka	15,364,920								15,364,920
Placements with banks	840,684								840,684
Derivative Financial Instruments	2,471,706								2,471,706
Financial assets-held -for-trading	1,216,439								1,216,439
Loans and receivable to other customers	166,911,644	49,657,227	44,078,492	1,394,099	503,515	223,715	7,393,481	3,867,275	274,029,448
Financial Investments - Loans and receivables	21,171,508								21,171,508
Financial Investments - Available for sale	52,620,584								52,620,584
Financial Investments - Held to maturity	3,524,051								3,524,051
Other financial assets	19,565								19,565

GROUP

31 December 2018		Stage 1	Stage 2	Stage 3	Total
		LKR '000	LKR '000	LKR '000	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

GROUP

31 December 2017	Neither past due nor impaired or individually impaired LKR '000	Past Due but not Impaired						Individually Impaired LKR '000	Total LKR '000
		Less than 1 month	1-3 months	3-6 months	6-12 months	12-18 months	More than 18 months		
		LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000		
Cash and cash equivalents	5,343,314								5,343,314
Balances with the Central Bank of Sri Lanka	15,364,920								15,364,920
Placements with banks	840,684								840,684
Derivative Financial Instruments	2,471,706								2,471,706
Financial assets-held -for-trading	2,659,883								2,659,883
Loans and receivable to other customers	166,960,984	49,657,227	44,078,492	1,394,099	503,515	223,715	7,393,481	3,867,275	274,078,788
Financial Investments - Loans and receivables	23,316,328								23,316,328
Financial Investments - Available for sale	52,975,690								52,975,690
Financial Investments - Held to maturity	4,077,096								4,077,096
Other financial assets	446,909								446,909

56.3.4.9 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.

56.3.4.9.1 Industry analysis

	BANK									
31 December 2018	Agriculture & Fishing	Food & Beverages	Trading	Metals, Chemicals & Engineering	Retail	Services	Textiles & Garments	Government*	Others	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	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										
- 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

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56.3.4.9.1 Industry analysis (Contd.)

BANK

31 December 2017	Agriculture & Fishing	Food & Beverages	Trading	Metals, Chemicals & Engineering	Retail	Services	Textiles & Garments	Government*	Others	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Cash and cash equivalents	-	-	-	-	-	5,274,466	-	-	-	5,274,466
Balances with the Central Bank of Sri Lanka	-	-	-	-	-	-	-	15,364,920	-	15,364,920
Placements with banks	-	-	-	-	-	840,684	-	-	-	840,684
Derivative Financial Instruments	-	-	-	-	-	2,471,706	-	-	-	2,471,706
Financial assets-held for trading	-	-	-	-	-	-	-	1,216,439	-	1,216,439
Loans and receivables to other customers (Net)	32,166,054	13,680,139	32,813,429	24,904,291	20,013,706	53,781,004	18,705,727	20,396,066	57,569,032	274,029,448
Financial Investments - Loans and receivables	-	-	-	-	-	-	-	21,171,508	-	21,171,508
Financial Investments - Available for sale	-	-	-	-	-	1,366,515	-	51,238,925	15,144	52,620,584
Financial Investments - Held to maturity	-	485,980	-	-	-	1,239,630	-	739,361	1,059,080	3,524,051
Other Financial Assets	-	-	-	-	-	-	-	-	19,565	19,565

GROUP

31 December 2018	Agriculture & Fishing	Food & Beverages	Trading	Metals, Chemicals & Engineering	Retail	Services	Textiles & Garments	Government*	Others	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	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			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	1,192,504
- 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

GROUP										
31 December 2017	Agriculture & Fishing	Food & Beverages	Trading	Metals, Chemicals & Engineering	Retail	Services	Textiles & Garments	Government*	Others	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Cash and cash equivalents						5,343,314				5,343,314
Balances with the Central Bank of Sri Lanka								15,364,920		15,364,920
Placements with banks						840,684				840,684
Derivative Financial Instruments						2,471,706				2,471,706
Financial assets-held -for- trading			47,128			341,141		1,216,439	1,055,175	2,659,883
Loans and receivables to other customers (Net)	32,166,054	13,680,139	32,813,429	24,904,291	20,013,706	53,781,004	18,705,727	20,396,066	57,618,372	274,078,788
Financial Investments - Loans and receivables						1,246,196		21,171,508	898,624	23,316,328
Financial Investments - Available for sale						1,366,516		51,238,925	370,249	52,975,690
Financial Investments - Held to maturity		485,980				1,691,440		739,361	1,160,315	4,077,096
Other Financial assets									446,909	446,909

56.3.4.10 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 LKAS 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 LKAS 32 may not apply), they, nevertheless, reduce the Bank's exposure to credit risk, as shown in the tables on the following pages.

Although master netting arrangements may significantly reduce credit risk, it should be noted that the credit risk is eliminated only to the extent of amounts due to the same counterparty.

The tables on the following pages show the maximum exposure to credit risk by class of financial asset. They also shows the total fair value of collateral, any surplus collateral (the extent to which the fair value of collateral held is greater than the exposure to which it relates), and the net exposure to credit risk.

56.3.4.10 Collateral and other credit enhancements (Contd.)

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56.3.4.10 Collateral and other credit enhancements (Contd.)

Type of collateral or credit enhancement

GROUP

31 December 2018	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	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

GROUP

31 December 2017	Maximum exposure to credit risk LKR '000	Net exposure LKR '000
Cash and cash equivalents	5,343,314	5,343,314
Balances with the Central Bank of Sri Lanka	15,364,920	15,364,920
Placements with banks	840,684	840,684
Derivative financial instruments	2,471,706	2,471,706
Financial assets held for trading	2,659,883	2,659,883
Loans and receivables to other custom bes (Net)		
- Corporate Lending	57,768,115	18,806,370
- Branch Lending	47,971,327	28,451,457
- Consumer Lending	155,769,498	80,529,583
- Residential Mortgages	1,442,831	1,240,450
- Others	11,127,017	-
	274,078,788	129,027,860
Financial investments - Loans and receivables	23,316,328	23,316,328
Financial investments - Available for sale	52,975,690	52,975,690
Financial investments - Held to maturity	4,077,096	4,077,096
Other financial assets	446,909	446,909

UP NEXT: ►

Compliance with
Disclosure Requirements of the
Central Bank of Sri Lanka

NOTES TO THE FINANCIAL STATEMENTS

56.3.4.11 Commitments and Contingencies

The table below shows maximum credit risk exposure of the Bank's and Group on commitments and contingencies.

The maximum exposure to credit risk relating to a financial commitments and contingencies is the maximum amount the Bank has to pay if the commitments and contingencies are called upon.

	BANK		GROUP	
	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
Guarantees and bonds	38,666,311	28,484,599	38,620,360	28,438,648
Shipping guarantees	2,153,006	2,966,859	2,153,006	2,966,859
Advance documents endorsed	957,101	1,012,629	957,101	1,012,629
Letters of credit	9,907,038	13,222,730	9,907,038	13,222,730
Acceptances	11,125,067	6,768,126	11,125,067	6,768,126
Undrawn overdrafts and credit cards	18,691,497	15,652,291	18,605,478	15,587,288
Commitments	80,099,810	98,708,505	81,107,152	99,536,909
Forward exchange contracts	127,148,950	102,344,660	127,148,950	102,344,660
Currency Options	134,087	-	134,087	-
Total	288,882,867	269,160,399	289,758,238	269,877,849

56.3.4.12 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 Bank and 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.

As at 31 December	2018			2017		
	Gross Amounts	Amount Subject to Netting but do not qualify for Offsetting	Net Amount	Gross Amounts	Amount Subject to Netting but do not qualify for Offsetting	Net Amount
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Financial Assets						
Financial assets at amortised cost -loans and receivables to other customers	86,848,196	42,861,696	43,986,500	-	-	-
Loans and receivables to other customers				70,045,386	35,936,661	34,108,725
Financial Liabilities						
Debt securities issued	6,394,211	6,828,525				
Securities sold under repurchase agreements				8,719,224	9,403,745	-

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.

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.

56.4 (b) Sensitivity of the Financial assets measured at fair value through profit or loss – Sri Lanka Government Securities

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

31 December 2017	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	1,202,034	+100/(100)	(5,207)/5,286	(5,207)/5,286

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 through Other Comprehensive Income – Sri Lanka Government Securities

31 December 2018	Portfolio size LKR '000	Increase/Decrease in basis Points	Sensitivity on Bank LKR '000	Sensitivity on Group LKR '000
Financial assets measured at fair value through Other Comprehensive Income	52,328,187	+100/(100)	(680,402)/709,446	(680,402)/709,446

31 December 2017	Portfolio size LKR '000	Increase/Decrease in basis Points	Sensitivity on Bank LKR '000	Sensitivity on Group LKR '000
Financial assets measured at fair value through Other Comprehensive Income	52,123,248	+100/(100)	(541,531)/559,105	(541,531)/559,105

NOTES TO THE FINANCIAL STATEMENTS

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 2018.

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 31.12.2018

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

31 December 2017	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
Assets							
Cash and cash equivalents	-	-	-	-	-	5,274,466	5,274,466
Balances with the Central Bank of Sri Lanka	-	-	-	-	-	15,364,920	15,364,920
Placements with banks	184	840,500	-	-	-	-	840,684
Financial assets held-for-trading	1,216,439	-	-	-	-	-	1,216,439
Loans and receivables to banks	991	3,801	8,833	1,853	-	-	15,478
Loans and receivables to other customers	62,551,804	67,804,527	40,015,343	80,036,096	23,606,200	-	274,013,970
Financial assets - loans and receivables	349,908	9,032,900	5,664,700	6,124,000	-	-	21,171,508
Financial assets available-for-sale	51,238,926	-	-	-	-	1,381,658	52,620,584
Financial assets held-to-maturity	126,844	-	961,190	2,436,017	-	-	3,524,051
Other financial assets	19,565	-	-	-	-	-	19,565
Total Financial Assets	115,504,661	77,681,728	46,650,066	88,597,966	23,606,200	22,021,044	374,061,665
Liabilities							
Due to banks	259,166	13,548,644	6,428,909	-	-	-	20,236,719
Due to other customers	45,776,816	102,421,804	93,176,133	9,799,997	1,434,072	20,760,201	273,369,023
Debt securities issued and other borrowed funds	2,599,353	8,055,701	3,375,335	10,705,024	3,371,632	-	28,107,045
Subordinated term debts	-	-	2,697,942	9,435,129	7,203,784	-	19,336,855
Other financial liabilities	3,053,299	-	-	-	-	-	3,053,299
Total Financial Liabilities	51,688,634	124,026,149	105,678,319	29,940,150	12,009,488	20,760,201	344,102,941
Total Interest Sensitivity Gap	63,816,027	(46,344,421)	(59,028,253)	58,657,816	11,596,712	1,260,843	29,958,724

GROUP							
31 December 2018	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

GROUP							
31 December 2017	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
Assets							
Cash and cash equivalents						5,343,314	5,343,314
Balances with the Central Bank of Sri Lanka						15,364,920	15,364,920
Placements with banks	184	840,500					840,684
Financial assets held-for-trading	2,659,883						2,659,883
Loans and receivables to banks	991	3,801	8,833	1,853	-		15,478
Loans and receivables to other customers	62,498,964	67,810,590	40,028,925	80,094,366	23,630,465		274,063,310
Financial assets - loans and receivables	405,005	9,034,923	5,977,849	7,898,551	-		23,316,328
Financial assets available-for-sale	51,238,926					1,736,764	52,975,690
Financial assets held-to-maturity	194,808	-	1,240,360	2,641,928	-		4,077,096
Other financial assets	446,909						446,909
Total Financial Assets	117,445,670	77,689,814	47,255,967	90,636,698	23,630,465	22,444,998	379,103,612
Liabilities							
Due to banks	259,166	13,548,644	6,428,909	-	-		20,236,719
Due to other customers	45,754,077	102,122,114	93,176,133	9,799,997	1,434,072	20,755,024	273,041,417
Debt securities issued and other borrowed funds	2,599,352	8,055,701	3,375,335	10,705,024	3,371,633		28,107,045
Subordinated term debts	-	-	2,697,942	9,435,129	7,203,784		19,336,855
Other financial liabilities	3,085,308						3,085,308
Total Financial Liabilities	51,697,903	123,726,459	105,678,319	29,940,150	12,009,489	20,755,024	343,807,344
Total Interest Sensitivity Gap	65,747,767	(46,036,645)	(58,422,352)	60,696,548	11,620,976	1,689,974	35,296,268

NOTES TO THE FINANCIAL STATEMENTS

56.4 (d) Mark to Market Valuation

The Sri Lanka Government Securities portfolio classified as Financial Assets measured 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 counterparts 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 25 - Derivative Financial Instruments.

The table below indicate the currencies to which the bank had significant exposure as at 31 December 2018 and 31 December 2017 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 %	2018		2017	
		Effect on profit 2018	Effect on Equity 2018	Effect on profit 2017	Effect on Equity 2017
		LKR '000	LKR '000	LKR '000	LKR '000
USD	2.50	(14,141)	(14,141)	(21,037)	(21,037)
GBP	2.50	(31)	(31)	21	21
EUR	2.50	(206)	(206)	(215)	(215)
JPY	2.50	(212)	(212)	(97)	(97)
AUD	2.50	(16)	(16)	23	23

With regard to the group companies, the investment in the Emerald fund by NDB Capital Holdings Limited would result a potential net reduction or a net increase of LKR 17,173 ('000) 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	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

Entity	2017			
	Magnitude of shock & the fall in Value of Equities- LKR 000'			
	Portfolio value	Scenario 1 5%	Scenario 2 10%	Scenario 3 15%
Bank	1,366,515	68,326	136,651	204,977
Group	2,067,890	102,935	205,869	308,804

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	2018			
	Magnitude of shock & the fall in Value of units - LKR 000'			
	Portfolio value	Scenario 1 5%	Scenario 2 10%	Scenario 3 15%
Bank	-	-	-	-
Group	865,570	43,278	86,557	129,835

Entity	2017			
	Magnitude of shock & the fall in Value of units - LKR 000'			
	Portfolio value	Scenario 1 5%	Scenario 2 10%	Scenario 3 15%
Bank	-	-	-	-
Group	947,175	47,359	94,718	142,076

Commodity Price Risk

The Bank did not hold a commodity position as at 31 December 2018, hence the Bank was insensitive for commodity price risk.

NOTES TO THE FINANCIAL STATEMENTS

56.4 (h) 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

BANK								
31 December 2018	Sri Lanka	Europe	America	Asia	Middle East	Australia-New Zealand	Africa	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
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	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	450,395,184	343,013	2,047,827	6,185,925	1,276,570	170,397	3,991,160	464,410,076

BANK								
31 December 2017	Sri Lanka	Europe	America	Asia	Middle East	Australia-New Zealand	Africa	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Cash and cash equivalents	3,035,894	318,211	1,300,686	518,168	27,222	74,285	-	5,274,466
Balances with the Central Bank of Sri Lanka	15,364,920	-	-	-	-	-	-	15,364,920
Placements with banks	840,684	-	-	-	-	-	-	840,684
Derivative Financial Instruments	2,471,706	-	-	-	-	-	-	2,471,706
Financial Assets - Held for trading	1,216,439	-	-	-	-	-	-	1,216,439
Loans and Receivables to banks	15,478	-	-	-	-	-	-	15,478
Loans and Receivables to other customers	263,493,339	-	-	7,209,956	636,548	-	2,674,127	274,013,970
Financial Investments - Loans and receivables	21,171,508	-	-	-	-	-	-	21,171,508
Financial Investments - Available for sale	52,620,584	-	-	-	-	-	-	52,620,584
Financial Investments - Held to maturity	3,524,051	-	-	-	-	-	-	3,524,051
Other Financial Assets	19,565	-	-	-	-	-	-	19,565
Total Financial Assets	363,774,168	318,211	1,300,686	7,728,124	663,770	74,285	2,674,127	376,533,371

GROUP

31 December 2018	Sri Lanka	Europe	America	Asia	Middle East	Australia- New Zealand	Africa	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
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

GROUP

31 December 2017	Sri Lanka	Europe	America	Asia	Middle East	Australia- New Zealand	Africa	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Cash and cash equivalents	3,104,742	318,211	1,300,686	518,168	27,222	74,285	-	5,343,314
Balances with the Central Bank of Sri Lanka	15,364,920	-	-	-	-	-	-	15,364,920
Placements with banks	840,684	-	-	-	-	-	-	840,684
Derivative Financial Instruments	2,471,706	-	-	-	-	-	-	2,471,706
Financial Assets - Held for trading	2,659,883	-	-	-	-	-	-	2,659,883
Loans and Receivables to banks	15,478	-	-	-	-	-	-	15,478
Loans and Receivables to other customers	263,542,679	-	-	7,209,956	636,548	-	2,674,127	274,063,310
Financial Investments - Loans and receivables	23,316,328	-	-	-	-	-	-	23,316,328
Financial Investments - Available for sale	52,975,690	-	-	-	-	-	-	52,975,690
Financial Investments - Held to maturity	4,077,096	-	-	-	-	-	-	4,077,096
Other Financial Assets	446,909	-	-	-	-	-	-	446,909
Total Financial Assets	368,816,115	318,211	1,300,686	7,728,124	663,771	74,285	2,674,127	381,575,318

NOTES TO THE FINANCIAL STATEMENTS

56.4 (i) 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 stressed 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 Bank and the Group as at 31 December 2018 and 31 December 2017.

	BANK						
31 December 2018	On Demand	Trading	Less than	3-12	1-5	Over 5	Total
	LKR '000	Derivatives LKR '000	3 Months LKR '000	Months LKR '000	Years LKR '000	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

BANK

31 December 2017	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	5,274,466	-	-	-	-	-	5,274,466
Balances with the Central Bank of Sri Lanka	15,364,920	-	-	-	-	-	15,364,920
Less: Restricted balance	(15,364,920)	-	-	-	-	-	(15,364,920)
Placements with banks	-	-	840,743	-	-	-	840,743
Derivative financial instruments	-	2,471,706	-	-	-	-	2,471,706
Financial assets held-for-trading	1,216,439	-	-	-	-	-	1,216,439
Loans and receivables to banks	990	-	3,994	9,104	1,964	-	16,052
Loans and receivables to other customers	62,460,799	-	69,865,017	44,496,442	104,281,565	38,749,504	319,853,327
Financial Investments - loans and receivables	-	-	9,461,076	6,063,309	6,759,936	322,119	22,606,440
Financial assets - available-for-sale	52,620,584	-	-	-	-	-	52,620,584
Financial assets - held-to-maturity	-	-	61,753	1,231,222	2,852,081	-	4,145,056
Other financial assets	19,565	-	-	-	-	-	19,565
Total Undiscounted Financial Assets	121,592,843	2,471,706	80,232,583	51,800,077	113,895,546	39,071,623	409,064,378
Financial Liabilities							
Due to banks	-	-	13,759,399	6,578,277	-	-	20,337,676
Derivative financial instruments	-	936,754	-	-	-	-	936,754
Due to other customers	60,413,569	-	106,685,731	101,918,182	14,123,458	1,897,349	285,038,289
Debt securities issued and other borrowed funds	2,308,755	-	8,266,155	4,376,089	13,252,218	4,096,907	32,300,124
Subordinated term debts	-	-	-	4,804,352	15,007,773	9,242,070	29,054,194
Other financial liabilities	3,053,299	-	-	-	-	-	3,053,299
Total Undiscounted Financial Liabilities	65,775,623	936,754	128,711,285	117,676,899	42,383,449	15,236,326	370,720,336
Net Undiscounted Financial Assets and Liabilities	55,817,220	1,534,952	(48,478,702)	(65,876,822)	71,512,097	23,835,297	38,344,042

GROUP

31 December 2018	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

NOTES TO THE FINANCIAL STATEMENTS

56.4 (i) Liquidity Risk (Contd.)

31 December 2017	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	5,343,314	-	-	-	-	-	5,343,314
Balances with the Central Bank of Sri Lanka	15,364,920	-	-	-	-	-	15,364,920
Less: Restricted balance	(15,364,920)	-	-	-	-	-	(15,364,920)
Placements with banks	-	-	840,743	-	-	-	840,743
Derivative financial instruments	-	2,471,706	-	-	-	-	2,471,706
Financial assets held-for-trading	2,659,883	-	-	-	-	-	2,659,883
Loans and receivables to banks	990	-	3,994	9,104	1,964	-	16,052
Loans and receivables to other customers	62,407,959	-	69,871,109	44,510,225	104,344,200	38,776,325	319,909,818
Financial Investments - loans and receivables	203	-	9,463,653	6,478,570	9,331,634	322,119	25,596,179
Financial assets - available-for-sale	52,975,690	-	-	-	-	-	52,975,690
Financial assets - held-to-maturity	56,373	-	61,753	1,692,230	3,157,012	-	4,967,368
Other financial assets	446,909	-	-	-	-	-	446,909
Total Undiscounted Financial Assets	123,891,321	2,471,706	80,241,252	52,690,129	116,834,810	39,098,444	415,227,662
Financial Liabilities							
Due to banks	-	-	13,759,399	6,578,277	-	-	20,337,676
Derivative financial instruments	-	936,754	-	-	-	-	936,754
Due to other customers	60,388,229	-	106,378,076	101,918,182	14,123,458	1,897,349	284,705,294
Debt securities issued and other borrowed funds	2,308,755	-	8,266,155	4,376,089	13,252,218	4,096,907	32,300,124
Subordinated term debts	-	-	-	4,804,352	15,007,773	9,242,070	29,054,194
Other financial liabilities	3,085,308	-	-	-	-	-	3,085,308
Total Undiscounted Financial Liabilities	65,782,292	936,754	128,403,630	117,676,900	42,383,449	15,236,326	370,419,350
Net Undiscounted Financial Assets and Liabilities	58,109,029	1,534,952	(48,162,378)	(64,986,771)	74,451,361	23,862,118	44,808,312

Maturities for Commitments and Contingencies

The table below summarises the maturity profile of the Commitments and Contingencies for the Bank and the Group as at 31 December 2018 and 31 December 2017.

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 2017	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	114,360,796	-	-	-	-	114,360,796
Guarantees and performance Bond	-	6,351,028	12,936,873	9,153,133	4,023,053	32,464,087
Documentary Credits	-	5,866,792	6,541,184	814,754	-	13,222,730
Forward exchange contracts	-	44,770,383	56,776,527	797,750	-	102,344,660
Acceptance	-	5,256,178	1,511,948	-	-	6,768,126
	114,360,796	62,244,381	77,766,532	10,765,637	4,023,053	269,160,399

GROUP						
31 December 2018	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

GROUP						
31 December 2017	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	115,124,197	-	-	-	-	115,124,197
Guarantees and performance Bond	-	6,351,028	12,890,922	9,153,133	4,023,053	32,418,136
Documentary Credits	-	5,866,792	6,541,184	814,754	-	13,222,730
Forward exchange contracts	-	44,770,383	56,776,527	797,750	-	102,344,660
Acceptance	-	5,256,178	1,511,948	-	-	6,768,126
	115,124,197	62,244,381	77,720,581	10,765,637	4,023,053	269,877,849

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 strengthened its capital position during the year with a rights issue in the last quarter of 2018 by LKR 3.4 Bn. As a result the Tier 1 capital ratio for the Bank and the Group was 9.2% and 10.4% respectively [minimum requirement – 7.875%] while the total capital ratio [minimum requirement – 11.875%] stood at 12.6% and 13.6% respectively as at end 2018. The Bank will be required to further augment its capital position given the implementation of the BASEL III guidelines, adoption of SLFRS 9 and its anticipated transition to a domestic systemically important bank. We are currently pursuing alternative funding avenues to further strengthen our capital position. The Bank obtained shareholder approvals on 18 February 2019 to issue Basel III complaint listed debentures amounting to LKR 5 Bn with an option to raise a further LKR 1.5 Bn.

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 from page 439.

COMPLIANCE WITH DISCLOSURE REQUIREMENTS OF THE CENTRAL BANK OF SRI LANKA

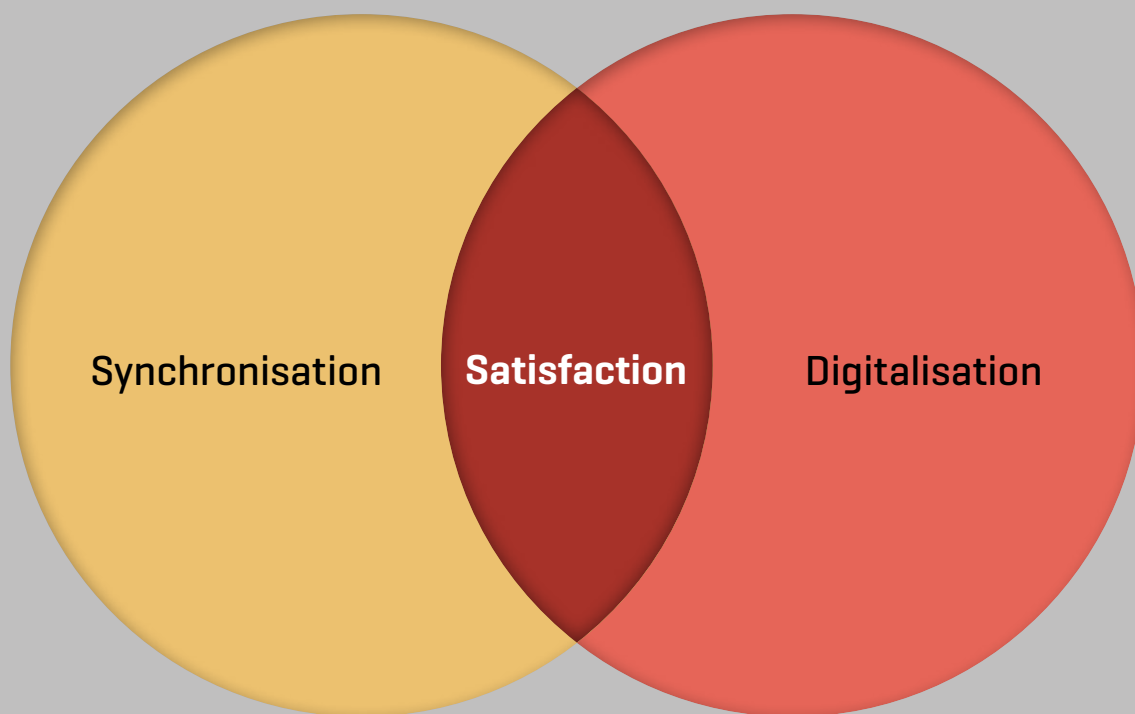
COMPLIANCE WITH THE DISCLOSURE REQUIREMENTS SPECIFIED BY THE CENTRAL BANK OF SRI LANKA FOR PREPARATION OF ANNUAL FINANCIAL STATEMENTS OF LICENSED COMMERCIAL BANKS

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 21 to the Financial Statements
1.1.2 Other disclosures	
(i) Special disclosures about the financial assets and financial liabilities designated to be measured at fair value through profit or loss, including disclosures about credit risk and market risk, changes in fair values attributable to these risks and the methods of measurement.	Note No 55 - Fair value of financial instruments
(ii) Reclassifications of financial instruments from one category to another.	Note No 20 to the Financial Statements
(iii) Information about financial assets pledged as collateral and about financial or non-financial assets held as collateral.	Note No 56.3 to the Financial Statements
(iv) Reconciliation of the impairment allowance for credit losses by class of financial assets.	Note No 27.5 to the Financial Statements
(v) Information about derivative financial instruments.	Note No 25 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 16 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 230 to 359
1.3.2 Information on hedge accounting	Note No 25 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 29.2 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 2.2, 3.2 and 20 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(i) - 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 439 – 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	Note 56.4(c) - Interest Rate Risk of the Financial Statements
	• The cumulative realised gains/ (losses) arising from sales and liquidations in the reporting period.	
	(vi) Interest rate risk in the Banking Book	
	(a) Qualitative disclosures	Note 56.4(c) - Interest Rate Risk of the Financial Statements
	• Nature of interest rate risk in the banking book (IRRBB) and key assumptions	
	(b) Quantitative disclosures	Note 56.4(c) - Interest Rate Risk of the Financial Statements
	• The increase/ (decline) in earnings or economic value (or relevant measure used by management) for upward and downward rate shocks according to management's method for measuring IRRBB, broken down by currency (as relevant).	
2.2.3	Information on concentration of risk	Note 56.3.4.9 - Risk Management of the Financial Statements

COMPLIANCE WITH DISCLOSURE REQUIREMENTS OF THE CENTRAL BANK OF SRI LANKA

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 439 - 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	Pages from 410 - on Risk Management



Supplementary Information

Corporate Governance **364** / Risk Management **410** / Investor Relations **462** / Branch Network of the Bank **484** / Network of Group Companies **491** /
Correspondent Relationships **492** / GRI Content Index **493** / Glossary of Financial and Banking Terms **496** / Notes **503** / Notice of Meeting **504** /
Corporate Information **505** / Form of Proxy **507**

CORPORATE GOVERNANCE

Statement of Compliance - Direction No. 11 of 2007 (as amended) on Corporate Governance issued by the Monetary Board of the Central Bank of Sri Lanka (the Corporate Governance Direction)

The Corporate Governance Direction provides processes and practices deemed to be the framework that facilitates the conduct of the banking business in a responsible and accountable manner so as to promote the safety and soundness of the Bank, thereby leading to the stability of the overall banking sector. The disclosures below reflect the Bank's compliance with the Corporate Governance Direction under the following key principles:

1. The responsibilities of the Board;
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)	The Board shall strengthen the safety and soundness of the Bank by ensuring the implementation of the following:	
	(a) Approve and oversee the Bank's strategic objectives and corporate values and ensure that these are communicated throughout the Bank;	Complied. The Bank's strategic plan for 2019 - 2023 was formally approved by the Board in December 2018 after detailed discussions had with the senior management of the Bank. The new strategy will be communicated within the Bank during 2019.
	(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. The Bank's overall business strategy for 2019-2023 was approved by the Board in December 2018 after detailed discussions held with the Leadership Team of the Bank. 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 IRMC and the Board on a quarterly basis. This has been further reviewed by the Integrated Risk Management Committee during the year 2018. 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 410 to 461. • The Board Integrated Risk Management Committee Report on pages 196 to 198.
	(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 173 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 include the following: 1. The Leadership Team whose names are detailed on pages 32 to 35 of this Report; and 2. Chandana Guniyangoda and Kumar Gunawardana in view of the fact that they hold directorships in Bank's subsidiaries.

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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 2018. The duties and responsibilities of KMPs are documented in their respective job descriptions and score cards. 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 CEO 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 CEO 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 2018 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 approved by the Board at its meeting held in September 2017 and is periodically reviewed.

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 2018 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. The CEO 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 CEO 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 CEO. The Board has appointed the Chairman and CEO and has approved their functions. There is a clear division of responsibilities between the Chairman and the CEO.

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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 14 Board meetings during 2018 which included 2 special meetings. In addition, the subcommittees of the Board meet as and when necessary. Each member of the Board brings a different areas of expertise, skills and experience to the table which encourages a robust exchange of alternate views and ways of thinking. Circulation of Board papers to obtain Board's consent is minimised and resorted to only when absolutely necessary. These decisions are in any event later confirmed /ratified by the Board at the immediately succeeding Board meeting. Six circular resolutions have been passed during 2018. Please refer page 167 and 171 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 2018 and no Director has been absent from three consecutive meetings during 2018. Attendance of Directors at Board meetings is detailed on page 167.

Rule No.	Corporate Governance Principles	Compliance Status
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 31 for a detailed profile and page 166 for duties and responsibilities of the Company Secretary.
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 2018, 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.

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Rule No.	Corporate Governance Principles	Compliance Status
3(1) (xi)	There shall be a procedure agreed by the Board to enable Directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the Bank's expense. The Board shall resolve to provide separate independent professional advice to Directors to assist the relevant Director or Directors to discharge his/her/ their duties to the Bank.	Complied. There is a process for Board members to obtain independent professional advice at the expense of the Bank. The Board has obtained professional advice during the year.
3(1) (xii)	Directors shall avoid conflicts of interests, or the appearance of conflicts of interest, in their activities with, and commitments to, other organizations 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 capitalized 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 ICAAP covers capital planning over the next 3 years.

Rule No.	Corporate Governance Principles	Compliance Status
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 158 to 174 and pages 364 to 409.
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 2018 was in compliance with the thresholds detailed in this Direction. As at 31st December 2018, the Board comprised of eleven (11) 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 2018. The Company Secretary monitors this requirement. Details of tenure of service is given in page 167.
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 CEO of the Bank is the only executive Director and thus the Bank complies with this requirement.

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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 organization: I. which currently has a transaction with the Bank as defined in Direction 3(7) of these Directions, exceeding 10 per cent of the regulatory capital of the Bank, or II. in which any of the other Directors of the Bank are employed or are Directors or are material shareholders; or III. in which any of the other Directors of the Bank have a transaction as defined in Direction 3(7) of these Directions, exceeding 10 per cent of regulatory capital in the Bank;	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 2018 there were 6 Non-Executive Independent Directors on the Board which is above the regulatory requirement. The non-executive Directors are detailed on page 167 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 2018, Alternate Directors appointed for a particular meeting met the criteria that applies to an independent Director.

Rule No.	Corporate Governance Principles	Compliance Status
3(2) (vi)	Non-executive Directors shall be persons with credible track records and/or have necessary skills and experience to bring an independent judgment to bear on issues of strategy, performance and resources.	Complied. A Board approved procedure to select and appoint Non Executive Directors is in place. The non-executive Directors of the Bank are persons with credible track records and have necessary skills and experience to bring an independent judgment to bear on issues of strategy, performance, risks and resources. Please refer the profiles of non-executive Directors on pages 24 to 31 of this Report.
3(2) (vii)	A meeting of the Board shall not be duly constituted, although the number of Directors required to constitute the quorum at such meeting is present, unless more than one half of the number of Directors present at such meeting are non-executive Directors.	Complied. All Board meetings have met this requirement as 91% of the Board comprised of non-executive Directors.
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 164 to 165 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. One Director was appointed in 2018 to fill a causal vacancy.
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 were no resignations during 2018. Therefore this situation did not arise in 2018.

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Rule No.	Corporate Governance Principles	Compliance Status
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.
3(3) (ii)	A person shall not hold office as a Director of more than 20 companies/entities/institutions inclusive of subsidiaries or associate companies of the Bank.	Complied. No Director holds directorships of more than 20 companies. The other directorships of each of the Directors are disclosed in pages 24 to 31 of the annual report .
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.
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.	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. 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.
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.	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 CEO of the Bank are held by separate individuals. In addition, there is a clear division of responsibilities between the Chairman and the CEO 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. Ananda Atukorala 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 CEO and the relationships among members of the Board. Based on the said declarations there were no material relationships between the Chairman and the CEO 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 CEO 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, CEO 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.

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Rule No.	Corporate Governance Principles	Compliance Status
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 CEO are non-executive directors which encourages active participation. Further, non-executive directors participate in Board appointed subcommittees providing further opportunity for active participation. In addition, the feedback received from the self-evaluation process carried out by the Board supports the Chairman in improving contributions of non-executive directors.
3(5) (ix)	The Chairman, shall not engage in activities involving direct supervision of key management personnel or any other executive duties whatsoever.	Complied. Chairman is a non-executive director and he does not directly get involved in the supervision of KMPs or any other executive duties.
3(5) (x)	The Chairman shall ensure that appropriate steps are taken to maintain effective communication with shareholders and that the views of shareholders are communicated to the Board.	Complied. Shareholders are encouraged to provide their feedback to the Company Secretary using feedback forms made available with the Annual Report. In addition, there is an e-mail address dedicated for investor relations and the link is available on the Bank's website. The Bank also has a dedicated Investor Relations Team. The Chairman together with the CEO 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 CEO 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 four Board subcommittees required in terms of the Direction, namely the Board Audit Committee, Human Resources and Remuneration Committee, Nominations Committee and Integrated Risk Management Committee. Recommendations of such committees are addressed directly to the Board and minutes of the same are discussed and noted at the main Board Meeting. This annual report includes individual reports of each such subcommittee on pages 191 to 204 which reports include a summary of duties, roles and performance of each subcommittee.

Rule No.	Corporate Governance Principles	Compliance Status
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. Trevine Jayasekara, the Chairman of the BAC is an Independent Non-Executive Director and a Fellow Member of the Institute of Chartered Accountants of Sri Lanka and an Associate Member of the Chartered Institute of Management Accountants, UK. With effect from 9th February 2019, Mr. Sriyan Cooray 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.
	(b) All members of the committee shall be non-executive directors.	Complied. All members of the BAC are Non-Executive Directors.
	(c) The committee shall make recommendations on matters in connection with: (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 during 2018 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 199 to 201.
	(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.

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Rule No.	Corporate Governance Principles	Compliance Status
	(e) The Committee shall develop and implement a policy on the engagement of an External Auditor to provide non-audit services that are permitted under the relevant statutes, regulations, requirements and guidelines. In doing so, the Committee shall ensure that the provision by an External Auditor of non-audit services does not impair the External Auditor's independence or objectivity. When assessing the External Auditor's independence or objectivity in relation to the provision of non-audit services, the Committee shall consider: (i) whether the skills and experience of the audit firm make it a suitable provider of the non-audit services; (ii) whether there are safeguards in place to ensure that there is no threat to the objectivity and/or independence in the conduct of the audit resulting from the provision of such services by the External Auditor; and (iii) whether the nature of the non-audit services, the related fee levels and the fee levels individually and in aggregate relative to the audit firm, pose any threat to the objectivity and/or independence of the External Auditor.	Complied. A Policy for 'Engaging the External Auditor for non-audit services' is in place which covers all aspects stated in this Direction. This Policy was reviewed and updated by the BAC and Board in October 2017. Assigning such non-audit services to External Auditor is discussed at BAC meetings and required approval is obtained to that effect. Further, relevant information is obtained from the External Auditor to ensure that their independence is not impaired, as a result of providing any non-audit services.
	(f) The Committee shall, before the audit commences, discuss and finalize 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 finalized 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.

Rule No.	Corporate Governance Principles	Compliance Status
	(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 in February and November 2018, 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 2017 and the Management's responses thereto.
	(j) The Committee shall take the following steps with regard to the internal audit function of the Bank:	Complied. The BAC has oversight of the Internal Audit Department (IAD) of the Bank and carries out the following duties: i. Reviews and discusses with the Head of Internal Audit (HIA) the annual Audit Plan covering the Group, the adequacy of the scope and functions and the resources of IAD. 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 IAD. 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.
	(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;	

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Rule No.	Corporate Governance Principles	Compliance Status
	(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 apprised 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;	iii. Reviews the performance of the HIA, based on the feedback given by the CEO and BAC Chairman. Further the senior team member's performances are discussed with the BAC. iv. Senior appointments made to IAD are informed to the BAC. (There were no senior level appointments during 2018). BAC is apprised of any resignations of senior level staff members of IAD and are provided an opportunity to submit reasons for resignation. 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 IAD staff reports directly to the HIA 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 Audit and Group attended all meetings as a permanent invitee. The CEO 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 Chairman of the Bank as an optional invitee attended three meetings during the year. The BAC met the External Auditor twice during the year (i.e. in February and November 2018) 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.
	(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 ten 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.

Rule No.	Corporate Governance Principles	Compliance Status
	(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 199 to 201 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 171 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 March 2018. 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 page 191 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 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, CEO and KMPs.
	(b) Set goals and targets for the Directors, CEO and the Key Management Personnel.	Complied. The goals and targets set for the CEO 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 2018 have been deliberated in detail and approved at HRRC and Board level.

CORPORATE GOVERNANCE

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 CEO's performance will be evaluated by the full Board. The above process was complied with in 2018 for the year 2017.
	(d) The CEO shall be present at all meetings of the Committee, except when matters relating to the CEO are being discussed.	Complied. The CEO was present at all meetings and stepped out when matters relating to the CEO were discussed.
3(6) (iv)	Nomination Committee (NC) - Composition & Responsibilities	Complied. Please refer page 193 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 CEO 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 Mr Sriyan Cooray and re-appointment of Mr. Kavan Ratnayaka and Mr Dinal Phillips.
	(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 CEO. 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 2018 from the Directors through the NC and submitted the necessary declaration to CBSL. Declarations are obtained from KMPs at the time of appointment.

Rule No.	Corporate Governance Principles	Compliance Status
	(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 approves the Succession Plan for KMPs. A Succession Plan for KMPs was approved by the NC and the Board in 2017 and is periodically reviewed.
	(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 CEO is present only if invited.
3(6) (v)	Integrated Risk Management Committee (IRMC) - Composition & Responsibilities	Complied. Please refer page 196 for the composition and responsibilities of the IRMC. The Terms of Reference of the IRMC was reviewed and updated in 2018.
	(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 196 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 a IRMC meeting and the result was satisfactory. Further all members carried out self-assessments for the year 2018 and the findings were at a satisfactory level.

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Rule No.	Corporate Governance Principles	Compliance Status
	(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 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 4 times in the year 2018.
	(f) The Committee shall take appropriate actions against the officers responsible for failure to identify specific risks and take prompt corrective actions as recommended by the Committee, and/or as directed by the Director of Bank Supervision.	Complied. If the need arises the IRMC shall take action appropriate to the relevance of the situation as per the Bank's Human Resources Policy.
	(g) The Committee shall submit a risk assessment report within a week of each meeting to the Board seeking the Board's views, concurrence and/or specific Directions.	Complied. A detailed report is submitted to the Board subsequent to the IRMC meeting seeking the Board's views, concurrence and/or specific directions.
	(h) The Committee shall establish a compliance function to assess the Bank's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies on all areas of business operations. A dedicated compliance officer selected from Key Management Personnel shall carry out the compliance function and report to the Committee periodically.	Complied. The Bank has appointed a dedicated Compliance Officer who is a KMP to head the compliance function of the Bank. The compliance function is an independent function of the Bank that supports the Board of Directors and Senior Management of the Bank to manage compliance risks by supporting the Bank to embed a culture of compliance within the Bank, disseminate new laws and regulations to business in a timely manner, provide guidance on the interpretation of regulatory requirements, support business with the creation and implementation of regulatory compliant policies and procedures, undertake independent compliance monitoring of business with relevant laws and regulations and all measures taken to mitigate compliance risks. The Compliance Officer submits to the IRMC and the Board a detailed report on the Compliance status of the Bank each quarter.

Rule No.	Corporate Governance Principles	Compliance Status
3(7)	Related Party Transactions	
3(7) (i)	The Board shall take the necessary steps to avoid any conflicts of interest that may arise from any transaction of the bank with any person, and particularly with the following categories of persons who shall be considered as “related parties” for the purposes of this Direction: a) Any of the Bank’s subsidiary companies; b) Any of the Bank’s associate companies; c) Any of the Directors of the Bank; d) Any of the Bank’s key management personnel; e) A close relation of any of the Bank’s Directors or key management personnel; f) A shareholder owning a material interest in the Bank; g) A concern in which any of the Bank’s Directors or a close relation of any of the Bank’s Directors or any of its material shareholders has a substantial interest.	Complied. The Bank has is 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 relationships 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 2018 from the individual directors confirming that they have avoided conflicts of interests.
3(7)(ii)	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.

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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: - 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: “Accommodation” shall mean accommodation as defined in the Banking Act Directions, No.7 of 2007 on Maximum Amount of Accommodation. - 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. - 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; - 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; - Providing services to or receiving services from a related-party without an evaluation procedure; - 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 favorable treatment”. Further the Compliance Department reviews transactions with related parties on an ongoing basis to determine if “more favorable treatment” have been offered to them. Any deviations are required to be reported to the Related Party Transactions Review Committee.

Rule No.	Corporate Governance Principles	Compliance Status
3(7) (iv)	A bank shall not grant any accommodation to any of its directors or to a close relation of such director unless such accommodation is sanctioned at a meeting of its Board of directors, with not less than two-thirds of the number of directors other than the Director concerned, voting in favour of such accommodation. This accommodation shall be secured by such security as may from time to time be determined by the Monetary Board as well.	Complied. This requirement has been included in the Bank's RPT Policy. The Company Secretary upon being informed of a transaction with a related party shall ensure compliance with this requirement.
3(7) (v)	a) Where any accommodation has been granted by a bank to a person or a close relation of a person or to any concern in which the person has a substantial interest, and such person is subsequently appointed as a director of the Bank, steps shall be taken by the Bank to obtain the necessary security as may be approved for that purpose by the Monetary Board, within one year from the date of appointment of the person as a director. b) Where such security is not provided by the period as provided in Direction 3(7)(v)(a) above, the Bank shall take steps to recover any amount due on account of any accommodation, together with interest, if any, within the period specified at the time of the grant of accommodation or at the expiry of a period of eighteen months from the date of appointment of such director, whichever is earlier. c) Any director who fails to comply with the above sub-directions shall be deemed to have vacated the office of director and the Bank shall disclose such fact to the public. d) This sub-direction, however, shall not apply to a director who at the time of the grant of the accommodation was an employee of the Bank and the accommodation was granted under a scheme applicable to all employees of such bank.	Complied. Prior to the appointment of a director, the Bank is required to submit an affidavit disclosing all their interests with the Bank. The Company Secretary is aware of the requirement in this direction and will take necessary action to inform the relevant director and the business unit in this regard.
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.

CORPORATE GOVERNANCE

Rule No.	Corporate Governance Principles	Compliance Status
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 2018 and quarterly financial statements are in conformity with all rules and regulations. These statements have been published in the newspaper in all three languages.
3(8) (ii)	The Board shall ensure that the following minimum disclosures are made in the Annual Report:	
	a) A statement to the effect that the annual audited financial statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures.	Complied. Compliance with applicable accounting standards and regulatory requirements have been reported under the 'Directors Responsibility for Financial Report' on page 205, The CEO's and CFO's responsibility statement on page 209 and Note 02 (Statement of Compliance) to the Financial Statements on page 230.
	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 207 to 208.
	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 211 of this report.

Rule No.	Corporate Governance Principles	Compliance Status												
d)	Details of Directors, including names, fitness and propriety, transactions with the Bank and the total of fees/remuneration paid by the Bank.	Complied. Please refer “Board Directors” on pages 24 to 31 “Directors Interest in Contracts with the Bank” on pages 186 and page 179 for Directors remuneration. The executive director is an ex officio director on account of being the CEO 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 31.12.2018 LKR’000</th></tr><tr><td>Accommodation</td><td>3,000</td></tr><tr><td>Deposits</td><td>2,440</td></tr><tr><td>Investments</td><td>-</td></tr></table>	Transactions	Outstanding balance as at 31.12.2018 LKR’000	Accommodation	3,000	Deposits	2,440	Investments	-				
Transactions	Outstanding balance as at 31.12.2018 LKR’000													
Accommodation	3,000													
Deposits	2,440													
Investments	-													
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 31.12.2018 LKR’000</th><th>% of Regulatory Capital</th></tr><tr><td>Directors/Close Family Members/ Substantial Interest concerns</td><td>157,057</td><td>0.36%</td></tr><tr><td>Key Management Personnel/Close Family members/ Substantial Interest concerns</td><td>84,749</td><td>0.20%</td></tr><tr><td>The Bank’s subsidiaries and associate companies</td><td>400,000</td><td>0.92%</td></tr></table>	Category of Related Parties	Net Accommodation as at 31.12.2018 LKR’000	% of Regulatory Capital	Directors/Close Family Members/ Substantial Interest concerns	157,057	0.36%	Key Management Personnel/Close Family members/ Substantial Interest concerns	84,749	0.20%	The Bank’s subsidiaries and associate companies	400,000	0.92%
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The Bank’s subsidiaries and associate companies	400,000	0.92%												
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 31.12.2018 in LKR ‘000</th></tr><tr><td>Remuneration Paid</td><td>335,440</td></tr><tr><td>Accommodation</td><td>84,749</td></tr><tr><td>Deposits</td><td>454,764</td></tr><tr><td>Investments</td><td>3,000</td></tr></table>	Transaction Type	Aggregate values/Outstanding balances as at 31.12.2018 in LKR ‘000	Remuneration Paid	335,440	Accommodation	84,749	Deposits	454,764	Investments	3,000		
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Deposits	454,764													
Investments	3,000													

CORPORATE GOVERNANCE

Rule No.	Corporate Governance Principles	Compliance Status
	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 Principle	Compliance Status
PRINCIPLE A.1: THE BOARD – As at 31st December 2018 the Board comprised of eleven directors, ten of whom, including the Chairman, function 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 Chief Executive Officer (CEO) 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 fourteen (14) times during the year which included two special meetings. Scheduled Board and Board subcommittee meetings are arranged at the beginning of each calendar year. Attendance at Board and subcommittee meetings are provided on pages 167 and 171.
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.	Complied.
Formulation and implementation of a sound business strategy;	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 2019-2023 was approved by the Board in December 2018 as detailed under Section 3(1)(i)(b) of the CBSL table on page 364 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.

CORPORATE GOVERNANCE

Corporate Governance Principle	Compliance Status
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 CEO and Key Management Personnel (KMP) have the required skills, experience and knowledge to implement strategy. The CEO and The Leadership Team consists of senior bankers with an average experience of 25 years in the field of banking and finance. The profiles of The Leadership Team are available on the pages 32 to 35.
The adoption of an effective CEO and Key Management Personnel (KMP) succession strategy;	Complied. The Succession Plan of the Bank was approved by the Board at its meeting held in September 2017 and is periodically reviewed.
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 committees to oversee specific responsibilities based on clearly defined terms of reference which is also detailed under Section 3(1)(i)(h) of the CBSL table on page 366 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 Board Audit Committee 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 410 to 461) - The Board Integrated Risk Management Committee Report on (pages 196 to 198) - The Director's Statement on Internal Control (pages 207 to 208) - BAC Subcommittee Report (pages 199 to 201) Our Business Continuity Plan/ Disaster Recovery Drill was rehearsed twice during the year 2018.

Corporate Governance Principle	Compliance Status
Compliance with laws, regulations and ethical standards;	Complied. The Bank has appointed a dedicated Compliance Officer who is a Key Management Personnel to head the compliance function of the Bank. The compliance function is an independent function of the Bank that supports the Board of Directors and Senior Management of the Bank to manage compliance risks by supporting the Bank to embed a culture of compliance within the Bank, disseminate new laws and regulations to business in a timely manner, provide guidance on the interpretation of regulatory requirements, support business with the creation and implementation of regulatory compliant policies and procedures, undertake independent compliance monitoring of business with relevant laws and regulations and take measures to mitigate compliance risks. The Compliance Officer submits to the IRMC and the Board a detailed report on the Compliance status of the Bank each quarter.
All Stakeholder interests are considered in corporate decisions	Complied. The Board of Directors consider the views/impact on all stakeholders of the Bank when decisions are made at Board meetings.
Recognizing 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 page 58 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 review 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 & 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.

CORPORATE GOVERNANCE

Corporate Governance Principle	Compliance Status
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 2018 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.
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 & development in their respective fields. The CEO on a regular basis updates the Board on business changes, operational risks and controls relevant to the Bank. Please refer Page 163 and 168 which illustrates how the Board spent its time in 2018.
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.

Corporate Governance Principle	Compliance Status
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 were several knowledge sharing initiatives to inform the Board on the latest trends and issues facing the Bank, the industry and the economy in general. During 2018 Training Program on the overview on the impacts of IFRS 9 was conducted for the entire Board. This is in addition to Directors training programs attended to by individual board members. New directors are provided with a comprehensive induction pack on appointment to the Board. Further in 2018 an awareness session on the key developments made to the AML regulatory landscape was also arranged.
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 CEO 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 CEO 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 166 for more details on the Chairman's role.
PRINCIPLE A.4: FINANCIAL ACUMEN: The Board should ensure the availability within it of those with sufficient financial acumen and knowledge to offer guidance on matters of finance.	
A.4.1 Financial Acumen and Knowledge.	Complied. 7 of the 11 Directors of the Board have a finance background ensuring a sufficiency of financial acumen and knowledge within the Board on matters of finance.

CORPORATE GOVERNANCE

Corporate Governance Principle	Compliance Status
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. 10 of the 11 Directors on the Board are Non-Executive Directors. The CEO is the only Executive Director. The Chairman is a Non-Executive Independent Director.
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 2018 with the criteria sets out in this Code. Based on the annual declarations, there are 10 Non-Executive Directors on the Board as at 31st December 2018. Of them 7 Non-Executive Directors are independent of management and free of business dealings that may be perceived to interfere with the exercise of their unfettered and independent judgement. The details of Non-Executive Independent Directors are given in page 167 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 2018, 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 CEO 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.

Corporate Governance Principle	Compliance Status
A.5.9. Chairman to meet only with Non-Executive Directors as necessary and at least once each year.	Complied. As and when needed the Chairman discusses matters related to the executive director only in the presence of Non Executive Directors.
A.5.10. Recording of a dissenting view – Any dissenting view to be minuted where a matter is not resolved unanimously.	Complied. Dissenting views are recorded in the Board Minutes in detail. Directors' concerns regarding matters which are not resolved unanimously are also recorded in the minutes.
PRINCIPLE A.6 SUPPLY OF INFORMATION – The Board should be provided with timely information in a form and of a quality appropriate to enable it to discharge its duties.	
A.6.1 – A.6.2 The Board to be provided appropriate and timely information by 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 A Nominations Committee to be established to make recommendations on new appointments and should annually assess Board-composition against pre-defined criteria of skills and knowledge to ensure that Board appointees are fit and proper.	Complied. The Board has established a Nominations Committee to make recommendations on new appointments to the Board. There is in place a Board approved policy and process for appointments of Directors to the Board. The Nominations committee also assesses the Board composition against pre-defined criteria of skills and knowledge to ensure that Board appointees are fit and proper. Please refer Page 193 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.	

CORPORATE GOVERNANCE

Corporate Governance Principle	Compliance Status																						
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 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 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 Mr. Kavan Ratnayaka and Mr Dinal Phillips.																						
A.8.2. Re-election of non-executive directors	Mr. Sriyan Cooray was appointed in 2018 to fill a causal vacancy 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.8.3. Resignation of a Director prior to completion of his appointed term, the Director should provide a written communication to the Board with the reasons for resignation.	Complied. There were no resignations during 2018. Therefore this situation did not arise in 2018. If such situation arises the Bank shall make the relevant disclosures as required under Section 3(2)(xi) of the CBSL table on page 373 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 2018. The process is led by the Chairman. All Directors were required to complete a detailed questionnaire. The processes adopted is detailed on page 168 of this report All Subcommittees and management committees also carried out a self-evaluation process in 2018 to determine the effectiveness of their performance in 2018 and to identify areas for improvement.																						
PRINCIPLE A.10 DISCLOSURE OF INFORMATION IN RESPECT OF DIRECTORS																							
A.10.1 Shareholders to be advised of relevant details in respect of Directors	Complied. <table> <tr> <th>Information Required</th><th>Page Reference</th></tr> <tr> <td>Name, qualification and brief profile</td><td>24 - 31</td></tr> <tr> <td>Nature of his/ her expertise in the relevant functional areas</td><td>167</td></tr> <tr> <td>Immediate family and/or material business relationships with other Directors of the Bank</td><td>375</td></tr> <tr> <td>Whether executive non-executive and or independent Director</td><td>167</td></tr> <tr> <td>Names of listed companies in which the Director concerned serves as a Director</td><td>24 - 31</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>24 - 31</td></tr> <tr> <td>Board meeting attendance</td><td>167</td></tr> <tr> <td>The total number of Board seats held by each Director</td><td>24 - 31</td></tr> <tr> <td>Board committee served as the Chairman / member</td><td>171</td></tr> <tr> <td>Committee meetings attendance</td><td>171</td></tr> </table>	Information Required	Page Reference	Name, qualification and brief profile	24 - 31	Nature of his/ her expertise in the relevant functional areas	167	Immediate family and/or material business relationships with other Directors of the Bank	375	Whether executive non-executive and or independent Director	167	Names of listed companies in which the Director concerned serves as a Director	24 - 31	Names of other companies or companies in a group in Sri Lanka in which the Director concerned serves as a Director	24 - 31	Board meeting attendance	167	The total number of Board seats held by each Director	24 - 31	Board committee served as the Chairman / member	171	Committee meetings attendance	171
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Corporate Governance Principle	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 CEO with reference to the short, medium and long term objectives of the Bank at the beginning of 2018. The HRRC/ Board will evaluate the performance of the CEO against the goals and targets set for 2018 at the Board meeting scheduled to be held in March 2019.
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 Ms Indrani Sugathadasa an Independent Non-Executive Director. Please refer page 191 for the report of the HRRC for more details on the composition and activities carried out by the HRRC for the year 2018
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 CEO of the Bank and as such is not paid any additional remuneration or benefits by virtue of him being an Executive Director. The CEO'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 CEO's remuneration is linked to the Bank's performance as well as his individual performance.

CORPORATE GOVERNANCE

Corporate Governance Principle	Compliance Status
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 CEO 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 2018.
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 CEO 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 2018 as the "qualifying criteria" were not met . Details are given in the Director's Report on page 186 and notes to the Financial Statements on page 305.
B.2.7. Designing schemes of performance related remuneration	Complied. No remuneration or benefits are paid to the only Executive Director who is the CEO on account of his executive directorship. Please refer page 191 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 179 of the Annual Report for Directors Remuneration. Also refer Note 14 on page 250 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 506 of this Annual Report.

Corporate Governance Principle	Compliance Status
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.
C.1.3. Valid proxy appointments	Complied. The Bank has in place an effective mechanism to record all proxy votes to indicate to the Chairman the level of proxies lodged on each resolution and the number of votes for and against each resolution. As a matter of practice, proxy votes together with the votes of Shareholders present at the AGM are considered for each resolution and duly recorded in the minutes
C.1.4. Chairpersons of all Board Subcommittees to be available to respond to questions of any Shareholder at AGM.	Complied. The Chairman of the Board functions as the Chairman of the Nominations Committee, Strategic Issues Committee and the Related Party Transactions Review Committee. He ensures that the Chairpersons of the other Board 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 2017.
C.1.5 Adequate notice of all meetings to Shareholders together with the summary of the procedure to be adopted by Shareholders	Complied. The notice of meeting and related documents are circulated to the Shareholders 15 working days prior to the AGM. Summary of the procedures governing voting at the AGM is provided in the proxy form, which is circulated to Shareholders together with the notice of meeting 15 working days prior to the AGM. The Board encourages all Shareholders to attend and actively participate in the AGM. The Shareholders may raise any queries they have with the Directors.
PRINCIPLE C.2 COMMUNICATION WITH SHAREHOLDERS	
The Code requires that Board should implement effective communication with Shareholders.	
C.2.1 Communication with shareholders	Complied. The Bank has in place a Communication Policy which sets out many channels of communication to reach all Shareholders of the Bank in order to disseminate timely information. The effective communication with shareholders are detailed in Section 3(1)(i)(d) of the CBSL table on page 365 of this report. Also please refer pages 462 to 483 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 Communications Policy that deals with communications with Shareholders. Please refer write up on “Investor Relations” on page 462 to 483 for details of the policy and methodology adopted for communication.

CORPORATE GOVERNANCE

Corporate Governance Principle	Compliance Status
C.2.4 – C.2.7 The Bank to disclose to Shareholders the contact person for communication with Shareholders matters and process of making all Directors aware of Shareholders major concerns/issues.	Complied. Details of the contact personnel are provided in the “Corporate Information” section on page 506 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 an when necessary.
PRINCIPLE C.3 MAJOR AND MATERIAL TRANSACTIONS	
The Code requires the Directors to disclose to Shareholders all proposed material transactions which would materially alter/vary the net asset position of the Bank and Group if entered into;	
C.3.1 Disclosure of major and material transactions	Not Applicable. During 2018 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 page 178 in the ‘Annual report of the Board of Directors on the affairs of the Bank’.

Corporate Governance Principle	Compliance Status																										
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 205 of this report. The Interim Accounts and Annual Financial Statements were published on a timely basis in 2018. Regulatory reports were filed by the Bank on or before the due dates in 2018. Price sensitive information is disclosed to the Colombo Stock Exchange on a timely basis in accordance with the Bank's Board approved Disclosure Policy. The Bank makes every effort to provide a detailed and transparent analysis of strategies, performance and future strategies to support investors in making an informed decision. In addition to the information provided in the reports mentioned above, a summary of the Interim Accounts and a section on understanding our financials in Financial Capital are provided in the annual report. Please refer pages 478 to 479 and 68 to 79 of this Report.																										
D.1.3 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 Chief Executive Officer's and Group Chief Financial Officer's responsibility statement on pages 209 to 210 and the Directors' statement on Internal Control over Financial Reporting on pages 207 to 208.																										
D.1.4 Declarations by the Directors' in the Directors' Report,	Complied. Declarations by the Directors as required by the Code of Best Practice on Corporate Governance are provided on pages 177 to 189 in the 'Annual report of the Board of Directors on the affairs of the Bank'.																										
D.1.5 Responsibilities of the Board for preparation of financial statements and reporting responsibilities of auditors	Complied. The Statement of Directors' Responsibility, Statement on Internal Controls and Report of the Auditors are provided on pages 207 and 211 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>48 - 49</td></tr> <tr> <td>Industry structure and developments</td><td>60 - 64</td></tr> <tr> <td>Opportunities and threats</td><td>63 - 64</td></tr> <tr> <td>Risk management</td><td>410 - 461</td></tr> <tr> <td>Internal control systems and their adequacy</td><td>207 - 208</td></tr> <tr> <td>Governance</td><td>158 - 174</td></tr> <tr> <td>Stakeholder Relationships</td><td>50 - 53</td></tr> <tr> <td>Social and environmental protection activities carried out by the Bank</td><td>102 - 117</td></tr> <tr> <td>Financial performance</td><td>68 - 79</td></tr> <tr> <td>Investment in physical and intellectual capital</td><td>90</td></tr> <tr> <td>Human resources /industrial relations activities carried out by the Bank</td><td>80 - 89</td></tr> <tr> <td>Prospects for the future</td><td>212</td></tr> </table>	Information Required	Page Reference	Business Model	48 - 49	Industry structure and developments	60 - 64	Opportunities and threats	63 - 64	Risk management	410 - 461	Internal control systems and their adequacy	207 - 208	Governance	158 - 174	Stakeholder Relationships	50 - 53	Social and environmental protection activities carried out by the Bank	102 - 117	Financial performance	68 - 79	Investment in physical and intellectual capital	90	Human resources /industrial relations activities carried out by the Bank	80 - 89	Prospects for the future	212
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CORPORATE GOVERNANCE

Corporate Governance Principle	Compliance Status
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 2018 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 385 to 388 for more details on the process adopted.
PRINCIPLE D.2 – RISK MANAGEMENT AND INTERNAL CONTROL - The board is responsible for determining the nature and extent of the principal risks it is willing to take in achieving its strategic objectives. The Code requires the Bank to have a process of risk management and a sound system of internal control to safeguard Shareholders' investments and the Bank's assets.	
D.2.1 The Board should conduct an annual review of Risk Management and Internal Controls 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 207 and 208. 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 211.
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.

Corporate Governance Principle	Compliance Status
D.2.3 The Bank should have an internal audit function	Complied. 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 ten meetings held during 2018. The minutes of the BAC meetings are tabled at the meetings of the Board. The Group 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 199 to 201 and 196 to 198 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 199 to 201 for the BAC Report and refer pages 207 to 208 for Directors Statement of Compliance on Internal Controls in the manner in which the Board complied with this requirement.
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 five Non-Executive Directors of which four are Independent as per the code 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	Complied.
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	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 third quarter of 2018. 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 page 199 for the BAC report.

CORPORATE GOVERNANCE

Corporate Governance Principle	Compliance Status
PRINCIPLE D.4 RELATED PARTY TRANSACTIONS REVIEW COMMITTEE – The Board should establish a procedure to ensure that the Company does not engage in transactions with “related parties” in a manner that would grant such parties “more favourable treatment” than that accorded to third parties in the normal course of business.	
D.4.1 A related party and related party transactions will be as defined in LKAS 24.	Complied. The Bank has in place a Board approved related party Policy which ensures that necessary processes are implemented by the Bank to identify, approve, monitor and disclose related party transactions as required under Corporate Governance Direction No. 11 of 2007 (as amended) Section 9 of the Listing Rules of the Colombo Stock Exchange on Related Party Transactions. Identification and disclosure requirements in accordance with LKAS 24
D.4.2 Composition of the Related Party Transactions Review Committee	Complied. In terms of Section 9 of the Listing Rules issued by Colombo Stock Exchange (CSE) the Bank has constituted a Board appointed Related Party Transactions Review (RPTR) Committee. The RPTR Committee consists exclusively of non-executive directors and majority of whom are independent.
D.4.3 Terms of Reference of the Related Party Transactions Review Committee	Complied. The Bank has a Board approved TOR and a Board approved Related Party Transactions Policy in place which addresses requirements under this Code.
PRINCIPLE D.5 CODE OF BUSINESS CONDUCT AND ETHICS - The Bank must adopt a Code of Business Conduct & Ethics for Directors and 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 and must promptly disclose any waivers of the Code for Directors or others.	
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 pages 158 to 174 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.

Corporate Governance Principle	Compliance Status
D.5.4. Affirmative declaration by the Chairman of compliance with Code of Business Conduct & Ethics	Complied. Please refer page 158 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 2018 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 158 to 174 of the Annual Report and its relevant annexures on pages 364 to 409.
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 CEO 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 462 to 483.
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.

CORPORATE GOVERNANCE

Corporate Governance Principle	Compliance Status
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 decisions 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 15 to 17 CEO's Review on pages 19 to 21 Management Discussion and Analysis on pages 68 to 117 Annual financial statements on pages 214 to 359 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 organization's business model, IT devices within and outside the organization can connect to the organization'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 organization's business model will mitigate the Cyber-security risks.	Complied. As per the Bank's IT security governance structure, CISO defines the policies required to control the Bank's IT networks and IT department is responsible in implementing and monitoring the same while escalating any anomalies to the Bank's senior management which are then escalated to the IRMC. As per the Information Security Policy in the Bank, external devices access to the Bank's network has been restricted. Any exceptional requirement will be approved by the higher management.
G.2 Appointment of Chief Information Security Officer (CISO) and Policies for cyber-security risk Management.	Complied. The Bank has appointed a Chief Information Security Officer (CISO) with sufficient expertise, authority and budgetary allocation to introduce and implement a cyber security risk management policy. Information Security Policy is in place covering the aspects noted here. Same is currently being reviewed.

Corporate Governance Principle	Compliance Status
G.3 The Board should Allocate regular and adequate time on the board meeting agenda for discussions about cyber-risk management.	Complied. Cyber security risks are discussed at a minimum every quarter at IT Steering Committee, BAC and IRMC. The process to be streamlined upon finalizing the new IT security governance structure and reviewing of the security policy.
G.4 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 December 2017. 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 436 of the Risk Management Report and the Board of Directors report on the affairs of the Bank on page 188 which detail disclosures of the process to identify and manage cyber-security risk.
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 recognized, managed, measured and reported.	
H.1.1. Reporting of ESG	Complied. Please refer pages 80 - 117 for details
H.1.2. Environmental factors	Complied. Please refer page 114 - 117 for details
H.1.3. Social factors	Complied. Please refer page 80 - 89 for details
H.1.4 Governance	Complied. Please refer pages 102 - 113 for details
H.1.5. Board's role on ESG factors	Complied. Please refer pages 186 for details

RISK MANAGEMENT

A challenging business environment coupled with the impending 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, has led to considerable shifts in the banks' operating landscape. These changing dynamics have compelled NDB's Group Risk Department to pro-actively monitor and respond to these challenges in supporting the achievement of the Group's strategic aspirations.

BANK'S RISK PROFILE AT A GLANCE



Quality portfolio

- A diversified portfolio of loans and advances and income streams across customer segments, industry sectors and products
- Bank's top corporate exposures are monitored closely
- Sound asset quality- Gross NPA ratio of 2.85%



Prudent Capital & Liquidity position

- Bank remains adequately capitalized
- Bank maintains a sound liquidity position
- Bank's deposit base strengthened - 27% growth during the year
- Substantial portfolio of high-quality liquid assets that can be realized if a liquidity stress occurs - liquidity coverage ratio of 216%
- Apart from the regulatory limits, Bank has set internal prudential liquidity ratios and position limits for proactive liquidity management.



Robust risk governance structure & experienced team

- Bank has a well-defined risk appetite statement which is aligned to the Bank's strategy and is approved by the Board.
- Continuous monitoring of the risk profile to ensure it remains within the risk appetite and regularly conducts stress tests.
- 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 risk team.
- A robust risk management framework which assigns accountability and responsibility for the management and control of risk.

2018 – Key Achievements

- SLFRS 9 compliance
- BASEL III compliance
- Further strengthening of risk and compliance culture across Group
- Risk based Delegated Lending Authority (DLA)
- Further strengthening of watch listing process
- Implementation of Data Classification Policy

2019 – Our Priorities

- Capital optimisation
- Validation of internal rating models
- Continuing to develop risk talent across the Group Risk Management Department

OPERATING LANDSCAPE IN 2018

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.



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.



CHANGES IN 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.



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. 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.

BANK'S RISK MANAGEMENT APPROACH

NDB's approach to risk management is underpinned by a comprehensive Integrated Risk Management (IRM) Framework, which is regularly reviewed and strengthened to remain relevant in an increasingly dynamic operating landscape. The Board-approved framework clearly defines governance structures and the process of identifying, measuring, monitoring and controlling the Bank's risk exposures.

The 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 Bank's risk appetite and align Bank's portfolios and business strategy accordingly.
- Optimize risk return decisions.
- Maintain 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) Bank considers several other material risks such as Liquidity Risk, Interest Rate Risk in the

RISK MANAGEMENT

Banking Book, Underestimation of Credit Risk in Standardized Approach, Residual Credit Risk, Concentration Risk, Compliance Risk, Legal Risk, Strategic Risk, Governance Risk, Cross-border Risk, Settlement Risk, Reputational Risk, Model Risk and Group Risk. The framework permeates all levels of the organisation and has underpinned the creation of a risk-conscious culture.



RISK APPETITE & 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 ongoing operations and risk management. The Risk Appetite framework and Risk Tolerance limits are reviewed and adjusted by Board when required based on developments in the operating environment.

In the event of a breach of a risk appetite threshold, 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 financial position and reputation of the Bank. NDB'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. NDB is fully compliant with these requirements and details of compliance under each pillar are discussed below.

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. Bank is currently using the Standardized Approach for minimum capital computation for Credit Risk, the Standardised Measurement Approach for minimum capital computation for Market Risk and Basic Indicator Approach for minimum capital computation for Operational Risk. The

- 01** 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 driven by the Bank's strategic objectives and accounts for the relevant regulatory, economic and commercial environments in which the Bank operates.
- 03** Proper governance and oversight through a clear, effective and robust governance structure with well-defined, transparent and consistent lines of responsibility established.
- 04** Promotion of a strong risk culture that supports and provides appropriate standards and incentives for professional and responsible behaviour.
- 05** 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** Ensure sufficient resources and systems infrastructure are in place to enable effective risk management.

RISK UNIVERSE	Credit Risk	Market Risk	Operational Risk	Liquidity Risk	IT Risk
	Reputational Risk	Settlement Risk	Legal Risk	Compliance Risk	
	Cross Border Risk	Governance Risk	Strategic Risk	Model Risk	Cyber Risk

The Risk Management narrative set out in the subsequent pages has been structured in accordance with these key elements of the Bank's Integrated Risk Management Framework.

Bank continues to maintain capital above the minimum requirement set by the Central Bank.

Credit Risk - With the intention of eventually moving to Internal Rating Based approaches the Bank rolled out rating models with the assistance of CRISIL Risk and Infrastructure Solutions Limited, India in 2014. Central Bank is yet to issue guidelines for Banks on Advanced Approaches of capital computation under Credit Risk.

Market Risk - Bank has already rolled out its VaR models and will consider moving to advanced approach of capital computation for Market Risk on receipt of guidelines from the regulator.

Operational Risk - Bank has been comparing capital requirements under The Standardized Approach (TSA) and Alternative Standardized Approach (ASA) in parallel with Basic Indicator Approach (BIA). Considering the cost saving, Bank has forwarded a formal application to the Regulator requesting approval to move to ASA after satisfying the qualifying criteria.

PILLAR II – SUPERVISORY REVIEW PROCESS

Minimum regulatory capital requirements under Pillar 1 establishes a threshold which a sound bank's regulatory capital must not fall below. 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 the supervisory authorities to subject all banks to an evaluation process/ Supervisory Review Process. The Bank has in place an ICAAP since January 2013 which has strengthened its' capital planning process.

The Bank's capital management objectives can be summarized as follows:

- Maintain sufficient capital to meet minimum regulatory capital requirements
- Hold sufficient capital to support the Banks' risk appetite
- Allocate capital to businesses to support the Group's strategic objectives

- Ensure that the Bank maintains capital in order to withstand the impact of potential stress events.

The Bank identified 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 strategic capital plan over at least a three-year horizon. The plan highlights the capital projections, capital requirements, levels of capital and capital mix to support the Bank's business plan and strategic objectives. Bank manages its capital structure and adjusts it accordingly in line with emerging market trends and the overall risk appetite. The projected capital also takes into consideration the Bank's organic growth. NDB Group also has the option to raise capital under normal and stressed scenarios by way of equity / capital infusion, issue of innovative perpetual debt instrument, issue of subordinate bonds or Hybrid capital instruments.

Bank raised Rs. 3.4 Bn as Tier I capital through a Right issue during the fourth quarter of 2018. The Bank has also taken steps to issue a BASEL III compliant, listed, rated, unsecured, subordinated, redeemable five year debenture with a non-viability conversion to raise Tier II capital amounting to Rs. 5 Bn to support the business growth of the Bank.

Stress Testing

The Bank's comprehensive stress testing policy has been formulated in line with regulatory guidelines and global best practices and describes the purpose, governance structure and the methodology for formulating stress tests. Stress tests are conducted at various frequencies in line with the Board approved framework and results are reported to Board. The outcome of stress testing

process is monitored carefully and remedial actions taken in case of breaches.

The Stress Tests carried out as at 31.12.2018 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 of large borrowers 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 - DBU/FCBU

Impact on CAR due to higher interest paid in a deposit run off scenario

Combined Stress Test

RISK MANAGEMENT

PILLAR III – DISCLOSURES

Bank provides enhanced quantitative and qualitative disclosures in line with the BASEL III requirements in Annual Report, website and press to provide a meaningful picture of the extent and nature of various risks that the Bank is exposed to and the efficiency of Banks' risk management practices.

INTEGRATED RISK MANAGEMENT COMMITTEE (IRMC)

Reviews the risk profile and policies of the Bank, its group companies and their application in the operations of the business in respect of the main risk categories viz. Credit Risk, Operational Risk, Liquidity Risk, Market Risk, Strategic Risk, Legal Risk, Reputational Risk and Compliance Risk, and ensures such risks are managed within the prudent levels decided by the Board of Directors

Composition - Five Non-Executive Directors, Group CEO, Group CFO, Group CRO and Compliance Officer

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. A Board Credit Committee was also formed in 2017 to further strengthen the credit process of the Bank.

BOARD AUDIT COMMITTEE (BAC)

Assists the Board in the general oversight of financial reporting, internal controls and functions relating to internal and external audit.

Composition - Five members of the Board of Directors. The Vice President Group Audit functions as the Secretary to the Committee. The Group CEO, Group CFO, External Auditors and other members of the senior management attend meetings on invitation.

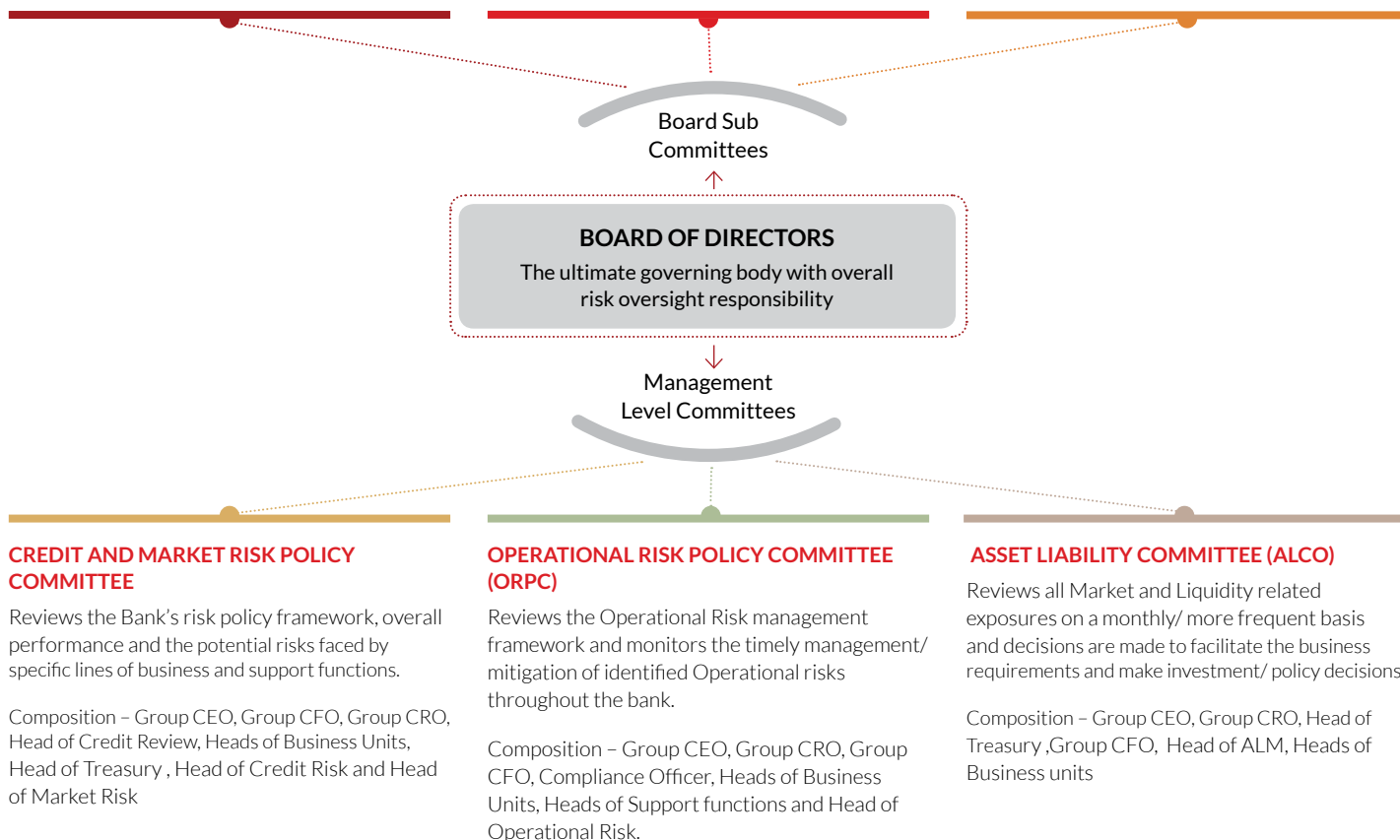
GOVERNANCE STRUCTURE

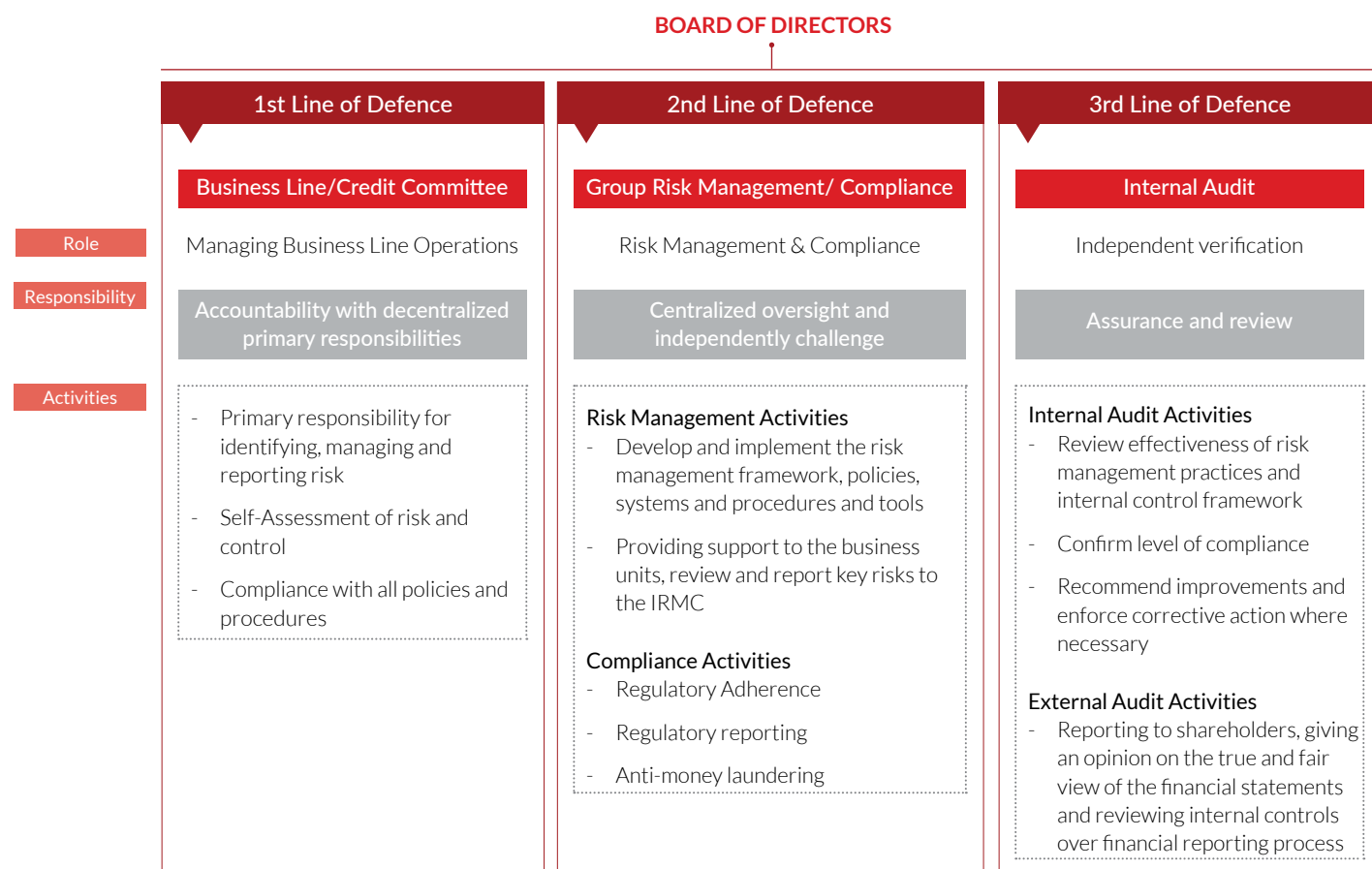
The risk governance structure aims to place accountability and ownership, whilst facilitating an appropriate level of independence and segregation of duties. The structure is based on the three lines of defence and defines the lines of authority, roles and responsibilities to efficiently manage risk across the Bank.

BOARD CREDIT COMMITTEE (BCC)

Reviews and approves Credit Proposals coming under Committee's delegated lending authority.

Composition - Minimum of three Non- Executive Directors and Group CEO





GROUP RISK MANAGEMENT DIVISION

The Bank's Risk Management Division is independent of the business units and profit targets and reports directly to the Integrated Risk Management Committee. Each unit within the Risk Division contributes to the management of risk and co-ordinates across the business functions to guarantee that risk management is impeccably integrated into the Bank's corporate culture.

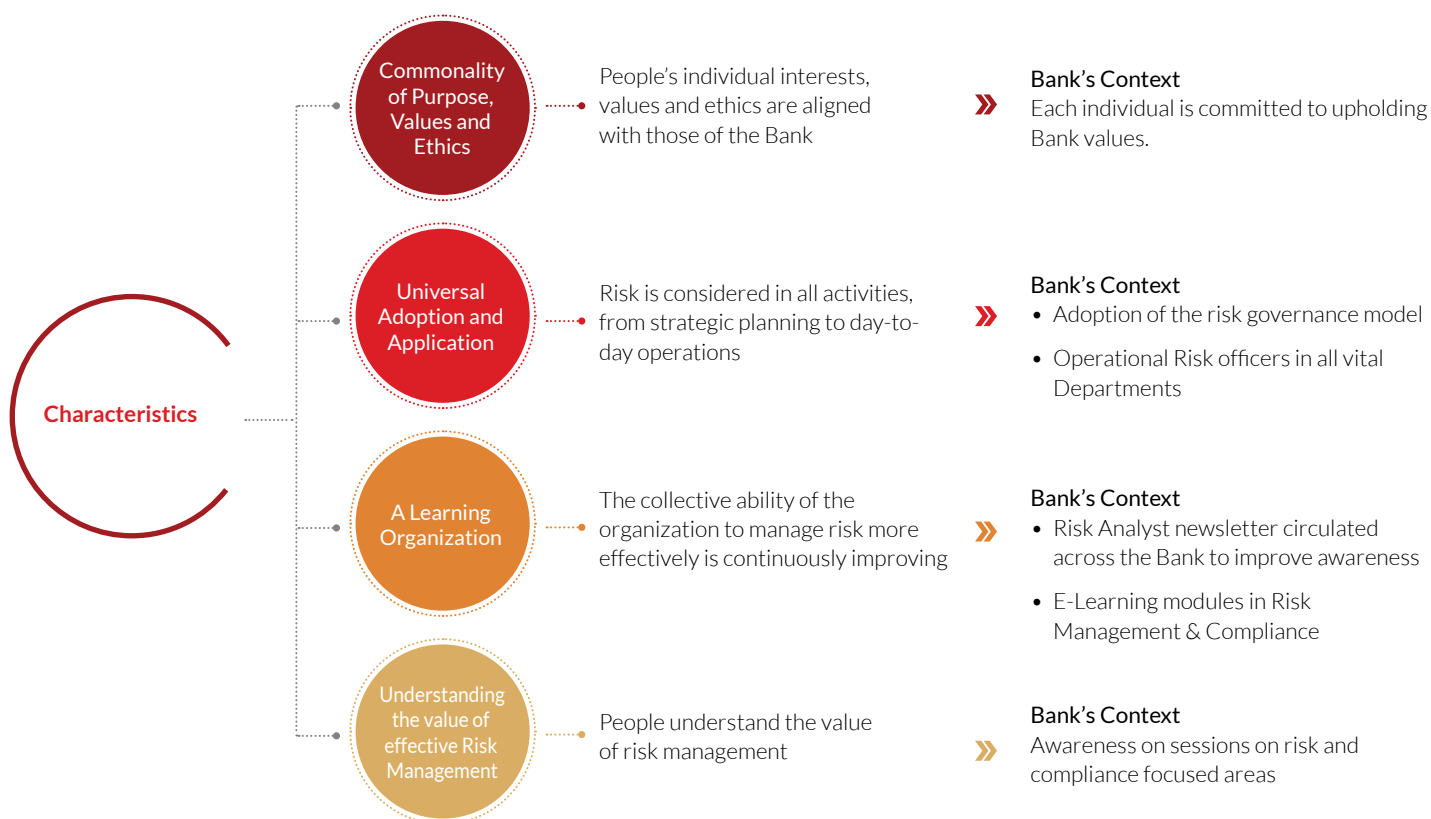
Further the Loan Review unit within the Group Risk Management department carry out Loan Review Mechanism (LRM) activities as prescribed by the regulator. Its responsibilities extend to identifying potential problematic loans/ facilities (post approval/granting) and providing rational, objective and professional recommendations for remedial action for

implementation by line management. In order to ensure the independence of and strengthening the pre-approval process the Credit Review Division which handles the pre credit review/approvals is placed under the Group Risk Management Division.

RISK MANAGEMENT

RISK CULTURE

A culture of risk awareness fundamental to the effective management of risks within the Bank and serves as the foundation upon which a strong risk management structure is built. The Bank's commitment is clearly demonstrated through the establishment of strong policies and guidelines and ensuring that non-compliance risks are effectively managed. The key characteristics of a strong risk culture are identified as follows:



RISK POLICIES & PROCESSES

CREDIT RISK

Credit risk is the risk of financial loss if a customer or counterparty fails to meet a payment obligation under a contract. It arises principally from direct lending, trade finance and leasing business, and also from off-Balance Sheet products such as letters of credit and guarantees. As the Bank's most significant risk exposure, Credit Risk generates the largest regulatory capital requirement of the risks we incur. The Bank manages the Credit Risk in the entire portfolio as well as individual credits or transactions.

OBJECTIVES OF CREDIT RISK MANAGEMENT

The objectives of Credit Risk Management are:

- Ensure optimal risk-reward pay-off for the Bank to maximise returns
- Maintain the quality of the portfolio by minimising the non-performing loans and probable losses
- Maintain a well-diversified portfolio by prudently managing the risk asset portfolio to ensure that the risk of excessive concentration to any industry, sector or individual customer is minimized.
- Ensure that exposures to any industry or customer are determined by the regulatory guidelines, clearly defined internal policies,

debt service capability and Balance Sheet management guidelines;

- Avoid all situations of conflict of interest and report all insider-related credits to appropriate bodies

CREDIT PROCESS



RISK MANAGEMENT

- **Credit Policies**

The Bank's board approved credit policy defines the

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

- **Structured and standardised credit approval process**

Depending on the nature of the project / product standardised formats have been designed and evaluations are carried out by competent staff. There are clear guidelines set to ensure that ;

- Credit is extended only to suitable and well-identified customers and not where there is any doubt as to their ethical standards and record, where the source of repayment is unknown or speculative nor where the purpose/destination of funds is undisclosed,
- Avoid taking a credit risk where ability of the customer to meet obligations is based on the most optimistic forecast of events.
- Ensure that the primary source of repayment for each credit is from an identifiable cash flow from the counterparty's normal business operations or other financial arrangements; the realization of security remains a fall-back option;
- Adopt a pricing mechanism that reflects variation in the risk profile of various exposures to ensure that higher risks are compensated by higher returns;
- The financial performance of borrowers is to be continuously monitored and frequently reviewed, as is the manner in which the borrower operates his accounts.

- **Delegation of Authority**

Final authority and responsibility for activities that expose the Bank to credit risk rests with the Board of Directors which has delegated approval authority to the CEO , Credit Committees and the Business Lines.

- There are two Credit Committees representing the Business Lines and these Committees comprise senior officers of Business Lines and the Credit Review Division.
- The delegated authority limits are reviewed periodically and the Bank follows the 'four-eyes principle' (i.e. minimum of two officers signing a credit proposal).
- lending decisions are based on detailed credit evaluation carried out by Relationship Managers/ Credit Officers and reviewed/ approved by designated approving authority

- **Internal Risk Ratings of Obligors**

The Bank has an Internal Risk Rating system which runs on sophisticated work flow based software and hosts obligor risk rating, facility risk rating and retail score cards to suit the diverse client portfolios of the Bank. This move facilitates accurate quantification of credit risk, and also complies with Central Bank Direction No. 07 of 2011 on Integrated Risk Management.

The Bank utilises various models incorporating both quantitative and qualitative parameters to gauge the default risk associated with Large Corporate, Mid Corporate, SME and Non-Banking Financial Institutes. Whilst obligor rating will indicate the expected probability of default (PD), the facility rating indicates the expected loss given default (LGD). Expected probability of default takes in to account the characteristics of the obligor assessed via industry, business, management and financial risk silos, whilst facility rating takes in to account the type of the facility, nature of the collateral and realisability. Using the expected probability of default and the

loss given default calculated via obligor rating and facility rating models the system determines the expected loss for a specific credit.

- **Risk Scoring**

Bank deploys custom made scorecards to underwrite consumer assets. The scorecards take in to account demographics and creditworthiness of individuals. The Bank also carries out a pre-screening of employers of salaried employees who seek consumer credit to ensure that their level of income generation will remain stable in the foreseeable future.

- **Risk Pricing**

A risk-based pricing model has been rolled out across the Bank facilitating a more scientific approach to pricing credit risk.

- **Post sanction review and monitoring mechanism**

Post sanction review and monitoring is carried out with emphasis on internal and external early warning signals, and problematic accounts are "Watch Listed". The Watch Listed clients are monitored closely with quarterly reports submitted to the Credit Committees while the Portfolio at Risk is also evaluated. Non-performing assets are identified at an early stage, enabling management to take action as appropriate.

- **Prudential Limits**

Industry and portfolio limits are set by the Board of Directors on the recommendation of the Group Risk Management Department. Credit Risk Management monitors compliance with approved limits. Desired diversification is achieved by setting maximum exposure limits on

- Single / group obligor limits - limits are more stringent than the limits set by the regulator and on a prudential basis, the off- Balance Sheet items are considered at face value instead of credit equivalent of such exposures

- Prudential Group Exposure Limit
- considered based on the Bank's exposure to a 'Group of Related Parties' and is capped at 60% of the Bank's Capital Base
- Substantial Exposure limits – this is in compliance with the Banking Act Direction No 07 of 2011 on Integrated Risk Management Framework for Licensed Banks and the Bank has introduced a substantial exposure limit of 500% of the capital base of the Bank
- Industry/economic sector limits - limits are imposed for lending to different sub-sectors in the economy, which could face vulnerabilities in economic cycles. At present the limit for a sub sector is set at 15%.

• Portfolio Management

Proactive and robust credit portfolio management helps the Bank to identify and address potential adverse impact of concentration of exposures. The Bank has a well-structured portfolio management mechanism which evaluates exposures on the basis of industry concentration, rating quality etc. against internally established pre specified early warning indicators apart from regulatory limits. Based on the feedback, the credit origination criterion is amended prudently to insulate portfolios from further deterioration.

Apart from regular reviews, the portfolio management team also undertakes stress tests and scenario analysis in view of changing external dynamics.

KRIs supplement the portfolio management, by providing a view of the credit risk of the portfolio as well as acting as an early warning system. Some of the KRIs monitored and reported to Board Integrated Risk Management Committee are given below;

Portfolio of the Bank	To assess the trends in comparison with industry and measure performance against budgets/ Risk Appetite
Industry portfolio	
Market Share	
NPLs of the Bank	
Industry NPLs	
NPL Ratio of the Bank	
Industry Average NPL Ratio	
Impairment	To assess compliance with Regulatory limits and the Bank's Risk Appetite
-Cumulative Charge	
- Individual Impairment %	
- Total Impairment against portfolio	
Provision Cover - % of the Bank	
Industry %	
ROE %	
Tier I Capital Adequacy Ratio %	
Tier I + Tier II Capital Adequacy Ratio %	

• Credit Risk Mitigation –

The Bank adopts various mechanisms to mitigate the credit risk of the loan book.

- Ways out analysis - the primary source is established through a conservative evaluation of the borrower's realistic projected cash flows. This is further mitigated by a second way out in the event of unforeseen adverse circumstances and availability of collateral alone does not make an unacceptable proposal viable. Exemptions on collateral are allowed in the event the borrower demonstrates strong and reliable financial performance.
- Documentation of credit transactions with adequate terms, conditions and covenants in a comprehensive and legally enforceable basis.

- Obtaining of collateral in line with the Bank's policy and ensuring it is supported by enforceable documentation. Collateral policy differs from business line to business line according to the products offered.

The main types of collateral taken by the Bank are

- immovable and movable property mortgages,
- plant, machinery and equipment
- cash deposits,
- mortgages on stocks and book debts and
- Corporate and personal guarantees.

RISK MANAGEMENT

It is the Bank's policy to be on a pari passu status with other lenders in terms of collateral cover. A decision to the contrary may be acceptable only where a non-pari passu position is accepted due to unavailability of security due to the Bank being a late entrant to the relationship and is supported by the borrowers' strong financial position. Facilities under Product Programmes are governed by guidelines given in such individual programmes.

In instances where facilities are granted without collateral, the Bank ensures that its position will not be subordinated to other creditors' interests. In such instances, the Bank generally requires

either a negative pledge agreement not to encumber any assets without permission of the Bank or a pari passu clause, whereby the debtor will treat the Bank equally with respect to collateral with all current and future lenders.

The Bank has a panel of valuers who have been selected based on the criteria set out by the Central Bank of Sri Lanka. The Bank ensures that the valuations are carried out and reviewed as following.

Facilities in NPL:

- In respect of credit facilities granted against residential property which is occupied by the borrower for residential purposes – every 4 years

- In respect of credit facilities granted for all other purposes – every 3 years

Performing facilities:

- Watch listed clients with working capital facilities: every three years
- Other Clients with working capital facilities: every five years

No value is considered if valuations are not in line with the time frames set out as per the CBSL guidelines.

• Impairment

The Bank has in place a comprehensive impairment policy approved by the Board of Directors. Impairment assessment as per SLFRS 9 is covered comprehensively under Credit Risk disclosures.

CREDIT RISK ANALYTICS

Credit Risk Exposure - 31.12.2018

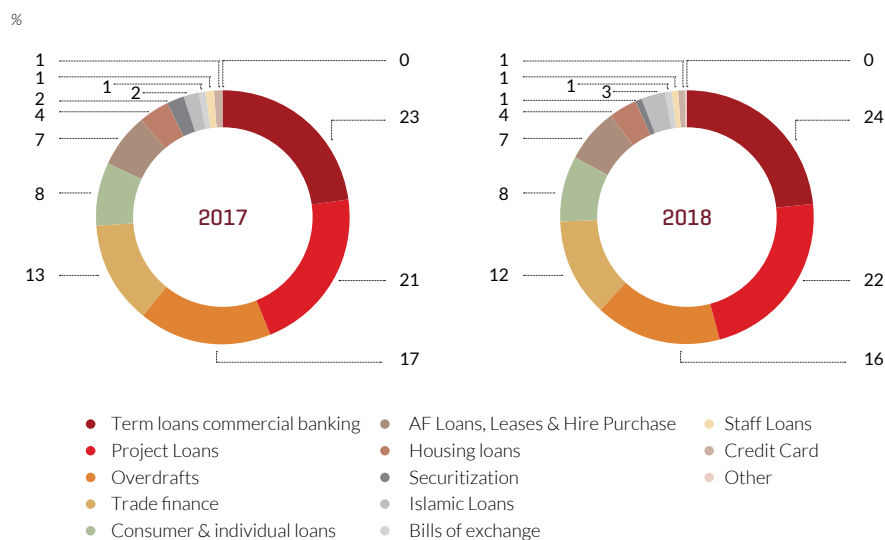
	On-Balance Sheet Exposure (LKR '000)	Off-Balance Sheet Exposure (LKR '000)	Total Exposure (LKR '000)	Individual Impairment (LKR '000)	Collective Impairment (LKR '000)	Net Exposure (LKR '000)
Financial Investments	43,185,729	-	43,185,729	152,803	-	43,032,927
Loans and Receivables to Other Customers	353,369,649	161,599,831	514,969,480	3,066,708	6,100,187	505,802,585

Portfolio Mix

Product Concentration

Bank's portfolio was mainly concentrated in working capital financing facilities and project loans.

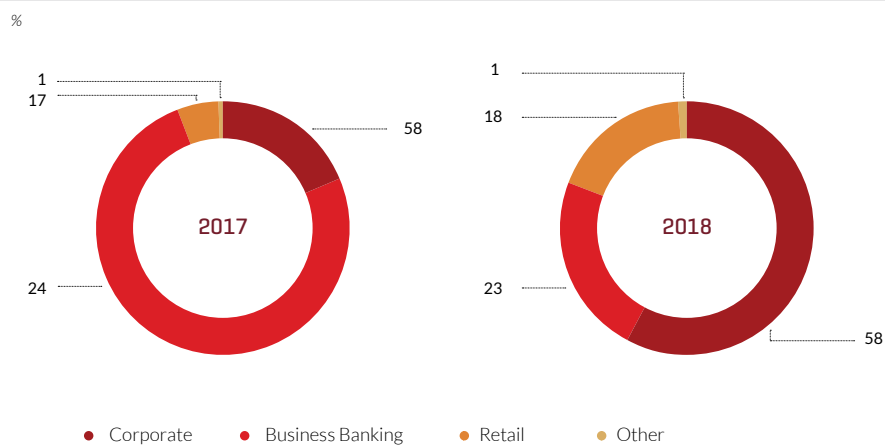
Product wise Portfolio Composition - 2017/2018



Business Segment wise Composition

The business segment wise composition of portfolio is given below. 58% of Bank's portfolio was concentrated in Corporate segment.

Business segment wise composition of portfolio - 2017/2018



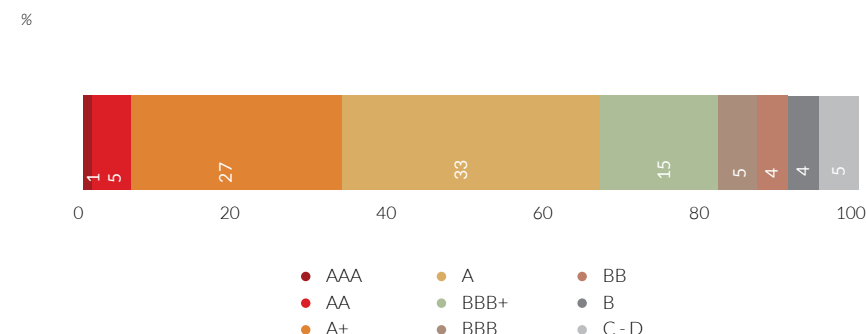
RISK MANAGEMENT

Portfolio Quality

Rated Portfolio Concentration

Bank's portfolio continues to be concentrated on "A" rated clients based on the internal rating models used by the Bank to rate Corporate and Business Banking – Middle Market clients. Rating grade "A" indicate Investment Grade – Adequate Safety. The rated portfolio composition was within the risk appetite of the Bank set by the Board.

Rated portfolio Concentration - 31.12.2018



Credit Risk Concentrations

Single Name Concentration

- Bank was in compliance 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 115% of the capital base and was well within the internal limit.
- Bank's portfolio concentrations were well within the risk appetite of the Bank set by the Board.

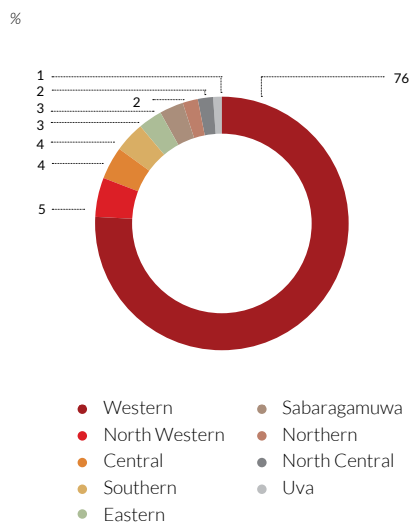
Sector Concentration

Bank maintained a well-diversified portfolio with no over concentration to any particular sector. Bank was also in compliance with the minimum lending requirement of 10% to Agricultural sector.

Geographical Concentration

Based on the economic activity highest concentration of domestic portfolio was in Western Province though the branch network is spread throughout the country. 97% of Bank's loans and advance portfolio was concentrated locally.

Geographical concentration of portfolio-31.12.2018

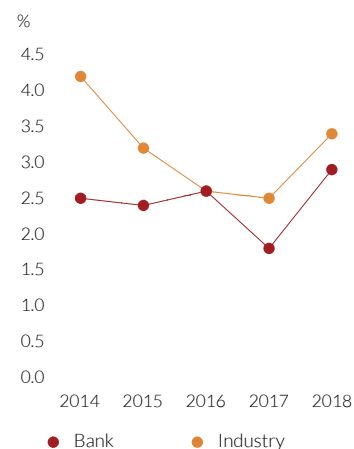


NPL Analysis

Non-Performing Loans

The Bank's NPL ratio was well below the industry ratio reflecting a better quality portfolio than most players in industry.

Gross NPL



[LKR '000]	
General Provision	1,449,115
Non Performing - Specific Provisions	2,989,232
Non Performing - Judgemental - Specific Provisions	76,192
Charges	33,053
Total Specific Provision on NPL	3,098,478
Performing - Judgemental - Specific Provisions	287
Total Loan Loss Provision	4,547,881

NPL and Regulatory (CBSL) Provisioning on Balance Sheet Exposures as at 31 December 2018

	NPL Amount (LKR '000)	Provisions as at 31 December 2018 (LKR '000)	Collateral Value considered for Provisioning purposes (LKR '000)	Net Exposure (LKR '000)
Pawning				
Special Mention	2,743	-	-	2,743
Substandard	1,795	359	-	1,436
Doubtful	-	-	-	-
Loss	971	971	-	-
Housing				
Special Mention	102,926	-	-	102,926
Substandard	65,180	8,849	20,638	56,331
Doubtful	29,022	992	27,207	28,030
Loss	77,599	35,970	41,629	41,629
Consumer Loans				
Special Mention	40,374	-	-	40,374
Substandard	14,614	2,923	-	11,691
Doubtful	84,748	42,374	-	42,374
Loss	443,022	443,022	-	-
Leases and Hire Purchase				
Special Mention	454,507	-	-	454,507
Substandard	278,439	69,610	-	208,829
Doubtful	71,925	-	-	71,925
Loss	170,154	170,154	-	-
Credit Cards				
Special Mention	5,160	-	-	5,160
Substandard	22,842	5,711	-	17,132
Doubtful	27,229	13,614	-	13,614
Loss	23,098	23,098	-	-
Working Capital Facilities				
Special Mention	887,515	-	-	887,515
Substandard	660,672	132,134	-	528,538
Doubtful	200,103	100,051	-	100,051
Loss	222,669	222,669	-	-

RISK MANAGEMENT

	NPL Amount	Provisions as at 31 December 2018	Collateral Value considered for Provisioning purposes	Net Exposure
	(LKR '000)	(LKR '000)	(LKR '000)	(LKR '000)
Term Loans				
Special Mention	1,341,875	-	-	1,341,875
Substandard	1,405,412	177,773	516,548	1,227,639
Doubtful	763,920	166,032	431,856	597,888
Loss	883,262	625,714	257,548	257,548
Overdraft Facilities				
Special Mention	367,905	-	-	367,905
Substandard	375,480	51,298	116,273	324,182
Doubtful	319,294	112,457	92,036	206,838
Loss	603,822	486,078	117,744	117,744
Other				
Special Mention	4,699	-	-	4,699
Substandard	-	-	-	-
Doubtful	-	-	-	-
Loss	97,380	97,380	-	-
Total	10,050,354	2,989,232	1,621,479	7,061,121

MARKET RISK

Market risk is the potential loss in both 'On' and 'Off'-Balance Sheet positions arising from the movements in foreign exchange rates, interest rates, equity and commodity prices.

Objectives of Market Risk Management

The primary objective of Market Risk Management (MRM) is to ensure that Business units optimize the risk-reward relationship within the Bank's pre-defined risk appetite and avoid exposing the Bank to unacceptable losses.

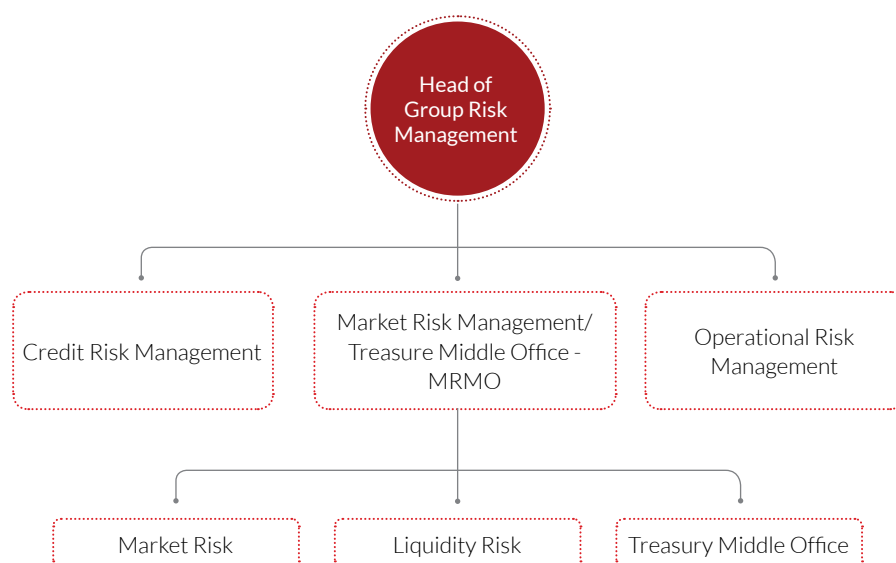
Through a well-defined risk governance structure, market risks are identified, assessed, controlled and reported to ensure that the Bank operates within the allocated risk appetite levels. Treasury activities are the key elements of Market Risk in the Bank, followed by other banking activities such as deposit mobilisation and lending. The Treasury functions are segregated in to three areas namely; Treasury Front Office, Market Risk Middle Office and Treasury Back Office where each unit has separate reporting lines to maintain independency. Treasury front office staff is guided by the Board approved Market

and liquidity risk policies / limit framework and the Treasury Front Office Procedure guidelines. The procedure guideline provides the code of conduct for dealing room staff including the course of action to be taken in case of a violation of the rules and regulations stipulated therein.

Market Risk Governance structure



Market Risk Management Unit Organisational structure



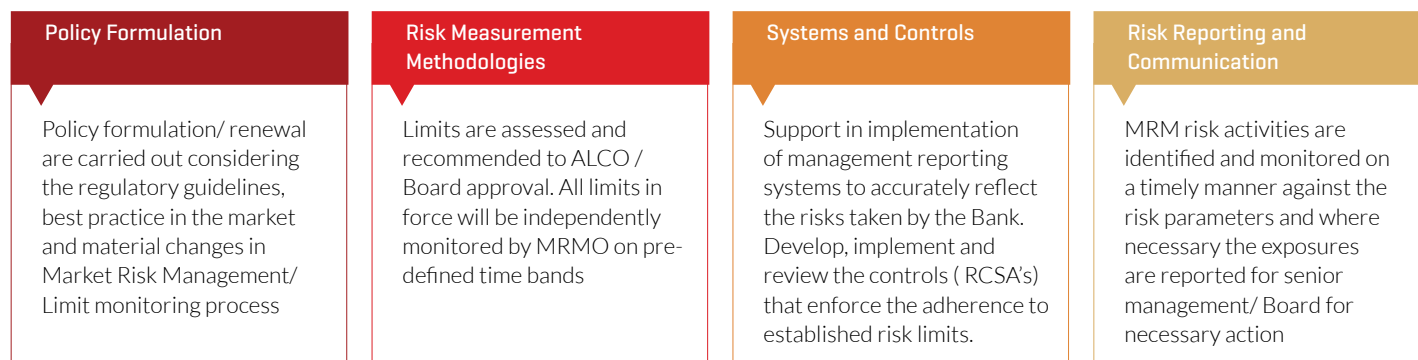
Policies

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 Controls, Risk Reporting and Communication. This will provide guidance on procedure for Market risk management within the overall risk appetite of the Bank.



The Market Risk reports are circulated daily, weekly, monthly and quarterly basis to Treasury, Senior Management, ALCO, IRMC and Board for decision making. ALCO is responsible for regularly monitoring the Market Risk exposures and taking appropriate actions to optimise the Risk exposures within the Risk appetite of the Bank.

The implementation of the Bank's risk management policies, procedures and systems are delegated to the Head of Market Risk Middle Office who reports to the Chief Risk Officer. Market and liquidity risks are addressed at ALCO and at the Board IRMC level on a monthly/quarterly basis.

RISK MANAGEMENT

Analytics

Market Risk exposure

The analysis of Market Risk exposure by Trading and Non-trading portfolios of the Bank is set out in the table below.

Market Risk arises mainly from interest rate risk and FX risk, where Non-trading portfolio accounted for 92.31% of the total assets and 91.32% of total liabilities. The Bank had a negligible exposure to equity risk and was insensitive to commodity related price risk

As at 31st December 2018	Carrying amount LKR '000	Trading book LKR '000	Non-trading book LKR '000
Assets subject to market risk			
Cash and cash equivalents	143,772		143,772
Balances with Central Bank of Sri Lanka	-		-
Placements with banks	15,237,306		15,237,306
Derivative Financial Instruments	3,937,847	3,937,847	
Financial Assets measured at fair value through profit or loss	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 instruments	24,070,365		24,070,365
Financial Assets measured at fair value through OCI	52,908,306		52,908,306
Total	442,448,127	5,885,089	436,563,038
Liabilities subject to market risk			
Due to Banks	15,047,479		15,047,479
Derivative Financial Instruments	2,906,572	2,906,572	
Financial Liabilities at amortised cost - due to depositors	324,618,039		324,618,039
Financial Liabilities at amortised cost			
- due to debt securities holders	6,394,211		6,394,211
- due to other borrowers	37,040,989		37,040,989
Debt securities issued	16,811,808		16,811,808
Total	402,819,098	2,906,572	399,912,526

Market Risk Management Unit uses a range of techniques to measure the risk exposures arising from Treasury / general banking activities. In accordance with the internal and regulatory requirements, we measure, monitor and control Bank's exposures to market risk, given the size, complexity and risk profile of the Bank.

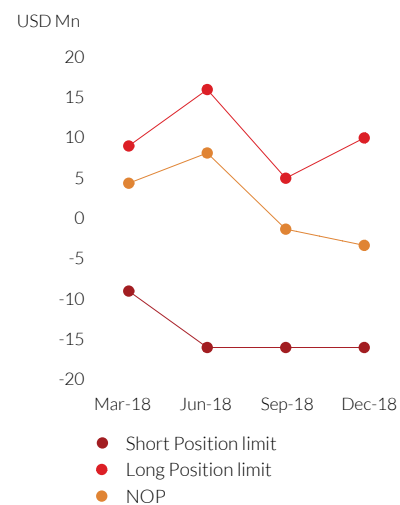
Prudential internal limits have been defined for exchange rate risks, interest rate risk and Price risks for close monitoring of exposures including various techniques such as Mark to Market, Sensitivity analysis, Value at Risk (VaR) and Stress testing. The exposure limits are linked to the Bank's capital base/Balance Sheet size/profitability as appropriate to ensure adequate and efficient capital allocation and planning.

Foreign Exchange Risk

Foreign exchange risk is the risk of losses arising through holding of assets and liabilities in foreign currency and due to the movements in foreign exchange rates against the base currency. The Bank is exposed to foreign exchange risk through unequal holdings of on and off Balance Sheet assets and liabilities in a given currency or when the timing and certainty of the inflows and outflows differ.

Bank monitors the daily foreign exchange (FX) open positions to ensure that it is operating within the regulatory limit on net open position. The Bank has also set internal prudential Forex limits consisting of daily Forex turnover limit, daylight position limit, Forex Gap limits, stress testing limits, Swap funding limit and Stop loss limits, to closely monitor and mitigate foreign exchange risk.

DBU Net Open Position (NOP) during the year



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%.

Foreign Exchange Position (DBU & FCBU) as at 31.12.2018							in '000	
Currency	Net AL Position	Net Spot Position	Net Forward Position	Net Open Position	Net Position in other exchange contracts	Overall exposure in respective Foreign Currency	Absolute Positions in USD Equivalent	Overall exposure in Sri Lankan rupees
US Dollars	85,587.30	5,219.88	-93,906.66	-3,099.48	0.00	-3,099.48	3,099.48	564,880.19
Pound Sterling	-15,493.37	0.88	15,487.12	-5.36	0.00	-5.36	6.80	1,240.01
Euro	-31,864.28	2,120.00	29,704.93	-39.34	0.00	-39.34	45.01	8,202.62
Japanese Yen	-105,863.96	0.00	100,749.76	-5,114.20	0.00	-5,114.20	46.32	8,442.59
Australian Dollar	-26,182.91	-50.00	26,227.95	-4.96	0.00	-4.96	3.50	638.43
Canadian Dollar	-596.54	0.00	566.13	-30.41	0.00	-30.41	22.33	4,069.23
Other currencies	-6,255.79	-100.00	7,250.35	894.56	0.00	894.56	151.30	27,574.61
Total Exposure								615,047.68
Total capital funds as per the latest audited financial statements as at 31.12.2018								34,998,042
Total exposure as a % of total capital funds (should not exceed 30%)								1.76%

Value at Risk (VaR)

VaR is a quantitative measure of the potential loss in value due to market movements which is expected for a defined period and a confidence level. The Bank's Foreign exchange trading portfolio is subject to VaR measurement under historical simulation method on a daily basis. As prescribed by the BASEL guidelines we calculate VaR, using 99% confidence level for a one day holding period.

Value at Risk (VaR) on Forex Trading portfolio

VaR - (at 99%)	as at 31.12.2018 LKR Mn	as at 31.12.2017 LKR Mn
Forex Trading	0.70	2.24

Historical approach , 1 day holding period

Stress testing on DBU net open position (NOP)

Stress testing on DBU NOP under different magnitudes of shocks are performed to assess the impact on profitability as given below.

Bank's Foreign Currency DBU net Open position and Stress test results as at 31.12.2018

USD/LKR	Net Position	Scenario 1	Scenario 2	Scenario 3	Scenario 4
Magnitude of Shock (adverse)		5%	10%	15%	25%
Spot Rate movement	182.50	191.63	200.75	209.88	228.13
Net Open Position -DBU, Profit/loss (LKR)	(3,328,682)	(30,374,224)	(60,748,447)	(91,122,671)	(151,871,119)

RISK MANAGEMENT

Sensitivity Analysis

Daily sensitivity analysis is carried out on major foreign currency Net Open Positions (NOP) giving positive and negative shocks to the spot rates to determine the impact of exchange rate movements by way of profit or loss to the Bank's income statement.

Exchange Rate Sensitivity of Major Foreign Currency Net Open Positions as at 31 December 2018

Spot Rate Shocks		LKR depreciate				LKR appreciate		
Currency	Net Open Position	-5%	-2.5%	-1%	Spot rate	1%	2.50%	5%
USD	(3,099,480)	(28,282,753)	(14,141,377)	(5,656,551)	182.50	5,656,551	14,141,377	28,282,753
GBP	(5,361)	(62,254)	(31,127)	(12,451)	232.23	12,451	31,127	62,254
EUR	(39,344)	(411,645)	(205,823)	(82,329)	209.25	82,329	205,823	411,645
JPY	(5,114,197)	(424,497)	(212,248)	(84,899)	1.66	84,899	212,248	424,497
AUD	(4,959)	(31,897)	(15,949)	(6,379)	128.64	6,379	15,949	31,897
Total		(29,213,047)	(14,606,523)	(5,842,609)		5,842,609	14,606,523	29,213,047

Interest Rate Risk (IRR)

Interest Rate Risk (IRR) is the exposure of an institution's financial condition to adverse movements in interest rates. Changes in interest rates affect the underlying value of the assets, liabilities and off-Balance Sheet instruments, as the present value of future cash flows (and in some cases, the cash flows themselves) change when interest rates change. Interest rate risk inherits various components; Re-pricing risk, basis risk, yield curve risk, Option risk and price risk.

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 while the banking book (available for sale / Fair value through OCI and held to maturity /Amortized cost) comprises assets and liabilities, which are contracted basically 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.

Bank's trading portfolio mainly comprises securities (Treasury Bills/Bonds), and is monitored daily against the, portfolio size limit, duration limit, holding period limit, maturity mismatch limit and mark to market limits. Portfolios are subject to VaR (Value at Risk) and PVBP analysis to analyse the impact on fluctuations in interest rates which are being closely monitored to take advantage of the market movements.

Key Indicators	Position as at 31.12.2018
Mark to Market of Financial Assets measured at fair value through profit & loss	LKR (1.21) Mn
Duration of Debt securities -Financial Assets measured at fair value through profit & loss	1.83 Years
Duration of Debt securities -Financial Assets measured at fair value through Other Comprehensive Income	1.3 Years

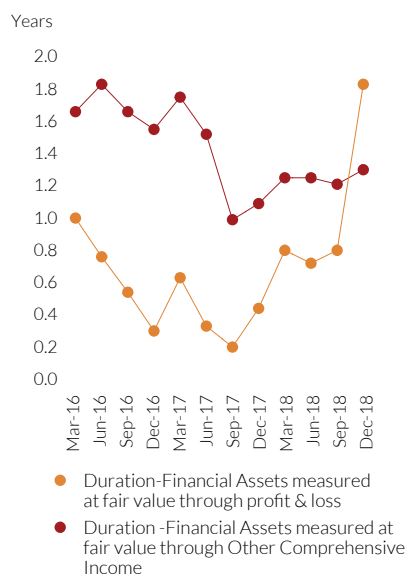
Value at Risk (VaR) on Treasury Bills / Bonds portfolio

VaR - (at 99%)	as at 31.12.2018 LKR Mn	as at 31.12.2017 LKR Mn
Debt Securities - Financial Assets measured at fair value through profit & loss	4.68	0.36
Debt Securities - Financial Assets measured at fair value through Other Comprehensive Income	68.37	29.79

Historical approach , 1 day holding period

Duration analysis

Weighted Duration of Debt Securities Portfolio



Interest Rate Risk in the Banking Book (IRRBB)

The IRRBB arises mainly through non-trading asset and liabilities such as loans and advances, which is measured and managed through price sensitivity /EVE (Economic Value of Equity) NII (Net Interest Income) 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 maximizing the market potential on interest sensitive assets and liabilities.

Price Sensitivity of Assets & Liabilities As at 31st December 2018 - LKR Mn

	Total Balance	Price Sensitivity
Total Assets	316,488	4,263
Total Liabilities	316,488	3,593
Price Sensitivity		670

Modified Duration - measurement of the portfolio to a 1% change in interest rates

Price Sensitivity - Sum of value change in each portfolio due to a 1% change in interest rates

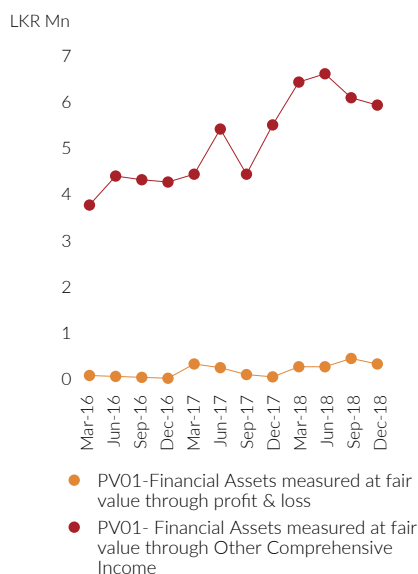
Source - Fiserve ALM System

Interest Rate Sensitivity Gap Analysis

The Bank monitors the interest rate sensitivity of assets and liabilities using re-pricing gap report. (Disclosure note No56.4 (c) of page number 350)

PV01 analysis

PV01 of Debt Securities Portfolio



Equity Risk

The Equity price risk arises due to adverse movement in the value of the individual stock price or of the corresponding equity index. Bank does not engage in equity trading at present but the investments held in the AFS portfolio (Fair value through OCI portfolio) are subject to mark to market valuation.

Equity position risk measurements –as at 31. 12. 2018

	Financial Assets measured at fair value through profit & loss LKR '000	Financial Assets measured at fair value through Other Comprehensive Income LKR '000
	Impact on Income statement	Impact on OCI
Shock of 15% on Equity price	-	187,935

RISK MANAGEMENT

LKR '000					Amount included in capital adequacy calculation	
Type	Carrying Value	Fair Value	Realized gain/ loss	Unrealized gain/loss	Amount adjusted from CET 1 capital	Amount considered for Market Risk
Financial Assets measured at fair value through Other Comprehensive Income	1,683,993.47	1,257,074.38	-	-	925.90	-

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 2018.

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 comes by way of banks' inability to find an alternate party to deal on same rates (interest or exchange) due to market changes.
- Settlement Risk - Relates to the event where the counterparty to the deal is unable to honour settlement obligations (either in local currency or foreign currency) to the bank after having taken possession of funds paid by the bank in settlement.

The Bank sets individual counterparty 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.

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.

Effective liquidity-risk management is essential to maintain the confidence of depositors and counterparties while ensuring that growth objectives are met.

Objectives of Liquidity Risk Management

The objective of our liquidity framework is to ensure that all anticipated funding commitments can be met as and when due whilst maintaining the business profile. It is designed to be adaptable to changing business models, markets and regulations. The Bank continues to focus on liability generation, which will be a necessary pre-condition for significant asset growth.

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. Key liquidity measures are managed and monitored on a daily, weekly or monthly basis to ensure that the Bank meets the regulatory (Liquid asset ratio, Statutory reserve requirement and liquidity coverage ratio) as well as the internal limits whilst meeting the customer demands without incurring unacceptable losses.

In this context, MRMO circulates reports on Open exposures levels, Liquidity risk exposures (KRI's), ALM and liquidity risk assessment to the Management / Board on a regular basis.

Liquidity Risk Governance structure



The Bank also has a comprehensive Liquidity Contingency Funding Plan (LCFP) in place linked to the Business Continuity Plan in line with the regulatory guidelines.

The LCFP clearly defines the responsibilities of the Liquidity Management Team, Internal/ external liquidity risk trigger points, stage for plan invocation/ de-activation and the action plans to be exercised to ensure that all stakeholders of the Bank are safeguarded. In addition the Bank has entered in to reciprocal liquidity funding agreements with identified counterpart banks to ensure stability.

Liquidity Risk Analytics

Liquidity measurement could be measured through Stock approach or Flow approach. Under the stock approach liquidity is measured in terms of key ratios which portray the liquidity stored in the Balance Sheet. In the flow approach a statement of maturities of assets and liabilities is prepared placing all cash flows in time bands according to the residual time to maturity. Separate gap limits are set for the local currency and foreign currency maturity mismatch reports based on the size and the nature of the Bank's Balance Sheet.

Bank uses several internal prudential measures to manage its liquidity position, whilst meeting the regulatory limits. Certain limits are set for key liquidity measures, above the regulatory limit to give early warnings signals of tightening liquidity positions of the Bank. Factors such as Market liquidity, exposure to interbank market, movement on loans and advances and Deposit mix are regularly monitored to identify any impending liquidity strain on the Bank.

Key Risk Metrics

Ratios under Stock Approach

Selected KRIs are highlighted below which provide a view of the Liquidity Risk indicators. The Bank has set more stringent internal limits for statutory liquid asset ratio and liquidity coverage ratio as an early warning signal to monitor impending liquidity stress situations, which are well managed within the risk appetite.

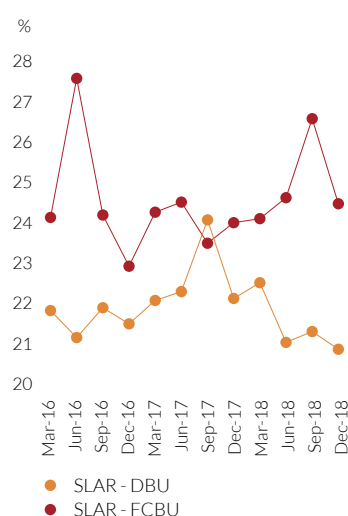
Key Indicators	Position as at 31.12.2018
Statutory Liquid Asset ratio % - DBU	20.87
Statutory Liquid Asset ratio % - FCBU	24.48
Liquidity Coverage Ratio (LCR)% -LKR Currency	168.74
Liquidity Coverage Ratio (LCR)% -All Currency	215.99
Advances to Deposit ratio%	101.70
Medium term Funding Ratio%	67
Concentration Ratio % - top 20 Depositors	19.74
Commitments - LKR Bn.	98.79

The key ratios under the stock approach which are regulatory requirements include the statutory liquid asset ratio and liquidity coverage ratio.

Liquid Asset Ratio-LAR

The LAR intends to ensure that the Bank maintains a sufficient amount of Liquid assets in relation to it's liabilities in order to meet all liquidity requirements.

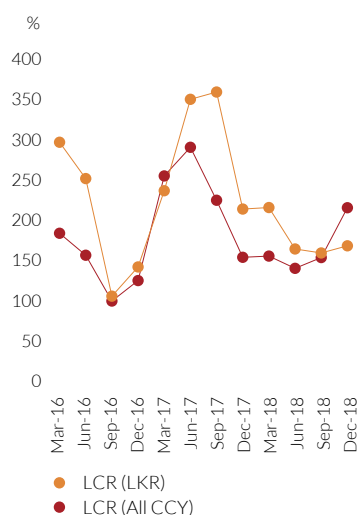
Statutory Liquid Asset Ratio



Liquidity Coverage Ratio - LCR

The LCR intends to promote short-term resilience of banks in ensuring that it has an adequate stock of high-quality liquid assets that can be converted easily into cash to meet their liquidity needs for a period of 30 calendar days under a stressed liquidity scenario; thus reducing the risk of spill-over from the financial sector to the real economy.

Liquidity Coverage Ratio

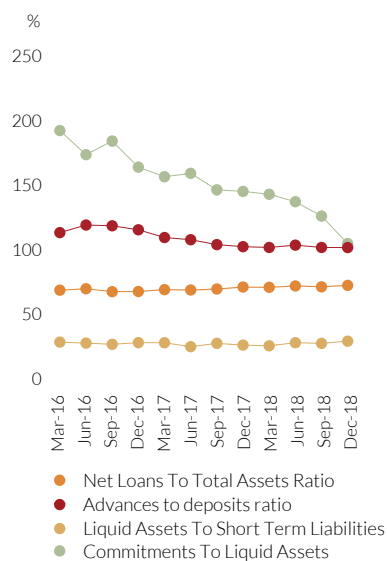


RISK MANAGEMENT

Net Stable Funding Ratio – NSFR

NSFR requires banks to maintain a stable source of funds in relation to the composition of their assets and off-Balance Sheet exposures, which limits over-reliance on short term wholesale funding and for better liquidity Management. As per the regulatory requirement, Banks are required to maintain a minimum NSFR of 90% by 01 January 2019 and 100% by 01 July 2019. The bank maintained a ratio of 114.25% as at 31 December 2018 which is comfortably above the regulatory requirement.

The position of Net Loans to total assets ratio, advances to deposit ratio, Liquid assets to short term liabilities and Commitments to liquid assets ratio which are used to measure the liquidity position in the Bank is depicted below.



Flow approach

A statement of Maturities of Assets and Liabilities (MAL) is prepared by the Bank placing all cash inflows and outflow 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 predefined risk appetite

Maturity Gap Analysis for local currency denominated Assets and liabilities - as at 31 December 2018

LKR '000	Up to 1 month	1-3 Months	3-6 Months	6-12 Months	1-3 Years	3-5 Years	Over 5Years	Total
Total Assets	40,298,535	36,459,847	24,134,154	51,372,345	78,025,351	60,609,578	63,865,804	354,765,615
Total Liabilities	57,879,424	64,935,693	43,849,851	58,703,379	32,000,143	18,077,836	79,319,288	354,765,615
Net Liquidity period Gap	(17,580,889)	(28,475,846)	(19,715,697)	(7,331,034)	46,025,207	42,531,742	(15,453,484)	-

Maturity Gap analysis for foreign currency denominated Assets and liabilities - as at 31 December 2018

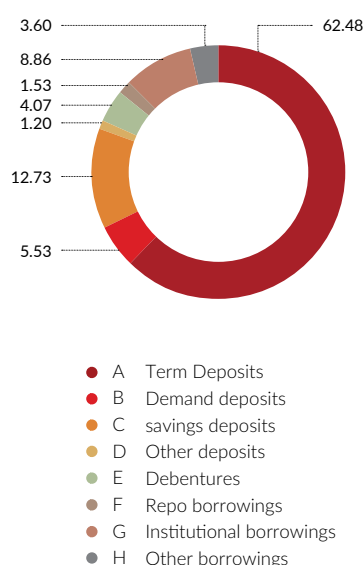
USD '000	Up to 1 month	1-3 Months	3-6 Months	6-12 Months	1-3 Years	3-5 Years	Over 5Years	Total
Total Assets	236,517	118,692	36,111	8,202	65,513	134,398	64,375	663,807
Total Liabilities	113,487	89,040	112,143	138,205	100,745	39,756	70,430	663,807
Net Liquidity period Gap	123,030	29,652	(76,033)	(130,004)	(35,232)	94,642	(6,055)	-

The Gap Analysis of assets and liabilities provides the cash flow obligations which assist in prudential management of the liquidity profile of the Bank.

Diverse funding profile

The Bank's funding profile is concentrated more towards term deposits. Regular stress tests are performed to assess the bank's ability to withstand stressed scenarios and maintain healthy Liquidity position. Funding requirements are assessed and managed through maturity gap analyses and cash flow reports on a regular basis.

Funding Diversification by Product



OPERATIONAL RISK

Objectives of Operational Risk Management

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, systems or human factors or from external events. Operational risk originates from both the Bank's business and support units and is inherent in the natural course of business activities, products and processes. Increasing reliance on information technology has led to increased complexities and vulnerabilities ensuing to operational risks. Accordingly, Bank's ultimate objective has been focused on a robust Risk Management framework to effectively identify, assess and manage operational risks.

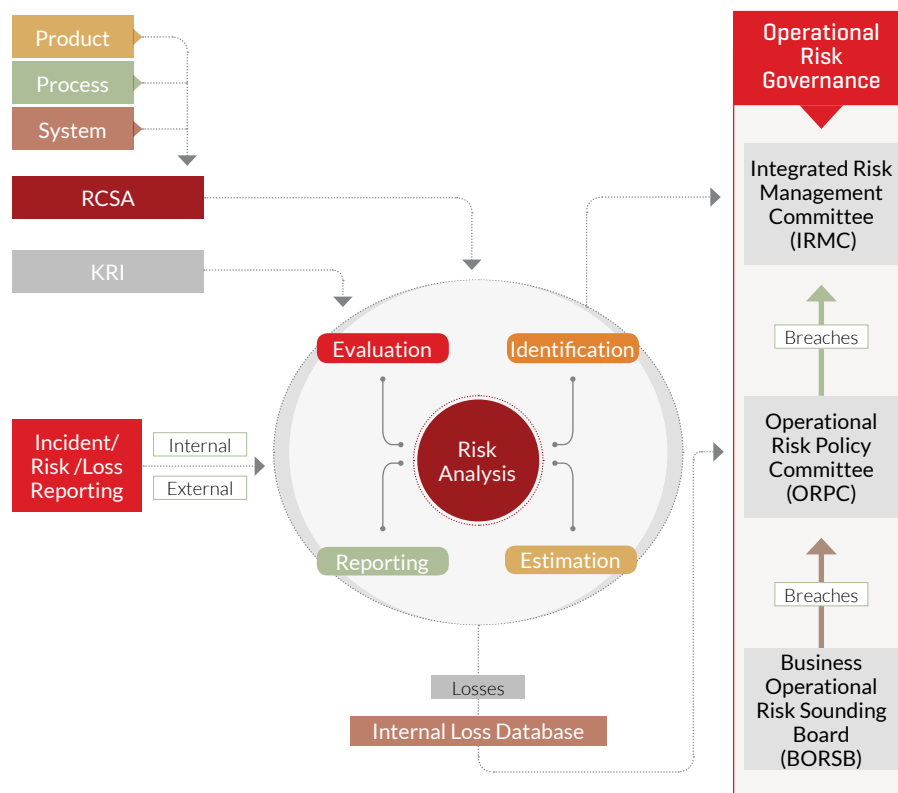
Policies

The implementation of a robust risk management system is underpinned by the Bank's comprehensive Operational Risk Management policies, which is based on the paper "Sound Practices for the Management and Supervision of Operational Risk" issued by the Basel Committee and regulations issued by the Central Bank of Sri Lanka. Operational Risk policies cover the entire Bank/Group spanning all business/product lines and support functions and are requisite to be followed by all staff.

Operational Risk Framework

The Board of Directors is responsible for the overall level of risk assumed by the Bank ensuring that risks are appropriately managed. The Board charges the senior management with developing, communicating and implementing policies in order to identify measure, monitor and control all risks encountered by the Bank. The policies and framework are reviewed and approved by the Integrated Risk Management Committee and the Board annually.

Operational Risk Management Process



The Operational Risk Management Unit (ORMU) lies as the second line of defence and is notably responsible for identifying, measuring, managing and monitoring of operational risks in cooperation with the Business units and Support functions at Group level. The past, current and future environment is assessed using the Operational Risk tools in order to identify the impact to the Bank.

RISK MANAGEMENT

Business Operational Risk Sounding Board (BORSB) is a forum to discuss the progress/rectification of operational risk matters of Business lines/Support functions scheduled at regular intervals. Risks that require attention of Senior Management is brought to the notice of the **Operational Risk Policy Committee (ORPC)** and **Integrated Risk Management Committee (IRMC)**.



Risk Identification: Potential risks that may impact the Bank are identified through analysis of internal factors, such as control lapses and external factors such as environmental threats. Proactive risk identification includes risks identified through root cause analysis of operational events and change initiatives.

Risk Assessment: Once identified, risks are assigned risk grades (High, Medium and Low) based on the assessment of the likelihood and impact of the risks as per the defined policy.

Risk Reporting: Periodic reports are prepared detailing out the risks faced by the Bank ensuring timely escalation mechanisms.

Risk Management and Control: Actions to mitigate or control identified risks are prioritized based on the assessed impact. Appropriate action plans are established to mitigate, avoid, accept or transfer the risks to fall within the Bank's risk appetite as decided by the Senior Management. This involves periodic re-assessment of risk grades to capture changes

in environment that may increase or decrease potential impact of the risks.

Risk Analysis

Identified Operational risks are captured in a database for analysis and prioritized according to the criticality of the impact.

Operational risk management methodologies have been automated via the NDB Operational Risk Management System (NORMS) and the business lines/support functions are facilitated to carry out operational risk tools.

• Internal Operational Risk Incidents, Risks and Losses - Reporting, Collection and Analysis

Self-reporting of incidents and risks is encouraged within the Bank. Operational Risk incidents are analysed to identify the root causes and owners are assigned for mitigation with defined target dates. The root causes are analysed further to identify the underlying risks.

• Risk and Control Self-Assessment (RCSA)

The annual RCSA exercise is undertaken bank-wide, to assess and manage the risks for various processes and systems in order to determine the residual risks of the Bank. The direction of risks and the level of tolerance in relation to the risks appetite of the Bank are identified. Risks are escalated for appropriate action to minimize the impact and incidence of losses.

• Key Risk Indicators (KRI)

Bank designates the Key Risks for monitoring, having identified the risks inherent to the individual business lines and support functions. KRIs are monitored based on the frequencies set for early detection of operational risks before actual failure occurs. Warning thresholds are defined to identify limits for each of these indicators. If the thresholds are breached, appropriate actions are taken according to the escalation hierarchy.

• External Loss/Risk Event Data

External events which have an operational risk implication are monitored to identify the potential impact to the Bank.

- Events affecting the outsourced vendors and strategic partners of the Bank
- Changes in regulations
- Natural disasters
- Cyber attacks

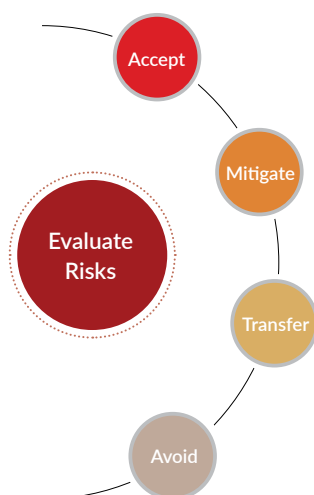
• New / Change initiatives Risk Analysis

- Operational risks are identified and assessed in the evaluation and implementation of new / change initiatives such as new products, acquisition, integration and projects.

• Scenario Analysis and Stress Testing

- Scenarios (expected and extreme/stress) are described as a sequence of hypothetical events that could have severe impact on the organization, if they were to occur. Bank uses scenario analysis and stress testing to identify and assess low-frequency/high-severity operational risks.

- Operational Risk Management is an end to end process to ensure operational risks are effectively managed from the time they are identified and mitigated to fall within the risk appetite of the Bank. Appropriate action plans are established to retain, reduce, share or avoid the risks faced by the Bank.



Transfer Strategies

Insurance –

Comprehensive insurance policies have been obtained to cover Operational lapses which may occur as a result of events such as errors and omissions, physical loss of securities, frauds and natural disasters.

Outsource –

The Policy and procedures related to outsourcing are in accordance with the CBSL outsourcing direction 02 of 2012 and all outsourcing arrangement entered into are subject to same. The Bank is committed to ensure that the outsourced parties uphold and extend high standards of customer care and service excellence, and all outsourced vendors and agreements are evaluated accordingly prior to approval of same by the bank's Outsourcing committee.

Mitigating Strategies

Contingency Plan

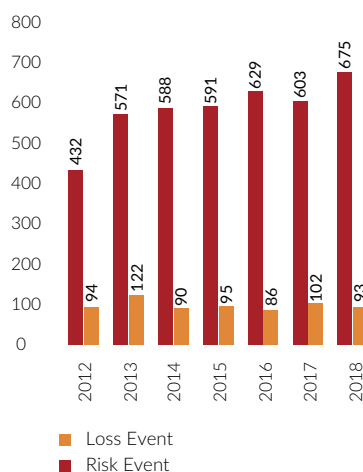
In order to cover the risks of crisis that threaten the safety of staff, customers and service providers, the security of assets, the continuity of operations and confidence in the Bank's reputation, the Bank's Business Continuity Management Policy requires that a full set of up to date and exercised plans be in place encompassing a minimum of Crisis Management Plan (CMP), Business Continuity Plan (BCP) and IT Disaster Recovery Plan (IT DRP) amongst other relevant plans.

Analysis of Operational Risks

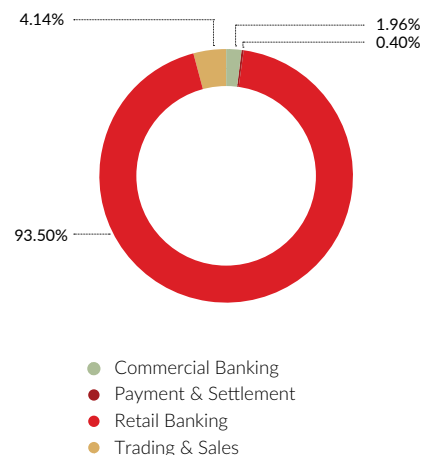
Incidents, Risks and Loss Data Collection

Self reporting of incidents has improved over the years. Materialized operational risk losses are less than 20% of reported incidents.

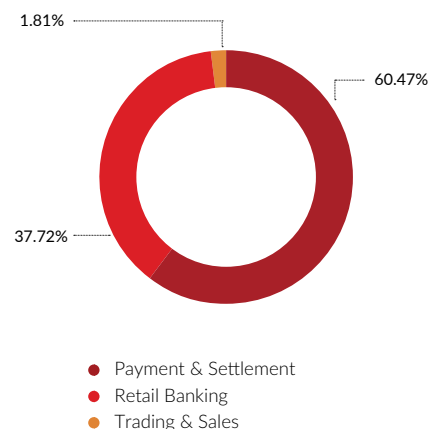
Risks & Loss Events



Operational Risk Losses - 2018 Business Lines



Operational Risk Losses - 2017 Business Lines



RISK MANAGEMENT

Managing Cyber Risk

In an increasingly complex digital society where interconnected systems and innovative digital services define the operating standards for organizations, effectively managing cyber risks is proving to be a complex challenge. The fast-paced adoption of technology, associated risks and the constant probing of financially motivated cyber adversaries to find weaknesses to exploit and gain a foothold within the digital infrastructure of financial institutions has led to further challenges. Having understood these dynamics, the Bank strives to invest in updating its digital defenses to meet the challenges of the evolving cyber threat landscape and continue to collaborate with financial sector threat intelligence providers.

Business Continuity Management

The Bank's Business Continuity Management (BCM) Policy requires that a full set of up to date and exercised plans to 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 biannually at the Bank's fully equipped Disaster Recovery Site to ensure capability and resilience to business disruption. The Governance of Business Continuity Management is steered through the Crisis Management Team comprising of senior management and coordinated by the Bank's Business Continuity Manager.

Insurance Cover in Operational Risk Management

The Bank has a comprehensive insurance program as a key measure to mitigate operational risks. The insurance program

is reviewed periodically and further refined on an on-going basis. The Bank has engaged an insurance broker to source terms, evaluate them and add value using their expertise.

Operating Losses

Operating losses which are insurable are covered by a spectrum of insurance policies on a system wide basis.

Description of coverage

Risk	Insurance framework
General Risks Buildings and their contents, including IT equipment, are insured at their replacement value. The Limits of Indemnity are decided upon after assessing the likely exposure of the bank to such risks.	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 are covered.	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 are insured.	Professional indemnity policy
Computer crime The policy covers 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

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's medium to long-term strategy is clearly laid out in the T20 strategy, which has been clearly communicated across the organization. The strategic plans are drawn at various level of granularity e.g. a branch level strategy will detail the growth targets at branch level whereas a department level strategy will feature the achievement metrics at that level. The implementation is reviewed through monthly meetings where variances from the growth targets are analysed and corrective actions recommended.

The Strategic Plan is also linked to individual employee performance through a goal setting process and periodic performance reviews are carried out to motivate employees and create a performance culture to ensure that business goals and objectives are achieved, thus mitigating strategic risk.

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 does have 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, loss due to default 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 also 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, procedures and advertisements
- Other modes of conduct and communication adopted by the Bank
- Intellectual property not being adequately protected.

This risk is managed by a well experienced team at 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 quarterly basis to the Board.

COMPLIANCE RISK

Very closely related with reputational 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 organizational standards, and codes of conduct applicable to its business activities. The Bank takes every endeavour to comply with all applicable regulations to maintain compliance risk at a 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 organization 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 the 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 utilization, failed trades & excess monitoring. Settlement Risk is currently controlled by way of prudent allocation and monitoring of counterparty limits including Maximum Daily Delivery Risks (MDDR) limits for counterparties.

GOVERNANCE RISK

The Board of Directors are responsible for the overall governance of the Bank and it includes setting out the Bank's strategic aims, providing leadership to operationalise same, supervising the management of the business and reporting to shareholders on their stewardship. 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.

Please refer the Corporate Governance Report and the Bank's compliance to the disclosure requirements of the Corporate Governance Direction No.11 of 2007 (as amended) issued by the Central Bank of Sri Lanka and the compliance to the disclosure

RISK MANAGEMENT

requirements of the Code of Best Practice on Corporate Governance 2017 issued by the Institute of Chartered Accountants of Sri Lanka.

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 hitherto described.

Reputation risk management and mitigation aspects are embedded in the Bank's policies and procedures, training programs, the Business Continuity Plan and through the Audit and Board Risk Management Committees.

The Bank monitors its reputation risk profile through a set of early warning indicators based on the reputation risk drivers and the factors within the reputation risk scorecard ensure that the overall reputation risk profile remains acceptable. The risk mitigation and control processes for reputation risk are designed to consider appropriate response actions to address the risks identified. A Customer Complaint Handling Process has been established under which the customers have a range of options through which they can forward their grievances to the Bank, by way of letters, using our public help line that is manned on a 24 hour basis, through the Bank 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;

- NDB'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 NDB'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 Limited and NDB Wealth Management Limited being licensed stock brokers and Unit Trust Managers are regulated by the SEC.
- Risk Reporting framework by group companies to Centralized Group Risk Management of NDB/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

NDB's risk management capabilities have evolved from the responsibility of an individual unit to an organization-wide risk culture permeating all business and support functions. Unprecedented changes in the operating landscape have compelled banks consistently monitoring emerging dynamics and strengthen risk management frameworks to effectively drive strategic aspirations. As we move towards obtaining the status of a domestic systemically important Bank, 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

1.(a) Key Regulatory Ratios - Capital and Liquidity

As at 31 December	BANK		GROUP	
	2018	2017	2018	2017
Regulatory Capital (LKR '000)				
Common Equity Tier 1 Capital	31,564,510	24,424,734	36,604,271	29,859,223
Tier 1 Capital	31,564,510	24,424,734	36,604,271	29,859,223
Total Capital	43,458,448	38,304,758	47,992,241	43,189,555
Regulatory Capital Ratios (%)				
Common Equity Tier 1 Capital Ratio (Minimum Requirement - 6.375% (2017 - 5.75%))	9.17	8.85	10.39	10.49
Tier 1 Capital Ratio (Minimum Requirement - 7.875% (2017 - 7.25%))	9.17	8.85	10.39	10.49
Total Capital Ratio (Minimum Requirement - 11.875% (2017 - 11.25%))	12.63	13.89	13.62	15.18
Regulatory Liquidity				
Statutory Liquid Assets (LKR'000)	93,997,616	77,506,348	NA	NA
Statutory Liquid Assets Ratio (Minimum Requirement - 20%)				
- Domestic Banking Unit (%)	20.87	22.13	NA	NA
- Off-Shore Banking Unit (%)	24.48	24.01	NA	NA
Total stock of high quality liquid assets (LKR '000) - Rupee	49,983,967	51,792,579	NA	NA
Total stock of high quality liquid assets (LKR '000) - All currency	54,060,818	51,901,650	NA	NA
Liquidity Coverage Ratio (%) – Rupee (Minimum Requirement - 90% (2017 - 80%))	168.74	214.35	NA	NA
Liquidity Coverage Ratio (%) – All Currency (Minimum Requirement - 90% (2017 - 80%))	215.99	154.50	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 25% of the first day impact on the adoption of SLFRS 9 (LKR 442 Mn in the Bank & Group) from the retained earnings in computing the Capital adequacy ratio as at 31 December 2018.

RISK MANAGEMENT

The Capital Adequacy Ratios as at 01 January 2018 after absorbing 12.5% of the first day impact on SLFRS 9.

As at 01 January 2018	BANK	GROUP
Regulatory Capital (LKR '000)		
Common Equity Tier 1 Capital	24,199,137	29,636,658
Tier 1 Capital	24,199,137	29,636,658
Total Capital	37,966,361	42,853,594
Regulatory Capital Ratios (%)		
Common Equity Tier 1 Capital Ratio (Minimum Requirement - 6.375%)	8.82	10.48
Tier 1 Capital Ratio (Minimum Requirement - 7.875%)	8.82	10.48
Total Capital Ratio (Minimum Requirement - 11.875%)	13.84	15.15

1.(b) Basel III Computation of Capital Ratios

	BANK		GROUP	
As at 31 December	2018	2017	2018	2017
	LKR '000	LKR '000	LKR '000	LKR '000
Common Equity Tier 1 (CET1) Capital after Adjustments	31,564,510	24,424,734	36,604,271	29,859,223
Common Equity Tier 1 (CET1) Capital	35,142,259	27,696,573	38,930,716	31,875,573
Equity Capital (Stated Capital/Assigned Capital)	6,469,323	2,208,520	6,469,323	2,208,520
Reserve Fund	1,636,479	1,336,479	1,636,479	1,336,479
Published Retained Earnings/(Accumulated Retained Losses)	22,197,869	18,585,254	25,967,528	22,775,440
Published Accumulated Other Comprehensive Income (OCI)	(967,119)	(239,387)	(948,321)	(250,573)
General and other Disclosed Reserves	5,805,707	5,805,707	5,805,707	5,805,707
Total Adjustments to CET1 Capital	3,577,749	3,271,839	2,326,445	2,016,350
Intangible Assets (net)	379,896	384,369	396,742	397,053
Deferred tax assets (net)	371,521	-	370,822	-
Defined benefit pension fund assets	291,507	129,662	291,507	129,662
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	927,975	1,122,016	1,267,374	1,489,635
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	1,606,850	1,635,792	-	-
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	-	-	-	-

As at 31 December	BANK		GROUP	
	2018	2017	2018	2017
	LKR '000	LKR '000	LKR '000	LKR '000
Tier 2 Capital after Adjustments	11,893,938	13,880,024	11,387,970	13,330,332
Tier 2 Capital	11,893,938	13,880,024	11,893,938	13,880,024
Qualifying Tier 2 Capital Instruments	9,902,732	12,212,368	9,902,732	12,212,368
Revaluation Gains	542,092	542,092	542,092	542,092
Loan Loss Provisions	1,449,114	1,125,564	1,449,114	1,125,564
Total Adjustments to Tier 2	-	-	505,968	549,692
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	-	-	505,968	549,692
CET1 Capital	31,564,510	24,424,734	36,604,271	29,859,223
Total Tier 1 Capital	31,564,510	24,424,734	36,604,271	29,859,223
Total Capital	43,458,448	38,304,758	47,992,241	43,189,555
Total Risk Weighted Assets (RWA)	344,069,057	275,852,129	352,441,054	284,519,116
RWAs for Credit Risk	320,987,845	248,519,093	324,340,671	253,454,095
RWAs for Market Risk	2,104,174	9,195,023	6,274,298	12,072,722
RWAs for Operational Risk	20,977,038	18,138,013	21,826,085	18,992,299
CET1 Capital Ratio (including Capital Conservation Buffer, Countercyclical Capital Buffer & Surcharge on D-SIBs) (%)	9.17	8.85	10.39	10.49
of which: Capital Conservation Buffer (%)	1.875	1.250	1.875	1.250
of which: Countercyclical Buffer (%)	-	-	-	-
of which: Capital Surcharge on D-SIBs (%)	-	-	-	-
Total Tier 1 Capital Ratio (%)	9.17	8.85	10.39	10.49
Total Capital Ratio (including Capital Conservation Buffer, Countercyclical Capital Buffer & Surcharge on D-SIBs) (%)	12.63	13.89	13.62	15.18
of which: Capital Conservation Buffer (%)	1.875	1.250	1.875	1.250
of which: Countercyclical Buffer (%)	-	-	-	-
of which: Capital Surcharge on D-SIBs (%)	-	-	-	-

RISK MANAGEMENT

1.(c) Basel III Computation of Liquidity Coverage Ratio - All Currency Liquidity Requirement

As at 31 December	BANK			
	2018		2017	
	Total Un-weighted Value LKR '000	Total Weighted Value LKR '000	Total Un-weighted Value LKR '000	Total Weighted Value LKR '000
Total Stock of High-Quality Liquid Assets (HQLA)	54,754,891	54,060,818	52,654,215	51,901,650
Total Adjusted Level 1A Assets	50,377,379	50,377,379	51,497,371	51,497,371
Level 1 Assets	50,127,739	50,127,739	51,149,085	51,149,085
Total Adjusted Level 2A Assets	4,627,152	3,933,079	-	-
Level 2A Assets	4,627,152	3,933,079	-	-
Total Adjusted Level 2B Assets	-	-	1,505,130	752,565
Level 2B Assets	-	-	1,505,130	752,565
Total Cash Outflows	470,958,765	95,944,626	415,875,076	79,306,701
Deposits	195,253,268	14,272,916	169,266,672	12,024,091
Unsecured Wholesale Funding	162,374,454	78,736,165	121,018,123	64,833,008
Secured Funding Transactions	2,864,610	-	3,629,320	-
Undrawn Portion of Committed (Irrevocable) Facilities and Other Contingent Funding Obligations	110,410,380	2,879,492	121,960,961	2,449,602
Additional Requirements	56,053	56,053	-	-
Total Cash Inflows	99,331,503	70,914,740	73,685,468	45,713,580
Maturing Secured Lending Transactions Backed by Collateral	43,184,720	35,110,930	29,206,561	21,340,667
Other Inflows by Counterparty which are Maturing within 30 Days	52,996,084	35,747,756	42,115,292	24,372,913
Operational Deposits	3,094,647	-	2,363,615	-
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		215.99%		154.50%

1.(d) 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)
Issuer	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
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
Original Date of Issuance	Date listed 26-Apr-1993	19-Dec-2013	24-Jun-2015
Par Value of Instrument	NA	LKR 100/-	LKR 100/-
Perpetual or Dated	Perpetual	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
Amount Recognised in Regulatory Capital (in LKR '000 as at 31 December 2018)	6,469,323	7,228,410	2,674,322
Accounting Classification (Equity/Liability)	Equity	Liability	Liability
Issuer Call subject to Prior Supervisory Approval			
Optional Call Date, Contingent Call Dates and Redemption Amount (LKR '000)	NA	NA	NA
Subsequent Call Dates, if Applicable	NA	NA	NA
Coupons/Dividends			
Fixed or Floating Dividend/Coupon	Dividend declared as decided by the Board	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
Non-Cumulative or Cumulative	NA	Non-cumulative	Non-cumulative
Convertible or Non-Convertible			
If Convertible, Conversion Trigger (s)	NA	NA	NA
If Convertible, Fully or Partially	NA	NA	NA
If Convertible, Mandatory or Optional	NA	NA	NA
If Convertible, Conversion Rate	NA	NA	NA

Note:

- The Bank raised LKR 3,450 Mn through a right issue during the fourth quarter of 2018, Accordingly the stated capital increased to LKR 6,469 Mn.
- Types A and B of the listed Debenture Issue 1 (2013), totalling to LKR 2,772 Mn, matured in December 2018.

RISK MANAGEMENT

2. Risk Weighted Assets (RWA)

2. (a) Summary discussion on adequacy/ meeting current and future capital requirements.

Please refer the detail review on Capital Management on page 412.

2. (b) Credit Risk under Standardized Approach - Credit Risk Exposures and Credit Risk Mitigation (CRM) Effects

BANK						
Amount (LKR'000) as at 31 December 2018						
Asset Class	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	78,119,661	5,285,250	78,119,661	947,904	4,609,124	5.83%
Claims on Public Sector Entities	14,385,071	1,684,398	-	-	-	-
Claims on Banks Exposures	20,798,145	102,241,978	20,798,145	6,791,465	10,792,597	39.12%
Claims on Financial Institutions	36,760,727	24,475,105	36,760,727	690,918	19,844,198	52.99%
Claims on Corporates	165,037,731	126,190,067	151,112,942	29,669,897	177,229,486	98.03%
Retail Claims	111,964,006	22,202,155	99,449,587	3,990,698	82,162,010	79.43%
Claims Secured by Residential Property	14,480,462	656,022	14,480,462	147,767	7,967,469	54.47%
Non-Performing Assets (NPAs)(i)	6,984,929	-	6,984,929	-	9,565,656	136.95%
Higher-risk Categories	331,714	-	331,714	-	829,284	250.00%
Cash Items and Other Assets	11,429,211	-	11,429,211	-	7,988,021	69.89%
Total	460,291,657	282,734,975	419,467,378	42,238,649	320,987,845	

GROUP						
Amount (LKR'000) as at 31 December 2018						
Asset Class	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	78,224,642	5,285,250	78,224,642	947,904	4,609,124	5.82%
Claims on Public Sector Entities	14,385,071	1,684,398	-	-	-	-
Claims on Banks Exposures	21,229,362	102,241,978	21,229,362	6,791,465	10,903,360	38.91%
Claims on Financial Institutions	36,882,719	24,475,105	36,882,719	690,918	19,899,680	52.96%
Claims on Corporates	164,882,655	125,804,048	150,957,866	29,623,946	177,028,459	98.03%
Retail Claims	111,964,006	22,202,155	99,449,587	3,990,698	82,162,010	79.43%
Claims Secured by Residential Property	14,480,462	656,022	14,480,462	147,767	7,967,469	54.47%
Non-Performing Assets (NPAs)(i)	6,984,929	-	6,984,929	-	9,565,656	136.95%
Higher-risk Categories	-	1,261,391	-	630,695	946,043	150.00%
Cash Items and Other Assets	14,700,190	-	14,700,189	-	11,258,870	76.59%
Total	463,734,036	283,610,347	422,909,756	42,823,393	324,340,671	

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.

RISK MANAGEMENT

2. (b) Credit Risk under Standardized Approach - Credit Risk Exposures and Credit Risk Mitigation (CRM) Effects (Contd.)

BANK						
Amount (LKR'000) as at 31 December 2017						
Asset Class	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
Claims on Central Government and Central Bank of Sri Lanka	37,823,561	7,272,250	37,823,561	1,485,312	-	-
Claims on Public Sector Entities	14,259,805	2,587,874	-	-	-	-
Claims on Banks Exposures	4,708,600	70,725,699	4,708,600	4,163,901	4,296,192	48.42%
Claims on Financial Institutions	18,823,256	25,447,396	18,823,256	433,713	10,416,661	54.09%
Claims on Corporates	141,859,060	139,784,926	134,757,649	27,165,784	158,434,016	97.85%
Retail Claims	87,347,816	16,423,542	75,330,691	1,641,962	59,278,058	77.01%
Claims Secured by Residential Property	11,596,012	268,322	11,587,274	89,778	6,325,724	54.17%
Non-Performing Assets (NPAs)	2,959,435	-	2,616,746	-	3,624,952	138.53%
Higher-risk Categories	260,605	-	260,605	-	651,513	250.00%
Cash Items and Other Assets	8,459,976	-	8,459,976	-	5,491,977	64.92%
Total	328,098,126	262,510,009	294,368,358	34,980,450	248,519,093	

GROUP						
Amount (LKR'000) as at 31 December 2017						
Asset Class	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
Claims on Central Government and Central Bank of Sri Lanka	37,823,561	7,272,250	37,823,561	1,485,312	-	-
Claims on Public Sector Entities	14,259,805	2,587,874	-	-	-	-
Claims on Banks Exposures	5,124,798	70,725,699	5,124,798	4,163,901	4,506,399	48.51%
Claims on Financial Institutions	19,398,219	25,447,396	19,398,219	433,713	10,756,158	54.24%
Claims on Corporates	142,518,282	139,219,922	135,416,871	27,119,833	158,807,831	97.71%
Retail Claims	87,347,816	16,423,542	75,330,691	1,641,962	59,278,058	77.01%
Claims Secured by Residential Property	11,596,012	268,322	11,587,274	89,778	6,325,724	54.17%
Non-Performing Assets (NPAs)	2,959,435	-	2,616,746	-	3,624,952	138.53%
Higher-risk Categories	420,996	1,282,454	420,996	641,227	1,626,638	153.14%
Cash Items and Other Assets	11,496,459	-	11,496,459	-	8,528,335	74.18%
Total	332,945,383	263,227,459	299,215,615	35,575,726	253,454,095	

2. (c) Credit Risk under standardized Approach: Exposures by Asset Classes and Risk Weights

BANK								
Amount (LKR'000) as at 31 December 2018 (Post CCF & CRM)								
Risk Weight	0%	20%	50%	75%	100%	150%	>150%	Total Credit Exposures Amount
Asset Classes								
Claims on Central Government and Central Bank of Sri Lanka	56,021,943	23,045,622	-	-	-	-	-	79,067,565
Claims on Banks Exposures	-	13,477,368	12,135,190	-	1,872,097	104,954	-	27,589,609
Claims on Financial Institutions	-	4,564,312	27,911,995	-	4,975,338	-	-	37,451,645
Claims on Corporates	-	2,015,036	4,125,414	-	174,399,624	242,765	-	180,782,839
Retail Claims	299,467	93,451	-	83,616,189	19,431,178	-	-	103,440,285
Claims Secured by Residential Property	-	-	13,321,519	-	1,306,710	-	-	14,628,229
Non-Performing Assets (NPAs)	-	-	28,019	-	1,767,437	5,189,473	-	6,984,929
Higher-risk Categories	-	-	-	-	-	-	331,714	331,714
Cash Items and Other Assets	3,299,602	176,986	-	-	7,952,623	-	-	11,429,211
Total	59,621,012	43,372,775	57,522,137	83,616,189	211,705,007	5,537,192	331,714	461,706,026

GROUP								
Amount (LKR'000) as at 31 December 2018 (Post CCF & CRM)								
Risk Weight	0%	20%	50%	75%	100%	150%	>150%	Total Credit Exposures Amount
Asset Classes								
Claims on Central Government and Central Bank of Sri Lanka	56,126,924	23,045,622	-	-	-	-	-	79,172,546
Claims on Banks Exposures	-	13,826,854	12,216,921	-	1,872,097	104,954	-	28,020,826
Claims on Financial Institutions	-	4,582,691	28,015,608	-	4,975,338	-	-	37,573,637
Claims on Corporates	-	2,015,036	4,125,414	-	174,198,597	242,765	-	180,581,812
Retail Claims	299,467	93,451	-	83,616,189	19,431,178	-	-	103,440,285
Claims Secured by Residential Property	-	-	13,321,519	-	1,306,710	-	-	14,628,229
Non-Performing Assets (NPAs)	-	-	28,019	-	1,767,437	5,189,473	-	6,984,929
Higher-risk Categories	-	-	-	-	-	630,695	-	630,695
Cash Items and Other Assets	3,299,697	177,029	-	-	11,223,464	-	-	14,700,190
Total	59,726,088	43,740,683	57,707,481	83,616,189	214,774,821	6,167,887	-	465,733,149

RISK MANAGEMENT

2. (c) Credit Risk under standardized Approach: Exposures by Asset Classes and Risk Weights (Contd.)

BANK								
Amount (LKR'000) as at 31 December 2017 (Post CCF & CRM)								
Risk Weight	0%	20%	50%	75%	100%	150%	>150%	Total Credit Exposures Amount
Asset Classes								
Claims on Central Government and Central Bank of Sri Lanka	39,308,873	-	-	-	-	-	-	39,308,873
Claims on Banks Exposures	-	3,576,374	3,518,586	-	1,689,373	88,168	-	8,872,501
Claims on Financial Institutions	-	3,922,288	11,404,955	-	3,929,726	-	-	19,256,969
Claims on Corporates	-	1,926,448	3,998,008	-	155,897,484	101,492	-	161,923,432
Retail Claims	97,184	74,064	-	70,152,638	6,648,767	-	-	76,972,653
Claims Secured by Residential Property	-	-	10,702,657	-	974,396	-	-	11,677,053
Non-Performing Assets (NPAs)	-	-	18,493	-	563,348	2,034,905	-	2,616,746
Higher-risk Categories	-	-	-	-	-	-	260,605	260,605
Cash Items and Other Assets	2,801,793	207,758	-	-	5,450,425	-	-	8,459,976
Total	42,207,850	9,706,932	29,642,699	70,152,638	175,153,519	2,224,565	260,605	329,348,808

GROUP								
Amount (LKR'000) as at 31 December 2017 (Post CCF & CRM)								
Risk Weight	0%	20%	50%	75%	100%	150%	>150%	Total Credit Exposures Amount
Asset Classes								
Claims on Central Government and Central Bank of Sri Lanka	39,308,873	-	-	-	-	-	-	39,308,873
Claims on Banks Exposures	-	3,569,346	3,941,812	-	1,689,373	88,168	-	9,288,699
Claims on Financial Institutions	-	3,950,613	11,830,567	-	4,050,752	-	-	19,831,932
Claims on Corporates	-	1,926,448	4,476,920	-	156,031,843	101,492	-	162,536,703
Retail Claims	97,184	74,064	-	70,152,638	6,648,767	-	-	76,972,653
Claims Secured by Residential Property	-	-	10,702,657	-	974,396	-	-	11,677,053
Non-Performing Assets (NPAs)	-	-	18,493	-	563,348	2,034,905	-	2,616,746
Higher-risk Categories	-	-	-	-	-	1,028,919	33,304	1,062,223
Cash Items and Other Assets	2,801,888	207,796	-	-	8,486,775	-	-	11,496,459
Total	42,207,945	9,728,267	30,970,449	70,152,638	178,445,254	3,253,484	33,304	334,791,341

2. (d) Market Risk under Standardized Measurement Method

	BANK	GROUP
As at 31 December 2018		
	LKR '000	LKR '000
(a) RWA for Interest Rate Risk	173,182	225,855
General Interest Rate Risk	173,182	190,337
(i) Net Long or Short Position	173,182	190,337
(ii) Horizontal Disallowance	-	-
(iii) Vertical Disallowance	-	-
(iv) Options	-	-
Specific Interest Rate Risk	-	35,518
(b) RWA for Equity	-	442,528
(i) General Equity Risk	-	222,087
(ii) Specific Equity Risk	-	220,441
(c) RWA for Foreign Exchange & Gold	76,689	76,689
Capital Charge for Market Risk [(a) + (b) + (c)] * CAR	2,104,174	6,274,298

	BANK	GROUP
As at 31 December 2017		
	LKR '000	LKR '000
(a) RWA for Interest Rate Risk	889,920	889,920
General Interest Rate Risk	889,920	889,920
(i) Net Long or Short Position	889,920	889,920
(ii) Horizontal Disallowance	-	-
(iii) Vertical Disallowance	-	-
(iv) Options	-	-
Specific Interest Rate Risk	-	-
(b) RWA for Equity	48,282	372,024
(i) General Equity Risk	29,210	190,191
(ii) Specific Equity Risk	19,072	181,833
(c) RWA for Foreign Exchange & Gold	96,238	96,238
Capital Charge for Market Risk [(a) + (b) + (c)] * CAR	9,195,023	12,072,722

RISK MANAGEMENT

2. (e) Operational Risk under Basic Indicator Approach

As at 31 December 2018	BANK				
	Capital Charge Factor	Fixed Factor	Gross Income (LKR '000)		
			1st Year	2nd Year	3rd Year
Business Lines					
The Basic Indicator Approach	15%		13,079,433	15,622,042	21,118,989
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	2,491,023				
The Standardised Approach	-				
The Alternative Standardised Approach	-				
Risk Weighted Amount for Operational Risk (LKR'000)					
The Basic Indicator Approach	20,977,038				
The Standardised Approach	-				
The Alternative Standardised Approach	-				

	GROUP				
	Capital Charge Factor	Fixed Factor	Gross Income (LKR '000)		
As at 31 December 2018			1st Year	2nd Year	3rd Year
Business Lines					
The Basic Indicator Approach	15%		13,602,927	16,150,312	22,083,712
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	2,591,848				
The Standardised Approach	-				
The Alternative Standardised Approach	-				
Risk Weighted Amount for Operational Risk (LKR'000)					
The Basic Indicator Approach	21,826,085				
The Standardised Approach	-				
The Alternative Standardised Approach	-				

RISK MANAGEMENT

2. (e) Operational Risk under Basic Indicator Approach (Contd.)

	BANK				
	Capital Charge Factor	Fixed Factor	Gross Income (LKR '000)		
As at 31 December 2017			1st Year	2nd Year	3rd Year
Business Lines					
The Basic Indicator Approach	15%		12,109,053	13,079,433	15,622,043
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	2,040,526				
The Standardised Approach	-				
The Alternative Standardised Approach	-				
Risk Weighted Amount for Operational Risk (LKR'000)					
The Basic Indicator Approach	18,138,013				
The Standardised Approach	-				
The Alternative Standardised Approach	-				

	GROUP				
	Capital Charge Factor	Fixed Factor	Gross Income (LKR '000)		
As at 31 December 2017			1st Year	2nd Year	3rd Year
Business Lines					
The Basic Indicator Approach	15%		12,979,474	13,602,927	16,150,264
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	2,136,633				
The Standardised Approach	-				
The Alternative Standardised Approach	-				
Risk Weighted Amount for Operational Risk (LKR'000)					
The Basic Indicator Approach	18,992,299				
The Standardised Approach	-				
The Alternative Standardised Approach	-				

RISK MANAGEMENT

3. Differences between Accounting and Regulatory Scopes and Mapping of Financial Statement Categories with Regulatory Risk Categories – BANK (Contd.)

As at 31 December 2018 (LKR '000)				
	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
Assets	472,911,930	475,877,574	419,467,378	13,457,284
Cash and cash equivalents	6,537,579	6,571,235	6,571,235	-
Balances with the Central Bank of Sri Lanka	15,546,386	15,546,386	15,546,386	-
Placements with banks	15,237,306	15,226,750	15,226,750	-
Derivative financial instruments	3,937,847	-	-	-
Financial assets recognized through profit or loss - measured at fair value	1,947,242	-	-	-
Financial assets - Held for trading	-	53,906,991	39,521,732	13,457,284
Financial assets at amortised cost -loans and receivables to other customers	344,203,289	348,074,825	308,699,661	-
Financial assets at amortised cost - debt and other instruments	24,070,365	-	-	-
Financial investments - Held to maturity	-	23,533,076	23,533,076	-
Financial assets measured at fair value through other comprehensive income	52,908,306	-	-	-
Investments in subsidiary companies	2,166,714	2,166,714	559,864	-
Investments in associate companies	-	-	-	-
Intangible assets	379,896	379,896	-	-
Property, plant and equipment	2,569,873	2,569,873	2,569,873	-
Deferred tax assets	1,059,485	1,059,485	687,964	-
Other assets	2,347,642	6,842,343	6,550,836	-
Liabilities	437,913,888	438,195,131		
Due to banks	15,047,481	-		
Derivative financial instruments	2,906,572	-		

e		
Not subject to Capital Requirements or Subject to Deduction from Capital	Explanation on significant differences on (a) and (b)	Measurement techniques / valuation basis
42,952,913		
-		
-		
-		
-	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 recognized 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.	
927,975		
39,375,164	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 27.5 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.	
1,606,850		
-		
379,896		
-		
371,521		
291,507	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 36 to these Financial statements.
	Due to banks balances are classified under due to other borrowed funds in regulatory reporting.	
	Derivative Financial Instruments are separately disclosed in the published financial statements as per the SLFRS 9 Disclosure requirements and it is included in the other liabilities category in the regulatory reporting.	

RISK MANAGEMENT

3. Differences between Accounting and Regulatory Scopes and Mapping of Financial Statement Categories with Regulatory Risk Categories – BANK (Contd.)

As at 31 December 2018 (LKR '000)				
	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
Financial liabilities at amortised cost - due to depositors	347,511,223	339,810,355		
Financial Liabilities at amortised cost - due to debt securities holders	6,394,211	6,336,840		
Financial Liabilities at amortised cost - due to other borrowed funds	37,040,987	51,699,790		
Debt securities issued	16,811,808	16,872,660		
Current tax liabilities	3,077,151	3,232,774		
Retirement benefit obligations	408,308	-		
Other liabilities	8,716,147	20,242,712		
Off-Balance Sheet Liabilities	288,882,867	239,558,492	281,667,015	
Guarantees	28,525,622	28,525,622	26,542,467	-
Performance Bonds	13,250,796	13,250,796	13,140,966	-
Letters of Credit	9,907,038	9,907,038	9,496,726	-
Other Contingent Items	11,125,067	11,125,067	11,125,067	-
Undrawn Commitments	98,791,307	98,791,307	98,791,307	-
Other Commitments	127,283,037	77,958,662	122,570,482	-
Shareholders' Equity				
Equity capital (Stated capital /Assigned capital)	6,469,323	6,469,323		
of which Amount eligible for CET1	6,469,323	6,469,323		
of which Amount eligible for AT1	-	-		
Retained earnings	20,966,191	22,628,362		
Accumulated Other comprehensive income	120,343	-		
Other reserves	7,442,185	8,584,758		
Total Shareholders' Equity	34,998,042	37,682,443		

e

Not subject to Capital Requirements or Subject to Deduction from Capital	Explanation on significant differences on (a) and (b)	Measurement techniques / valuation basis
	Due to 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.
	Due to banks balances are classified separately in the published financial statements and interest accrued are classified under other liabilities in the regulatory reporting.	
	Debt securities issued are at Effective Interest Rate (EIR) method in published financial statements.	Measurement techniques and valuation basis of Debt securities issued are at Effective Interest Rate (EIR) method in published financial statements.
	Derivative Financial instruments, Retirement benefit obligations and the interest payables on financial liabilities are included under other liabilities in the regulatory reporting.	
1,067,961		
547,818		
109,830		
410,313		
-		
-		
-		

RISK MANAGEMENT

3. Differences between Accounting and Regulatory Scopes and Mapping of Financial Statement Categories with Regulatory Risk Categories – BANK (Contd.)

As at 31 December 2017 (LKR '000)				
	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
Assets	383,073,042	382,518,932	294,368,358	52,274,531
Cash and cash equivalents	5,274,466	5,373,153	5,373,153	-
Balances with the Central Bank of Sri Lanka	15,364,920	15,364,920	15,364,920	-
Placements with banks	840,684	840,500	840,500	-
Derivative financial instruments	2,471,706	-	-	-
Financial Assets- Held-for-trading	1,216,439	53,396,547	-	52,274,531
Financial assets at amortised cost -loans and receivables to other customers	274,029,448	274,211,295	241,607,091	-
Financial Investments - Loans and receivables	21,171,508	-	-	-
Financial Investments - Held-to-maturity	3,524,051	24,218,807	24,218,807	-
Financial Investments - available-for-sale	52,620,584	-	-	-
Investments -held for sale	18,526	18,526	-	-
Investments in subsidiary companies	2,106,021	2,106,021	488,755	-
Intangible assets	384,369	384,369	-	-
Property, plant and equipment	2,356,679	2,356,679	2,356,679	-
Other assets	1,693,641	4,248,115	4,118,453	-
Liabilities	354,335,207	354,181,400		
Due to banks	20,236,719	-		
Derivative financial instruments	936,754	-		

e

Not subject to Capital Requirements or Subject to Deduction from Capital	Explanation on significant differences on (a) and (b)	Measurement techniques / valuation basis
35,876,043	-	
-	-	
-	-	
-	-	
-	- Derivative Financial Instruments are separately disclosed in the published financial statements as per the LKAS 39 disclosure requirements. This amount is classified under the other assets category in regulatory reporting.	
1,122,016	Financial Investments - available-for-sale are classified as Trading Portfolio under regulatory reporting and accrued interest classified under other assets category.	
32,604,204	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 has been subject to impairment provision as per LKAS 39.	Measurement techniques and valuation basis of impairment allowance is explained in detail in note no 27.5 to the Financial statements.
-	- Financial Investments - Loans and receivables are classified as Held to maturity investments (Banking Book) under regulatory reporting and accrued interest classified under other assets category.	
-	- Financial Investments - available-for-sale are classified as Trading Portfolio under regulatory reporting.	
18,526		
1,617,266		
384,369		
-		
129,662	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 36 to these Financial statements.
	Due to banks are classified under other borrowing in regulatory reporting.	
	Derivative Financial Instruments are separately disclosed in the published financial statements as per the LKAS 39 disclosure requirements. This amount is classified under the other liabilities category in regulatory reporting.	

RISK MANAGEMENT

3. Differences between Accounting and Regulatory Scopes and Mapping of Financial Statement Categories with Regulatory Risk Categories – BANK (Contd.)

As at 31 December 2017 (LKR '000)				
	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
Financial liabilities at amortised cost - due to depositors	273,369,023	267,245,575		
Financial Liabilities at amortised cost - due to debt securities holders	8,719,243	8,635,226		
Financial Liabilities at amortised cost - due to other borrowed funds	19,387,802	39,158,774		
Debt securities issued	19,336,855	19,410,503		
Current tax liabilities	1,578,447	1,527,312		
Deferred tax liabilities	1,371,659	1,221,789		
Retirement benefit obligations	363,138	-		
Other liabilities	9,035,567	16,982,221		
Off-Balance Sheet Liabilities	269,160,399	227,080,340	262,219,785	
Guarantees	24,121,887	24,121,887	21,932,717	-
Performance Bonds	8,342,200	8,342,200	8,273,044	-
Letters of Credit	13,222,730	13,222,730	13,212,926	-
Other Contingent Items	6,768,126	6,768,126	6,768,126	-
Undrawn Commitments	114,360,796	114,360,796	114,360,796	-
Other Commitments	102,344,660	60,264,605	97,672,176	-
Shareholders' Equity				
Equity Capital (Stated Capital/Assigned Capital)	2,208,520	2,208,520		
of which Amount Eligible for CET1	2,208,520	2,208,520		
of which Amount Eligible for AT1	-	-		
Retained Earnings	18,585,255	17,945,565		
Accumulated Other Comprehensive Income	801,874	-		
Other Reserves	7,142,186	8,183,447		
Total Shareholders' Equity	28,737,835	28,337,532		

e

Not subject to Capital Requirements or Subject to Deduction from Capital

Explanation on significant differences on (a) and (b)

Measurement techniques / valuation basis

Due to 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.

Due to banks are classified separately in the published financial statements and interest accrued are classified under other liabilities in the regulatory reporting.

Debt securities issued are at Effective Interest Rate (EIR) method in published financial statements.

Measurement techniques and valuation basis of Debt securities issued are at Effective Interest Rate (EIR) method in published financial statements.

Derivative Financial instruments, Retirement benefit obligations and the interest payables on financial liabilities are included under other liabilities in the regulatory reporting.

290,223

211,263

69,156

9,804

-

-

-

INVESTOR RELATIONS

OUR STRENGTH OF SUCCESS

The shareholders of the Bank, who are the providers of long term equity capital has been the unwavering strength of our success. They have partnered with us in the Bank's growth journey, and today enjoy the status of being a part of a leading banking institution in the country, which is at the eve of becoming a domestic systemically important bank.

We conduct sound investor relations to ensure a continuous and timely engagement with our shareholders as well as a wide array of other stakeholders coming under the broader definition of investors. They include potential investors, fund managers, investment analysts, stock brokers, rating agencies and even the financial press. We endeavour to make timely and fair disclosures about the performance of the Bank and the Group, both financial and otherwise via a host of periodic publications, meetings, fora, etc., thereby enable the relevant stakeholders to make well informed decisions.

Our reach to investors combine the benefits of technology via connection modes such as online webinars which allow interested stakeholders from any part of the world to connect with us. We have extended our support further, by hosting playback videos and edited transcripts of such webinars on our website for later reference, particularly in favour of those who can not connect with us live.

We maintain a comprehensive web page dedicated to investors within our corporate website. This web page is a single point of reference which hosts a wide range of information relevant to investors in a timely manner. The web page also carries updates of latest investor events scheduled by the Bank.

Our investor relations are always based on the principles of quality of disclosures, transparency, and fairness. Furthermore we do not engage in selective disclosures at any instance and we maintain our relations with investors on a consistent basis irrespective of variation in financial performance. We firmly believe such efforts contribute to the overall efficiency of the capital markets.

INVESTOR SUPPORT

We conduct a host of initiatives in keeping the investor and the analyst community well informed of our activities. Given below are such initiatives carried out.

- Annual General Meetings
- 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

CORPORATE MILESTONES

1979

Under and by virtue of the National Development Bank of Sri Lanka Act No. 2 of 1979 a bank was established with an authorized capital of LKR 2,000 Mn comprising 20 Mn ordinary shares of LKR 100.00 each (which was subsequently subdivided into 200 Mn ordinary shares of LKR 10.00 each).

1993

61% of the share capital of the National Development Bank of Sri Lanka (NDBSL) was transferred to private ownership through an IPO at LKR 50.00 per share.

1997

NDBSL was privatized further by the early conversion of its convertible debentures, reducing the Governments direct shareholding to 12.2%. A further 2.56% of the issued shares were purchased by NDBSL for an Employees Share Ownership Plan.

2000

A 1:2 bonus issue increased the number of shares in issue to 53,750,000.

2001

As a part of its long term plans, NDBSL incorporated a commercial bank under the Companies Act No. 17 of 1982 under the name 'NDB Bank Limited' (NBL) to take over the business and operations of ABN Amro NV Colombo Branch.

2005

Pursuant to the provisions of the National Development Bank of Sri Lanka (Consequential Provisions) Act No. 1 of 2005 a company by the name of National Development Bank Limited (NDBL) was incorporated in terms of the Companies Act No. 17 of 1982 (and was accorded with the Registration No. N (PBS) 1252) for the purposes of taking

over the business of NDBSL on 15 June 2005 and the National Development Bank of Sri Lanka Act No. 2 of 1979 was repealed except for certain provisions contained therein.

NDBL acquired the business and operations of NBL. In view of this, the shareholders of NBL were issued with shares of NDBL at the ratio of 1 NDBL share for every 5.6 shares of NBL held by them. This resulted in the increase of the issued capital of NDBL to 54,570,257 shares. In order to facilitate this transition, on the date of such acquisition, the Central Bank of Sri Lanka granted a commercial banking license to NDBL whilst withdrawing the specialized banking license that was held by it.

2006

A bonus issue of 1 new share for every 2 shares held increased the issued ordinary shares of NDBL by 27,285,128 shares.

2007

NDBL was re-registered as National Development Bank PLC ('Bank') in terms of the new Companies Act No. 07 of 2007 and accorded with the Registration No. PQ 27.

2010

245,566 ordinary shares were issued to eligible employees as per the Equity Linked Compensation Plan (ELCP) of the Bank, bringing the total number of issued shares to 82,100,951.

2011

Existing ordinary shares were subdivided in the proportion of one new ordinary share for every ordinary share in issue resulting in a total of 164,201,902 ordinary shares in issue.

2013

491,132 ordinary shares were issued on account of share grants for eligible employees in terms of the ELCP to

the trustee of ELCP, bringing the total number of issued ordinary shares to 164,693,034.

2014

400,888 shares were issued as share options to eligible employees as per the ELCP, bringing the total to 165,093,922 ordinary shares in issue.

2015

73,420 shares were issued as share options to eligible employees as per the ELCP, bringing the total to 165,167,342 ordinary shares in issue.

2016

18,164 shares were issued as share options to eligible employees as per the ELCP, bringing the total to 165,185,506 ordinary shares in issue.

2017

6,300,199 shares were issued, in a proportion of one scrip issue for every 26.219093 shares held, bringing the total issued shares to 171,485,705.

2018

5,977,357 shares were issued, in a proportion of one scrip issue for every 28.689218 shares held bringing the total issued shares to 177,463,062.

A Rights Issue whereby a further 32,854,055 ordinary shares were issued, increased the issued ordinary shares to 210,317,117

The stated Capital of the Bank as at 31st December 2018 was LKR 6,469 Mn. The shares of the Bank continue to be quoted on the Colombo Stock Exchange

INVESTOR RELATIONS

SECURITIES IN ISSUE - NDB

- Ordinary shares
- Debentures
 - Listed rated unsecured subordinated redeemable debentures issued in December 2013
 - Listed rated unsecured subordinated redeemable debentures issued in June 2015

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

2. Analysis of equity market performance and NDB share performance - 2018

2.1 Performance of global equity markets

Global equity markets displayed a volatile and bearish performance in 2018 with significant changes to the global political, social and economic landscape. During the year, the decision of the US Federal Reserve to raise policy rates and the decision of the European Central Bank to halt its bond buying programme, indicated greater monetary tightening in the advanced economies resulting in significant capital outflows from the emerging market economies. Furthermore, the intensified trade war between the US, China and major economies, uncertainties revolving around Brexit, slowing down of the Chinese economy and volatile commodity prices have further put pressure on capital market performance around the world. The MSCI World index, a proxy for developed global equity market performance, recorded a loss of 10.4% during 2018 in

comparison to a 20.1% gain recorded in the year 2017. Meanwhile, the MSCI Emerging Market index recorded a loss of 16.6%, in comparison to the 34.3% gain recorded in 2017.

The World Bank and the International Monetary Fund expect the growth of the global economy to slow down in 2019. The World Bank is expecting the international trade and manufacturing activities to slow down amidst trade tensions in the upcoming year. Moreover, the substantial capital outflows have negatively impacted the growth momentum of large emerging markets. Meanwhile, the IMF highlighted other triggers, which could bring further adverse growth implications, especially given the high levels of public and private debt. These potential triggers include a “no-deal” withdrawal of the UK from the EU and a greater-than-envisioned slowdown in China.

2.2 Performance of the Colombo Stock Exchange

The benchmark All Share Price Index (ASPI) recorded a 5.0% loss for the year 2018, compared to a gain of 2.3% in 2017. The tracker of blue chip companies' price movements, S&P SL 20 Index, recorded a 14.6% loss for 2018, in comparison to a 5.0% gain reported in year 2017. The annual S&P SL20 loss marked the highest loss in the index history, which started in mid-2012. Along with the price losses, the CSE market activity slowed down where the average daily turnover dropped by 8.9% to LKR 833.6 Mn. The turnover to market capitalization dropped to 7.0% in 2018, down from 7.6% in 2017. The institutional investors, such as the EPF and ETF were inactive whilst retail investor participation has been sluggish in the market. A bearish market sentiment prevailed during the year amidst significant capital outflows from the Colombo Stock Exchange (CSE), coupled with slow economic revival, a notable depreciation of the LKR (during 2018, the LKR depreciated 16.4% against the USD in comparison to the 2.0% depreciation witnessed in year 2017) and political uncertainty towards the latter part of the year. A significant net foreign outflow of LKR 23.2 Bn was recorded in the Colombo bourse during 2018 as opposed to the LKR 17.7 Bn net foreign inflow recorded in 2017.

Amidst the deteriorated conditions, the CSE managed to raise capital of LKR 42.2 Bn via 16 right issues during 2018, compared to LKR 50.6 Bn in 2017. During the year, a 29.97% stake of LOLC Holdings changed hands which accounted for LKR 12.8 Bn, which marked the largest transaction in 2018. The CSE was trading at attractive valuations amongst emerging markets during the end of 2018, where PER and PBV ended at 9.7X and 1.2X respectively.

2.3 Performance of the NDB share

The NDB share price recorded a subdued performance compared to benchmarks, the ASPI and the S&P SL20, where the share price declined by 17.3% for 2018 (adjusted for corporate actions such as scrip dividend and rights issue). During the year, NDB announced a Rights Issue in order to improve the capital adequacy of the Bank and to strengthen the Balance Sheet. However, with the challenging market conditions that prevailed in the CSE, the NDB share price was negatively impacted during the initial rights issue announcement date to its closing date. Amidst these challenging conditions, NDB Bank managed to raise LKR 3.4 Bn with a total of 32,854,055 shares being listed. During 2018, the share traded at the highest price of LKR 141.40 in February (Adjusted price of LKR 133.86 for corporate actions) and the lowest price of LKR 98.00 in October (Adjusted price of LKR 98.00 for corporate actions). The annual turnover of the NDB share increased by 177.9% recovering from a multi-year low seen in 2017. The foreign holding of the NDB share improved to ~14.8% at the end of 2018 in comparison to ~14.4% at the end of 2017.

3. Analysis of ordinary shareholders as at 31 December 2018 as per Rule 7.6(x) of the listing rules of the CSE.

3.1 Distribution of shareholders

Shareholding range	As at 31 December 2018				As at 31 December 2017			
	No. of shareholders	%	Number of shares	%	No. of shareholders	%	Number of shares	%
1-1,000	5,951	63.84	1,593,310	0.76	5,324	63.92	1,615,455	0.94
1,001-10,000	2,756	29.56	8,548,333	4.06	2,461	29.54	7,503,420	4.38
10,001-100,000	515	5.52	13,774,271	6.55	451	5.41	12,134,104	7.08
100,001-1,000,000	72	0.77	20,116,221	9.56	70	0.84	19,660,614	11.46
Over 1,000,000	28	0.30	166,284,982	79.06	24	0.29	130,572,112	76.14
Total	9,322	100.00	210,317,117	100.00	8,330	100.00	171,485,705	100.00

3.2 Resident/non-resident shareholding

Shareholding range	As at 31 December 2018				As at 31 December 2017			
	No. of shareholders	%	Number of shares	%	No. of shareholders	%	Number of shares	%
Resident	9,180	98.48	179,241,076	85.22	8,192	98.34	146,805,272	85.61
Non-resident	142	1.52	31,076,041	14.78	138	1.66	24,680,433	14.39
Total	9,322	100.00	210,317,117	100.00	8,330	100.00	171,485,705	100.00

3.3 Individual/institutional shareholding

Shareholding range	As at 31 December 2018				As at 31 December 2017			
	No. of shareholders	%	Number of shares	%	No. of shareholders	%	Number of shares	%
Individual	8,816	94.57	40,800,295	19.40	7,855	94.30	47,877,461	27.92
Institutional	506	5.43	169,516,822	80.60	475	5.70	123,608,244	72.08
Total	9,322	100.00	210,317,117	100.00	8,330	100.00	171,485,705	100.00

INVESTOR RELATIONS

4. 20 largest registered shareholders of the bank as at 31 December 2018 as per Rule No 7.6(iii) of the listing rules of the Colombo Stock Exchange

2018			2017		
Name	No of Shares	%	Name	No of Shares	%
1 Employees Provident Fund	21,031,711	10.00	Bank of Ceylon No. 1 Account	16,995,471	9.91
2 Bank Of Ceylon No. 1 Account	17,587,870	8.36	Employees Provident Fund	16,620,881	9.69
3 Sri Lanka Insurance Corporation Limited - General Fund	13,448,393	6.39	Mr. R. S. Captain	13,975,641	8.15
4 Sri Lanka Insurance Corporation Limited - Life Fund	11,180,760	5.32	Sri Lanka Insurance Corporation Limited - General Fund	9,746,566	5.68
5 Dr. S. Yaddhegige	9,185,790	4.37	Dr. S. Yaddhegige	8,876,393	5.18
6 Softlogic Life Insurance PLC Account Number 03/Life Shareholders Fund	8,771,675	4.17	Sri Lanka Insurance Corporation Limited - Life Fund	8,103,126	4.73
7 Employees Trust Fund Board	8,185,780	3.89	Perpetual Treasuries Limited	7,632,593	4.45
8 Perpetual Treasuries Limited	7,898,636	3.76	Employees Trust Fund Board	5,932,549	3.46
9 Richard Pieris and Co Limited - Account No. 01	7,328,846	3.48	Softlogic Life Insurance PLC Account Number 03/Life Shareholders Fund	5,215,877	3.04
10 BNYMSANV RE-LF Ruffer Investment Funds : LF Ruffer Pacific And Emerging Markets Fund	6,947,305	3.30	SBI VEN Holdings Pte Limited	5,190,700	3.03
11 Hatton National Bank PLC A/C No 1	6,133,969	2.92	BNYMSANV RE-CF Ruffer Investment Funds : CF Ruffer Pacific Fund	5,034,979	2.94
12 Phoenix Ventures Private Limited	6,120,460	2.91	Hatton National Bank PLC A/C No 1	4,445,523	2.59
13 SBI VEN Holdings Pte Limited	5,371,628	2.55	Mr. A. K. Pathirage	3,083,276	1.80
14 Rush Japan Corporation	5,144,490	2.45	CIC Holdings PLC	2,556,829	1.49
15 Mr. A.K. Pathirage	4,086,426	1.94	Perpetual Equities (Private) Limited	2,423,194	1.41
16 Ayenka Holdings Private Limited	3,262,994	1.55	Asiri Surgical Hospital PLC	2,415,219	1.41
17 Asiri Surgical Hospital PLC	3,137,427	1.49	Softlogic Life Insurance PLC-A/C 02 (Life Fund)	2,242,119	1.31
18 Akbar Brothers Pvt Limited A/C No 1	3,058,993	1.45	DFCC Bank PLC A/C 1	2,076,280	1.21
19 DFCC Bank PLC A/C 1	2,864,868	1.36	Akbar Brothers Pvt Limited A/C No 1	1,931,177	1.13
20 Mr. M.J. Fernando	2,466,085	1.17	HSBC Intl Nominees Limited -BP2S London- Aberdeen Asia Smaller Companies Investment Trust	1,747,189	1.02
Total	153,214,106	72.83	Total	126,245,582	73.62

5. Public shareholding

	As at 31 Dec 2018	As at 31 Dec 2017
Float adjusted Market Capitalization in LKR Mn	17,821	20,967
Percentage of the shares held by the public	79.34%	89.64%
Number of public shareholders	9,278	8,298
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

	As at 31 Dec 2018	As at 31 Dec 2017
Mr. Ananda Atukorala	1,000	519
Mr. Ashok Pathirage	5,466,010*	4,145,293*
Mr. Dimantha Seneviratne	16,000	Nil
Mr. Trevine Jayasekara (Retired w.e.f. 8 February 2019)	Nil	Nil
Mrs. Kimarli Fernando	Nil	Nil
Mr. Sarath Wikramanayake	Nil	Nil
Mrs. Indrani Sugathadasa	Nil	Nil
Mr. Dinal Phillips, PC	Nil	Nil
Mr. Kavan Ratnayaka	Nil	Nil
Mr. Ranasinghege Semasinghe	Nil	Nil
Mr. Sriyan Cooray (appointed w.e.f. 10 August 2018)	Nil	N/A

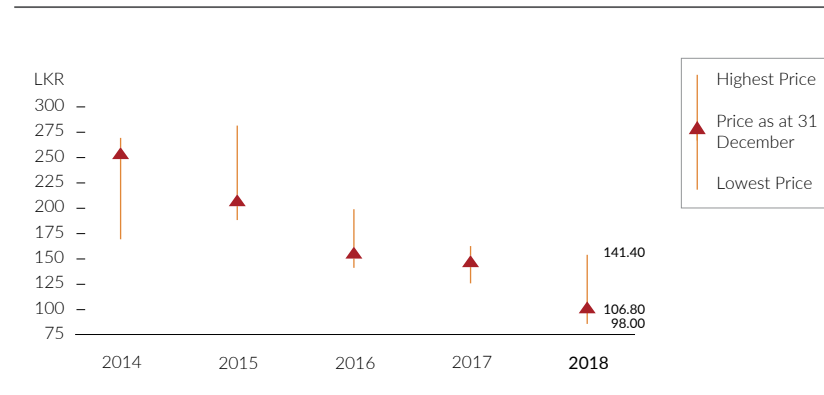
* includes shares held in the slash account

7. Information on share trading

7.1 Share price movement trend over the past five years

Year	2018	2017	2016	2015	2014
Highest price (LKR)	141.40	152.40	199.90	280.00	266.00
Date/s highest price was recorded	22 February 2018	15 May 2017	03 May 2016	23 July 2015 and 22 May 2015	03 October 2014
Lowest price (LKR)	98.00	126.90	150.00	187.00	160.50
Date/s lowest price was recorded	16 October 2018	02 October 2017	24 November 2016	28 December 2015	02 January 2014
Price as at 31 December	106.80	136.40	156.00	194.10	250.00
Total number of shares in issue	210,317,117	171,485,705	165,185,506	165,167,342	165,093,922

Share Price Movement Trend over the Past Five Years



INVESTOR RELATIONS

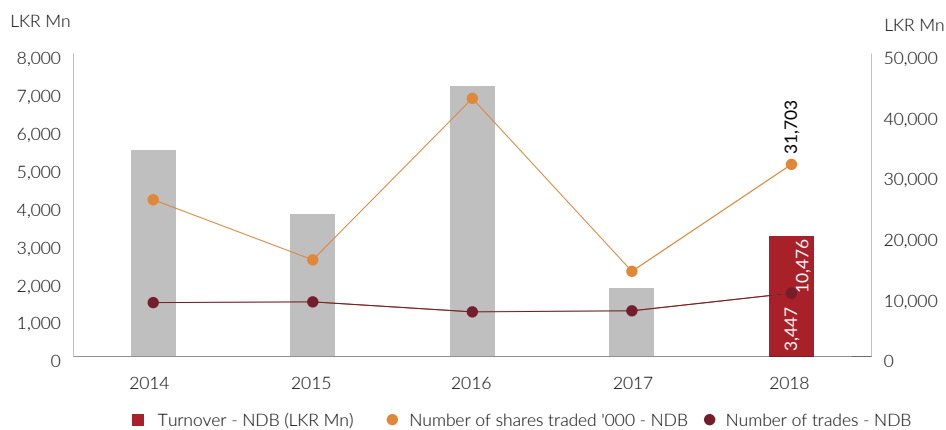
7.1.1 Share price movement over the year

Year	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18
Highest price	139.5	141.4	140.0	136.0	138.0	136.9	121.0	117.0	116.0	109.0	112.0	109.5
Lowest price	134.0	134.9	131.5	132.7	133.0	120.0	110.0	110.3	102.5	98.0	99.9	105.0
Price as at month end	135.1	139.4	133.1	134.5	135.0	120.8	115.4	115.7	104.0	105.0	107.9	106.8

7.2 Share trading details

Year	2018	Q4	Q3	Q2	Q1	2017	2016	2015	2014
Number of trades - NDB	10,476	4,149	2,637	1,774	1,916	7,568	7,393	9,040	8,917
Percentage of total market trades	1.18%	1.98%	1.34%	0.85%	0.71%	0.77%	0.70%	0.60%	0.45%
Number of shares traded '000 - NDB	31,703	24,410	1,868	2,398	3,027	14,073	42,572	15,964	25,872
Percentage of total shares traded in the market	0.53%	1.62%	0.17%	0.18%	0.15%	0.17%	0.59%	0.17%	0.15%
Turnover - NDB (LKR Mn)	3,447	2,510	204	321	412	1,937	7,127	3,918	5,452
Average daily turnover (LKR Mn)	14	41	3	5	7	8	30	16	23
Percentage of total market turnover	1.72%	4.25%	0.65%	0.82%	0.59%	0.88%	4.03%	1.55%	1.60%

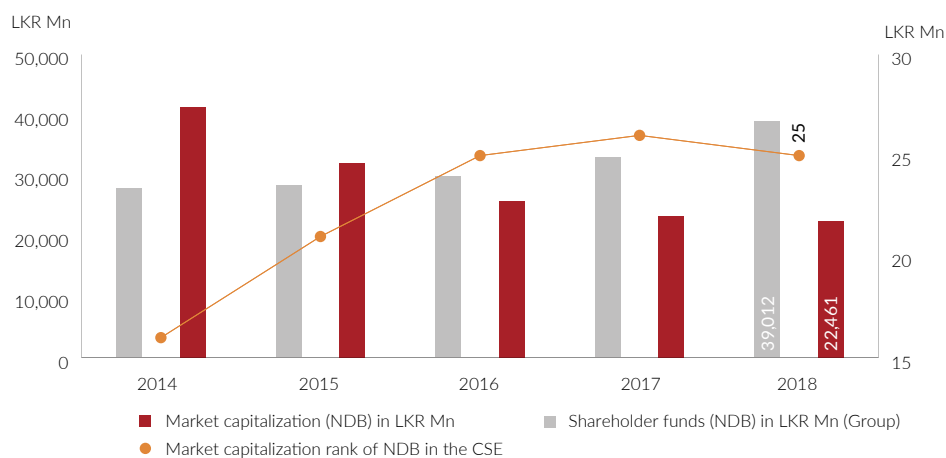
Share Trading Details



7.3 Shareholder funds and market capitalization

Year	2018	2017	2016	2015	2014
Shareholder funds (NDB) in LKR Mn (Group)	39,012	33,012	29,937	28,382	27,876
Percentage increase/ decrease in shareholder funds over the prior year	18%	10%	5%	2%	14%
Market capitalization (NDB) in LKR Mn	22,461	23,391	25,769	32,059	41,273
Percentage increase/ decrease in NDB market capitalization over the prior year	(4%)	9%	20%	22%	56%
Market capitalization (CSE) in LKR Mn	2,839,446	2,899,291	2,745,406	2,937,998	3,104,864
Percentage increase/ decrease in CSE market capitalization over the prior year	(2%)	6%	7%	5%	26%
NDB's market capitalisation as a percentage of CSE market capitalization	0.79%	0.81%	0.94%	1.09%	1.33%
Market capitalization rank of NDB in the CSE	25	26	25	21	16
Market capitalization (BFI sector within CSE) in LKR Mn	784,242	769,974	653,858	699,843	753,695
NDB's market capitalisation as a percentage of BFI sector capitalization	2.86%	3.04%	3.94%	4.58%	5.48%
Beta value of NDB share against ASPI (As of fourth quarter)	1.88	1.99	1.36	1.37	1.11
Beta value of NDB share against S&P SL20 (As of fourth quarter)	1.25	1.15	0.92	1.54	1.10

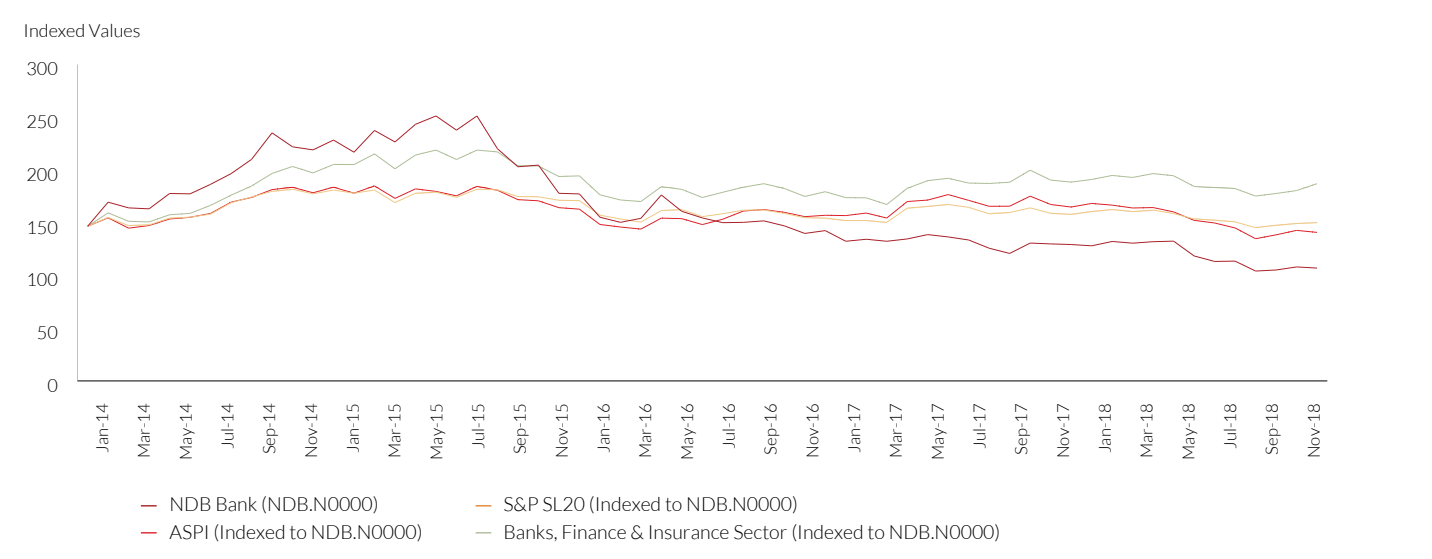
Shareholder Funds and Market Capitalization



INVESTOR RELATIONS

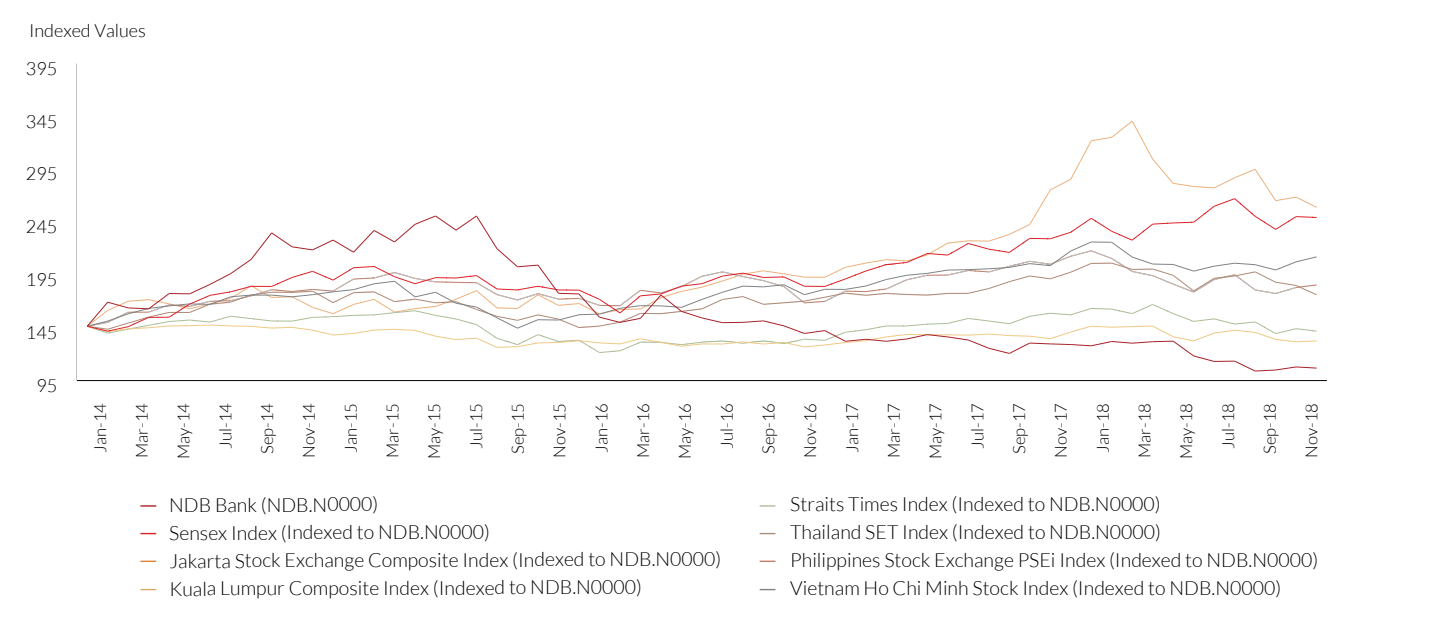
7.4 NDB share performance in comparison to selected local indices

NDB, BFI, S&P ASPI



7.5 NDB share performance in comparison to key regional indices

Against Regional Peer Indices



8. Key shareholder return indicators – NDB Group

Year	2018	2017	2016	2015	2014
Return on equity (%)	14.26	11.09	9.23	12.59	15.78
Total dividends paid (LKR)	1,200	1,664	654	1,815	1,978
Dividend per share (DPS) (LKR)	8.00	9.00	8.00	11.00	11.00
Dividend yield (%)	7.49	6.60	5.13	5.67	4.40
Dividend payout ratio (%)	30.32	35.47	49.11	51.00	43.90
Earnings per share (EPS) (LKR)	26.33	19.66	16.29	21.51	25.14
Total shareholder return ratio (TSR) (%)	(16.57)	(6.15)	(17.57)	(17.96)	63.23
Price earnings ratio (PE ratio) (Times)	4.06	6.93	9.58	9.02	9.94
Net asset value per share (LKR)	185.49	192.51	181.23	172.35	169.35
Price to book value (Times)	0.58	0.71	0.86	1.13	1.48

Earnings per Share (EPS)

Earnings per share (EPS) increased in relation to ROE with the EPS at the Bank level being LKR 28.44 (2017: LKR 24.52) and EPS at the Group level being LKR 26.33 (2017: LKR 19.66). The increase in the EPS is noteworthy and was due to significant increase in profitability despite the increase in the share base within the context during 2018 by 38,831,412 new shares being issued as a result of the scrip dividend and the rights issue.

Dividends for the year

The Bank declared a first and final dividend of LKR 8.00 per share comprising a cash dividend of LKR 1.50 and a scrip dividend of LKR 6.50 per share for the year 2018. The dividend declared was in line with the internally set policy guidelines.

Net asset value per share

Net asset value per share for 2018 at the Group level was LKR 185.49, a decrease from LKR 192.51 from 2017. As with the case of EPS, despite the significant increase in profitability during the year Net asset value per share declined due to the increase in over 38 Mn shares as a result of a scrip issue and a rights issue.

9. Employee share ownership schemes

Employee Share Option Scheme (ESOS) and Equity Linked Compensation Plan (ELCP)

An Employee Share Option Scheme (ESOS 2016) was approved by the shareholders of the Bank at an Extraordinary General Meeting 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 (performance year 2016) subject to the performance criteria set out in the Circular to Shareholders dated 1st March 2016, and each year the Share Options will be limited to 1.25% of the total number of shares then issued by the Bank.

Although the scheme commenced in the year 2017, the Bank failed to meet the 'Qualifying Criteria' set out in the

Circular to Shareholders dated 1 March 2016 and accordingly no shares were issued during the years 2017 and 2018.

10. Rights Issue – 2018

A Rights Issue was approved by the shareholders at an Extra Ordinary General Meeting held on 11 September 2018, for the issue of up to 59,154,354 Ordinary Voting Shares in the proportion of one (01) New Ordinary Voting Share for every three (03) Ordinary Voting Shares held at the Issue price of LKR 105.00 per share.

The Rights Issue sought to further strengthen the equity base of the Bank and thereby improve the capital adequacy requirements under Basel III regulations and also part finance the growth in the loan portfolio of the Bank.

The prevailing market conditions however, allowed the Bank to raise LKR 3.4 Bn with a success rate of 55% where by 32,854,055 ordinary voting shares were issued, increasing the shares in issue to 210,317,117.

The Bank explored avenues to partner with a strategic investor, towards the investment in the unsubscribed shares arising from the rights issue, which the Board ultimately ceased, considering the market conditions which prevailed and also as no finality was reached with the investor.

INVESTOR RELATIONS

DEBENTURES OF NDB

11. NDB has two debentures in issue as follows

- I – Listed Rated unsecured subordinated redeemable debentures – June 2015
- II – Listed Rated unsecured subordinated redeemable debentures – December 2013

11 (I) Rated unsecured subordinated redeemable debentures – June 2015

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-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 (I) (B) Trading details for the year ended 31 December 2018

Type of Debenture	CSE Listing	Interest payable frequency	Balance as at 31 December 2018 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 A - Jun 2015/Jun 2020	Listed	Annually	7,000	87	87	87	9.40	9.19	8.30	17.31	17.31
B - Jun 2015/Jun 2020	Listed	Payable on date of redemption	1,914	Not traded during the quarter			9.4 annual compounding on the Issue Price of LKR 63.8136	9.18	8.30	Not traded during the quarter	
Total Debentures			8,914								

11 (1) (C) Disclosures regarding the utilization 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 utilization as per Prospectus	Amount allocated from proceeds in LKR (A)	% of total proceeds	Amount utilized in LKR (B)	% of utilization against allocation (B/A)	Clarification if not fully utilized 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 mobilize/ 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 minimize 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%	-

* 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 issue price of LKR 63.8136. Hence the total proceeds of the debenture is LKR 8,914 Mn.

11 (II) Rated unsecured subordinated redeemable debentures – December 2013

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/BC/19/12/18A13	LK0207D20998	LKR 100	LKR 100	13.00%	Semi-Annually	13.42%	19 December 2013	Redeemed on 19 December 2018	Redeemed on 19 December 2018
Type B	NDB/BC/19/12/18B13.4	LK0207D21012	LKR 100	LKR 100	13.40%	Annually	13.40%	19 December 2013	Redeemed on 19 December 2018	Redeemed on 19 December 2018
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 (II) (B) Trading details for the year ended 31 December 2018

Type of Debenture	CSE Listing	Interest payable frequency	Balance as at 31 December 2018 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											
A - Dec 2013/Dec 2018*	Listed	Semi annually	-	100.00	98.50	100.00	13.00			12.58	12.58
B - Dec 2013/Dec 2018*	Listed	Annually	-	99.53	99.53	99.53	13.40			13.87	13.87
C - Dec 2013/Dec 2023	Listed	Annually	3,638	Not traded during the year			13.90	13.17	9.75	Not traded during the year	
D - Dec 2013/Dec 2025	Listed	Annually	3,590	100.50	100.50	100.50	14.00	13.26	9.75	13.89	13.89
Total Debentures			7,228								

*Types A and B of the listed Debenture Issue - December 2013, amounting respectively to LKR 1,243 Mn and LKR 1,529 Mn, matured on 19 December 2018 and the trading details reported above are for the period from 01 January to 18 December 2018.

11 (II) (C) Disclosures regarding the utilization 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 utilization as per Prospectus	Amount allocated from proceeds in LKR (A)	% of total proceeds	Amount utilized in LKR (B)	% of utilization against allocation (B/A)	Clarification if not fully utilized 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 mobilize/ 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 minimize 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%	-

* Types A and B of the listed debenture issue - December 2013, amounting respectively to LKR 1,243 Mn and LKR 1,529 Mn, matured in December 2018. The outstanding capital of this debenture is LKR 7,228 Mn.

INVESTOR RELATIONS

11 (III) Proposed Basel III compliant debenture issue

In December 2018, the Bank announced its plans to issue a 5 year Basel III compliant, Tier 2, Listed, Rated, Unsecured, Subordinated, Redeemable debenture with a Non-Viability conversion to raise LKR 5 Bn with an option to raise a further LKR 1.5 Bn.

12. Information on debentures of the Bank (As per Rule No. 7.6 x (i) of the Listing Rules of the Colombo Stock Exchange)

Year	2018	2017
Debt Equity Ratio (%)	12.08	11.87
Interest cover (Times)	1.50	1.41
Liquidity Assets Ratio (%) – Domestic Banking Unit	20.87	22.13
Liquidity Assets Ratio (%) – Foreign Currency Banking Unit	24.48	24.01
Liquidity Coverage Ratio (%) – Rupee (Minimum Requirement - 80%)	168.74	214.35
Liquidity Coverage Ratio (%) – All Currency (Minimum Requirement - 80%)	215.99	154.50

13. Director's Interest in listed debentures as at 31 December 2018

Name	Debentures issued in June 2015		Debentures issued in December 2013	
	As at 31 December 2018 No of Debentures	As at 31 December 2017 No of Debentures*	As at 31 December 2018 No of Debentures	As at 31 December 2017 No of Debentures
Mr. Ananda Atukorala	None	None	None	None
Mr. Ashok Pathirage	None	None	None	None
Mr. Dimantha Seneviratne	None	None	None	None
Mr. Trevine Jayasekara (Retired w.e.f. 8 February 2019)	None	None	None	None
Mrs. Kimarli Fernando	None	None	None	None
Mr. Sarath Wikramanayake	None	None	None	None
Mrs. Indrani Sugathadasa	None	None	None	None
Mr. Dinal Phillips, PC	None	None	None	None
Mr. Kavan Ratnayaka	None	None	None	None
Mr. Ranasinghe Semasinghe	None	None	None	None
Mr. Sriyan Cooray (appointed w.e.f. 10 August 2018)	None	N/A	None	N/A

CREDIT RATINGS OF NDB

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 February 2019 with a revision to the Outlook

National long term rating: A+(lka); Negative Outlook

Basel II compliant subordinated term debt: A(lka)

15. Full rating reports

Please refer our Investor Relations web page within the NDB corporate website on <http://www.ndbbank.com/> to read the full rating reports.

15. Financial Statements in United States Dollar (USD)

15.1 Statement of Profit or Loss

For the year ended 31 December	BANK			GROUP		
	2018 USD '000	2017 USD '000	Change %	2018 USD '000	2017 USD '000	Change %
Gross income	312,217	278,481	12	318,130	281,737	13
Interest income	270,983	243,102	11	272,617	245,083	11
Less: Interest expenses	180,534	172,696	5	180,341	172,475	5
Net interest income	90,449	70,406	28	92,276	72,608	27
Fee and commission income	19,161	16,508	16	24,119	22,373	8
Net gains/(losses) from trading	7,443	6,968	7	7,443	6,968	7
Net gains/(losses) from financial investments at fair value through profit or loss	(41)	59	(170)	343	636	(46)
Net gains/(losses) from de-recognition of financial assets	2,343	3,364	(30)	2,749	3,749	(27)
Other operating income	12,327	8,480	45	10,859	2,928	271
Total operating income	131,683	105,785	24	137,789	109,262	26
Less: Impairment charges	21,878	8,243	165	23,001	8,451	172
Net operating income	109,805	97,542	13	114,788	100,812	14
Less: Operating expenses						
Personnel expenses	27,149	23,652	15	29,927	26,360	14
Depreciation and amortization expenses	2,701	2,772	(3)	3,109	3,129	(1)
Other expenses	21,950	21,688	1	24,189	24,222	(0)
Total operating expenses	51,801	48,112	8	57,225	53,711	7
Operating profit before tax on financial services	58,004	49,431	17	57,563	47,101	22
Less: Tax on financial services	13,279	10,135	31	13,279	10,135	31
Operating profit after tax on financial services	44,725	39,296	14	44,284	36,966	20
Share of associate companies' profits/(losses)	-	-	-	-	-	-
Profit before taxation	44,725	39,296	14	44,284	36,966	20
Less: Income tax expenses	10,827	10,796	0	12,050	14,487	(17)
Profit for the year	33,898	28,500	19	32,234	22,479	43
Profit attributable to: Equity holders of the parent	33,898	28,500	19	31,379	22,856	37
Non-controlling interests	-	-	-	854	(376)	327
	33,898	28,500	19	32,234	22,479	43
Earnings per share Basic / Diluted (USD)	0.17	0.16	8	0.16	0.13	25
Dividend per share (USD)	0.05	0.06	(17)	-	-	-

INVESTOR RELATIONS

15.2 Statement of Comprehensive Income

	BANK			GROUP		
For the year ended 31 December	2018 USD '000	2017 USD '000	Change %	2018 USD '000	2017 USD '000	Change %
Profit for the year	33,898	28,500	19	32,234	22,479	43
Other comprehensive income						
Items that will be reclassified to profit or loss						
Exchange differences on translation of foreign operations	-	-	-	357	(2)	14,795
Gains/(losses) from available for sale investments	-	4,249	(100)	-	3,959	(100)
Gains/(losses) on Investments in debt Instruments - fair value through other comprehensive income	-	-		-	-	
Net change fair value during the year	(7,396)	-	(100)	(7,325)	-	(100)
Changes in allowance for expected credit losses	100	-	100	600	-	100
Deferred tax effect on gains/(losses) on Investments in debt Instruments	3,436	(2,019)	270	3,388	(1,953)	273
Net Gains/(losses) on Investments in debt Instruments - fair value through other comprehensive income	(3,860)	2,230	(273)	(3,336)	2,005	(266)
Gains/(losses) on cash flow hedges	706	(461)	253	706	(461)	253
Net other comprehensive income that will be reclassified to profit or loss	(3,155)	1,770	(278)	(2,273)	1,542	(247)
Items that will not be reclassified to profit or loss						
Net gains/(losses) on Investments in equity Instruments - fair value through other comprehensive income	(910)	-	(100)	(910)	-	(100)
Revaluation of freehold land and buildings	-	2,371	(100)	184	2,476	(93)
Deferred tax effect on revaluation gains/(losses)	-	(1,141)	100	-	(1,383)	100
Net gains/(losses) on revaluation of freehold land and buildings	-	1,230	(100)	184	1,093	(83)
Actuarial gains/(losses) on defined benefit plans	467	(651)	172	457	(649)	171
Deferred tax effect on actuarial gains/(losses)	14	(20)	171	14	(19)	174
Net actuarial gains/(losses) on defined benefit plans	481	(671)	172	472	(668)	171
Net other comprehensive income that will not be reclassified to profit or loss	(428)	559	(177)	(254)	425	(160)
Total other comprehensive income for the year, net of taxes	(3,583)	2,329	(254)	(2,527)	1,968	(228)
Total comprehensive income for the year	30,315	30,829	(2)	29,707	24,447	22
Attributable to:						
Equity holders of the parent	30,315	30,829	(2)	28,771	24,822	16
Non-controlling interests	-	-	-	936	(375)	349
	30,315	30,829	(2)	29,707	24,447	22

15.3 Statement of Financial Position

As at 31 December	BANK			GROUP		
	2018 USD '000	2017 USD '000	Change %	2018 USD '000	2017 USD '000	Change %
Assets						
Cash and cash equivalents	35,871	34,451	4	38,801	34,901	11
Balances with the Central Bank of Sri Lanka	85,303	100,359	(15)	85,303	100,359	(15)
Placements with banks	83,607	5,491	1,423	83,607	5,491	1,423
Derivative financial instruments	21,607	16,144	34	21,607	16,144	34
Financial assets recognized through profit or loss - measured at fair value	10,684	7,945	34	22,235	17,374	28
Financial assets at amortised cost - loans and receivables to other customers	1,888,633	1,789,872	6	1,889,034	1,790,195	6
Financial assets at amortised cost - debt and other instruments	132,073	-	100	132,649	-	100
Financial investments - loans and receivables	-	138,285	(100)	-	152,295	(100)
Financial investments - held-to-maturity	-	23,018	(100)	-	26,630	(100)
Financial Assets measured at fair value through other comprehensive income	290,306	-	100	298,970	-	100
Financial investments - available-for-sale	-	343,701	(100)	-	346,020	(100)
Investments held-for-sale	-	121	(100)	-	218	(100)
Investments in subsidiary companies	11,889	13,756	(14)	-	-	-
Investments in associate companies	-	-	-	-	-	-
Investment property	-	-	-	11,581	12,377	(6)
Intangible assets	2,084	2,511	(17)	2,177	2,593	(16)
Property, plant & equipment	14,101	15,393	(8)	17,253	19,053	(9)
Deferred tax assets	5,813	-	100	5,813	-	100
Other assets	12,881	11,062	16	16,091	14,858	8
Total assets	2,594,853	2,502,110	4	2,625,120	2,538,507	3
Liabilities						
Due to banks	82,565	132,180	(38)	82,565	132,180	(38)
Derivative financial instruments	15,948	6,119	161	15,948	6,119	161
Financial liabilities at amortised cost:						
- due to depositors	1,906,783	1,785,559	7	1,904,908	1,783,419	7
- due to debt securities holders	35,085	56,951	(38)	35,018	56,951	(39)
- due to other borrowed funds	203,243	126,635	60	203,243	126,635	60
Debt securities issued	92,246	126,302	(27)	92,246	126,302	(27)
Current tax liabilities	16,884	10,310	64	17,269	10,288	68
Deferred tax liabilities	-	8,959	(100)	2,586	11,734	(78)
Retirement benefit obligations	2,240	2,372	(6)	2,752	3,005	(8)
Other liabilities	47,825	59,017	(19)	48,495	59,941	(19)
Total liabilities	2,402,820	2,314,404	4	2,405,030	2,316,574	4
Equity						
Stated Capital	35,497	14,425	146	35,497	14,425	146
Statutory reserve fund	8,979	8,729	3	8,979	8,729	3
Retained earnings	146,897	159,314	(8)	168,275	186,683	(10)
Other reserves	660	5,238	(87)	1,309	5,788	(77)
Total equity to equity holders of the Bank	192,033	187,706	2	214,060	215,625	(1)
Non-controlling interests	-	-	-	6,030	6,308	(4)
Total equity	192,033	187,706	2	220,090	221,933	(1)
Total liabilities and total equity	2,594,853	2,502,110	4	2,625,120	2,538,507	3
Commitments and contingencies	1,585,091	1,758,069	(10)	1,589,894	1,762,755	(10)
Net Asset Value per share (USD)	0.91	1.09	(17)	1.02	1.26	(19)

INVESTOR RELATIONS

OTHER INFORMATION

16. Interim Financial performance

16.1 Statement of Profit or Loss

BANK LKR '000	Quarter 4 12/31/18	Quarter 3 9/30/18	Quarter 2 6/30/18	Quarter 1 3/31/18	Quarter 4 12/31/17	Quarter 3 9/30/17	Quarter 2 6/30/17	Quarter 1 3/31/17
Net interest income	4,177,066	3,831,049	3,445,337	3,351,197	3,094,516	2,909,985	2,411,292	2,334,329
Other operating income	1,742,459	1,709,917	1,238,022	2,058,727	1,034,884	1,374,445	1,562,003	1,430,562
Total operating income	5,919,525	5,540,965	4,683,359	5,409,924	4,129,400	4,284,430	3,973,295	3,764,891
Less: Impairment charges	1,215,605	1,051,501	513,825	800,077	386,621	290,683	447,220	134,030
Net operating income	4,703,920	4,489,464	4,169,533	4,609,847	3,742,779	3,993,748	3,526,075	3,630,861
Total operating expenses	2,316,726	2,193,804	2,036,610	1,931,587	1,874,293	2,128,707	1,624,655	1,718,380
Profit from operations	2,387,194	2,295,660	2,132,924	2,678,260	1,868,486	1,865,041	1,901,420	1,912,481
Profit before taxation	2,387,194	2,295,660	2,132,924	2,678,260	1,868,486	1,865,041	1,901,420	1,912,481
Taxation	(867,386)	(1,036,903)	(924,385)	(1,116,963)	(826,391)	(869,387)	(746,658)	(753,355)
Profit for the period	1,519,808	1,258,758	1,208,540	1,561,298	1,042,095	995,654	1,154,762	1,159,127
Profit attributable to:								
Equity holders of the parent	1,519,809	1,258,758	1,208,540	1,561,298	1,042,095	995,654	1,154,762	1,159,127
Non controlling interests								
	1,519,809	1,258,758	1,208,540	1,561,298	1,042,095	995,654	1,154,762	1,159,127
Basic Earnings per share	7.23	7.09	6.81	8.80	5.87	5.91	6.51	6.53

GROUP LKR '000	Quarter 4 12/31/18	Quarter 3 9/30/18	Quarter 2 6/30/18	Quarter 1 3/31/18	Quarter 4 12/31/17	Quarter 3 9/30/17	Quarter 2 6/30/17	Quarter 1 3/31/17
Net interest income	4,257,972	3,903,285	3,514,676	3,427,796	3,176,895	2,998,196	2,491,720	2,419,516
Other operating income	2,215,270	1,885,376	1,490,114	1,859,097	1,501,741	1,572,195	1,372,017	1,150,692
Total operating income	6,473,242	5,788,661	5,004,790	5,286,893	4,678,636	4,570,391	3,863,737	3,570,208
Less: Impairment charges	1,320,475	1,130,024	519,644	794,715	459,016	279,146	440,620	111,515
Net operating income	5,152,767	4,658,637	4,485,146	4,492,178	4,219,620	4,291,245	3,423,117	3,458,693
Total operating expenses	2,561,271	2,416,013	2,249,802	2,139,819	2,108,896	2,358,296	1,831,595	1,902,148
Profit from operations	2,591,496	2,242,624	2,235,344	2,352,359	2,110,724	1,932,949	1,591,522	1,556,545
Profit before taxation	2,591,496	2,242,624	2,235,344	2,352,359	2,110,724	1,932,949	1,591,522	1,556,545
Taxation	(938,535)	(1,075,005)	(949,203)	(1,183,090)	(1,235,276)	(887,046)	(830,409)	(806,706)
Profit for the period	1,652,961	1,167,619	1,286,141	1,169,269	875,448	1,045,903	761,113	749,839
Profit attributable to:								
Equity holders of the parent	1,563,446	1,151,439	1,269,082	1,152,204	969,808	1,034,318	748,111	737,515
Non controlling interests	89,515	16,180	17,061	17,065	(94,360)	11,585	13,002	12,324
	1,652,961	1,167,619	1,286,141	1,169,269	875,448	1,045,903	761,113	749,839
Basic Earnings per share	7.43	6.49	7.15	6.49	5.75	6.13	4.48	4.46

16.2 Statement of Financial Position

BANK LKR '000	As at 31/12/2018	As at 30/09/2018	As at 30/06/2018	As at 31/03/2018	As at 31/12/2017	As at 30/09/2017	As at 30/06/2017	As at 31/03/2017
Cash and cash equivalents	37,321,271	37,098,151	23,153,106	21,316,657	21,480,070	20,763,962	19,754,135	25,833,342
Net loans and advances	344,203,289	328,080,201	301,414,320	282,046,773	274,029,448	259,490,611	252,500,263	241,443,635
Investments	81,092,627	83,741,652	85,104,477	85,037,922	80,657,130	83,297,056	85,529,329	73,541,811
Other assets	10,294,743	8,971,506	6,993,513	7,249,205	6,906,395	7,217,078	7,028,267	6,657,541
Total	472,911,930	457,891,510	416,665,416	395,650,557	383,073,042	370,768,707	364,811,994	347,476,329
Customer deposits	347,511,223	328,685,395	297,177,651	284,159,753	273,369,023	255,413,820	239,345,976	227,983,883
Borrowings	75,294,488	84,476,702	77,102,086	69,156,434	67,680,619	76,710,339	89,088,257	84,793,062
Other liabilities	15,108,178	12,561,437	11,482,243	12,643,447	13,285,564	11,062,377	9,019,907	9,088,423
Shareholders funds	34,998,041	32,167,976	30,903,437	29,690,923	28,737,837	27,582,172	27,357,855	25,610,961
Total	472,911,930	457,891,510	416,665,416	395,650,557	383,073,042	370,768,707	364,811,994	347,476,329
Net Asset Value	166.41	181.27	174.14	167.31	167.58	160.84	159.53	149.35

GROUP LKR '000	As at 31/12/2018	As at 30/09/2018	As at 30/06/2018	As at 31/03/2018	As at 31/12/2017	As at 30/09/2017	As at 30/06/2017	As at 31/03/2017
Cash and cash equivalents	37,855,130	37,410,681	23,237,451	21,385,735	21,548,918	20,835,495	19,807,734	25,861,744
Net loans and advances	344,276,363	328,180,924	301,481,336	282,109,839	274,078,788	259,345,362	252,465,613	241,377,654
Investments	82,714,982	85,677,000	87,321,330	87,148,871	83,062,299	86,255,855	88,461,297	76,376,914
Other assets	13,581,735	11,833,234	9,853,349	10,300,132	9,955,433	9,749,526	9,854,881	10,114,826
Total	478,428,210	463,101,839	421,893,466	400,944,577	388,645,438	376,186,238	370,589,525	353,731,138
Customer deposits	347,169,564	328,394,548	296,843,429	283,839,128	273,041,417	255,086,285	238,962,998	227,471,975
Borrowings	75,282,300	84,465,692	77,091,076	69,156,435	67,680,619	76,710,339	89,088,257	84,793,062
Other liabilities	15,864,862	13,204,012	12,121,504	13,408,908	13,945,429	11,348,844	9,768,787	10,070,605
Shareholders funds	39,012,447	36,051,302	34,877,605	33,597,061	33,012,228	31,967,674	31,707,581	30,346,717
Non controlling interests	1,099,037	986,285	959,852	943,045	965,745	1,073,096	1,061,902	1,048,779
Total	478,428,210	463,101,839	421,893,466	400,944,577	388,645,438	376,186,238	370,589,525	353,731,138
Net Asset Value	185.49	203.15	196.53	189.32	192.51	193.05	184.90	176.96

INVESTOR RELATIONS

17. Ten Years at a Glance

17.1. Statement of Profit or Loss - Group

LKR Mn	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Income											
Net interest income	3,787	4,233	4,163	4,910	5,896	7,012	7,913	7,807	8,861	11,086	15,103
Other operating income	1,662	2,560	2,785	3,012	9,042	4,537	5,053	5,484	4,816	5,597	7,450
Total operating income	5,449	6,793	6,948	7,922	14,938	11,549	12,966	13,291	13,677	16,683	22,553
Less: Impairment charges	116	373	(172)	(88)	51	1,261	529	746	1,425	1,290	3,765
Net operating income	5,333	6,420	7,119	8,010	14,887	10,288	12,437	12,545	12,252	15,393	18,788
Less: Operating expenses											
Personnel costs	1,151	1,300	1,567	2,118	2,333	2,660	3,172	3,634	3,793	4,025	4,898
Other operating costs	1,237	1,370	1,496	1,863	2,163	2,904	2,738	3,196	3,366	4,176	4,468
Total operating expenses	2,388	2,670	3,063	3,981	4,496	5,564	5,911	6,830	7,159	8,201	9,367
Operating profit before tax and share of associate companies' profit	2,945	3,750	4,056	4,030	10,391	4,724	6,527	5,715	5,094	7,192	9,422
Share of associate co's profit	172	526	295	331	439	49	97	78	-	-	-
Profit before taxation	3,118	4,276	4,351	4,361	10,830	4,773	6,624	5,793	5,094	7,192	9,422
Taxation	(1,409)	(2,154)	(2,175)	(1,597)	(1,898)	(2,061)	(2,378)	(2,123)	(2,279)	(3,759)	(4,146)
Profit after taxation	1,708	2,121	2,176	2,764	8,932	2,712	4,246	3,670	2,815	3,433	5,276
Minority interest	(103)	(37)	(73)	(235)	(78)	(70)	(112)	(128)	(124)	57	(140)
Profit attributable to group	1,605	2,085	2,103	2,528	8,854	2,642	4,134	3,542	2,691	3,490	5,136

17.2 Statement of Financial Position - Group

LKR Mn	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
ASSETS											
Liquid assets	5,883	8,243	5,586	7,651	13,269	8,139	12,737	20,002	20,252	21,549	37,855
Investments	18,509	32,128	20,021	27,359	32,499	55,614	72,971	77,257	84,437	83,062	82,715
Loans & advances	54,589	54,107	78,452	102,019	124,311	137,523	175,547	209,768	227,717	274,079	344,276
Investments in associate companies	1,393	1,724	1,763	1,797	33	77	-	-	-	-	-
Property & equipment	781	806	918	1,504	1,541	1,473	2,550	2,730	2,913	3,314	3,541
Investment property	1,200	1,200	1,200	1,296	1,296	1,384	1,546	1,672	1,776	1,895	2,111
Other assets	925	1,079	695	962	1,154	2,608	3,780	3,925	3,637	4,747	7,930
Total assets	83,280	99,286	108,635	142,588	174,103	206,818	269,130	315,354	340,732	388,645	478,428
LIABILITIES											
Borrowings	34,993	29,561	28,631	38,973	36,630	47,344	80,768	92,331	96,279	68,617	78,189
Deposits with customers	31,091	49,948	60,533	82,094	107,394	129,423	151,485	184,152	203,516	273,041	347,170
Non life insurance reserves	-	-	-	-	-	-	-	-	-	-	-
Long-term insurance fund	-	-	-	-	-	-	-	-	-	-	-
Taxation	352	560	633	397	713	625	1,416	1,237	1,597	3,372	3,618
Other liabilities	3,614	4,334	2,826	3,286	3,657	4,062	6,662	8,233	8,326	9,637	9,340
Total liabilities	70,050	84,403	92,623	121,067	148,394	181,454	240,331	285,953	309,718	354,667	438,316
SHAREHOLDERS' FUNDS											
Stated capital	1,033	1,033	864	864	864	944	1,145	1,163	1,246	2,209	6,469
Statutory reserves	819	819	879	879	879	959	1,011	1,243	1,246	1,336	1,636
Other reserves	-	-	-	387	924	1,880	1,474	1,000	497	923	239
Retained earnings	10,811	12,345	13,552	14,796	22,216	20,733	24,246	24,976	26,946	28,544	30,668
Total shareholders' funds	12,662	14,197	15,295	16,926	24,883	24,516	27,876	28,382	29,937	33,012	39,012
Minority interest	568	687	717	913	826	848	923	1,019	1,077	966	1,099
Total funds employed	13,230	14,883	16,012	17,838	25,709	25,364	28,799	29,401	31,013	33,978	40,111
Total liabilities & funds employed	83,280	99,286	108,635	138,905	174,103	206,818	269,130	315,354	340,732	388,645	478,428

17.3 Share Information - Group

Share Information	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Market price per share (LKR)	86.00	206.00	174.50	138.10	138.10	161.50	250.00	194.10	156.00	136.40	106.80
Basic Earnings per share (LKR)	9.80	12.75	12.81	15.79	55.31	16.48	25.14	21.51	16.29	19.66	26.33
Interim Dividends per share (LKR)	-	-	4.00	3.50	5.00	5.00	7.00	7.00	-	2.00	-
Final Dividends per share (LKR)	6.75	8.00	4.50	4.00	10.00	5.00	4.00	4.00	8.00	7.00	8.00
Total Dividends per share (LKR)	6.75	8.00	8.50	7.50	15.00	10.00	11.00	11.00	8.00	9.00	8.00
Dividend cover (Times)	3.27	3.77	2.19	2.05	3.69	1.65	2.29	1.96	2.04	2.18	3.29
Price Earnings ratio (Times)	4.39	8.08	13.63	8.97	2.56	9.74	9.94	9.02	9.58	6.93	4.06
Book value per share (LKR)	77.35	86.72	93.15	103.08	151.54	148.85	169.35	172.35	181.23	192.51	185.49

INVESTOR RELATIONS

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.

Rule No:	Disclosure Requirement	Cross Reference/ within the Report (page/s)
7.6 (i)	Names of persons who during the financial year were directors of the Entity.	22 to 31
7.6 (ii)	Principal activities of the Entity and its subsidiaries during the year and any changes therein.	42 and 43
7.6 (iii)	The names and the number of shares held by the 20 largest holders of voting and non-voting shares and the percentage of such shares held.	466
7.6 (iv)	The float adjusted market capitalisation, public holding percentage (%), number of public shareholders and under which option the Listed Entity complies with the Minimum Public Holding requirement.	466
7.6 (v)	A statement of each director's holding and Chief Executive Officer's holding in shares of the Entity at the beginning and end of each financial year.	467
7.6 (vi)	Information pertaining to material foreseeable risk factors of the Entity.	187
7.6 (vii)	Details of material issues pertaining to employees and industrial relations of the Entity.	187
7.6 (viii)	Extents, locations, valuations and the number of buildings of the Entity's land holdings and investment properties.	268
7.6 (ix)	Number of shares representing the Entity's stated capital.	304
7.6 (x)	A distribution schedule of the number of holders in each class of equity securities, and the percentage of their total holdings in the following categories: No. of Holders, Holdings, Total Holdings % 1-1000 shares 1,001- 10,000 shares 10,001-100,000 shares 100,001-1,000,000 shares Over 1,000,000 shares"	465

Rule No:	Disclosure Requirement	Cross Reference/ within the Report (page/s)
7.6 (xi)	"The following ratios and market price information: EQUITY 1. Dividend per share 2. Dividend pay out 3. Net asset value per share 4. Market value per share (highest and lowest values recorded during the financial year, value as at the end of financial year) DEBT (only if listed) 1. Interest rate of comparable government security 2. Debt/equity ratio 3. Interest cover 4. Quick asset ratio 5. The market prices & yield during the year (ex interest) (Highest Price, Lowest price, Last traded price (as at dd/mm/yy)) 6. Any changes in credit rating (for the Entity or any other instrument issued by the Entity), if applicable."	471 and 474
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 utilized. b. if any shares or debentures have been issued, the number, class and consideration received and the reason for the issue; and, c. any material change in the use of funds raised through an issue of Securities."	 304 N/A
7.6 (xiv)	a. EMPLOYEE SHARE OPTION SCHEMES b. EMPLOYEE SHARE PURCHASE SCHEMES	305 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.	364 to 409
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	316 to 321

19. Shareholder Inquiries and communications

Please refer Corporate Information on page 506.

BRANCH NETWORK OF THE BANK

No	Region	Branch Name	Abbreviations	Branch Code	Address	District
CENTRAL PROVINCE						
1	R 6	Gampola	GPL	050	No: 75, Nuwara Eliya Road, Gampola	Kandy
2	R 5	Dambulla	DMB	064	No: 42, Kurunegala Road, Dambulla	Matale
3	R 6	Kandy	KDY	002	No 133, Kotugodella Veediya, Kandy	Kandy
4	R 6	Kandy City Centre	KCC	080	L 1 - 3, Level 1, Kandy City Centre, No . 05, Dalada Veediya, Kandy	Kandy
5	R 6	Matale	MTL	046	No : 144, Main Street, Matale	Matale
6	R 6	Nawalapitiya	NWP	061	No 70B, Gampola Road, Nawalapitiya	Kandy
7	R 6	Nuwara Eliya	NEW	076	No 50/2, Siva Complex, Block C, Lawson Street, Nuwara Eliya	Nuwara Eliya
8	R 6	Pilimathalawa	PLM	049	No: 239, Colombo Road. Pilimathalawa	Kandy
9	R 6	Katugastota	KTG	110	No 111, Kurunegala Road, Katugastota	Kandy
NORTH CENTRAL PROVINCE						
1	R 5	Anuradhapura	ANP	019	522/C, Maithreepala Senanayake Mw, New Town, Anuradhapura	Anuradhapura
2	R 5	Hingurakgoda	HRG	102	No 10, Airport Road, Hingurakgoda	Polonnaruwa
3	R 5	Kaduruwela	KRW	060	No: 300/2, Sawmill Junction, Kaduruwela, Polonnaruwa	Polonnaruwa
4	R 5	Kekirawa	KKR	083	No 61, Opposite Government Hospital, Main Street, Kekirawa	Anuradhapura
5	R 5	Thambuttegama	TBG	104	No 255A, Main Street, Thambuttegama	Anuradhapura
NORTHERN PROVINCE						
1	R 8	Chavakachcheri	CVK	099	No. 1,3,5, Kandy Road, Chavakachcheri	Jaffna
2	R 8	Chunnakam	CNK	062	No: 30, K..K.S. Road, Chunnakam	Jaffna
3	R 8	Jaffna	JAF	037	No 62/6, Stanley Road, Jaffna	Jaffna
4	R 8	Manipay	MPY	097	No.260, Manipay Road, Manipay	Jaffna
5	R 8	Nelliady	NDY	066	109, Jaffna Road, Nelliady	Jaffna
6	R 8	Thirunelveli	TNV	098	No, M102, Palaly Road, Jaffna	Jaffna
7	R 8	Vavuniya	VAV	041	188, 190, 192 & 190/1, Kandy Road, Vavuniya	Vavuniya
EASTERN PROVINCE						
1	R 8	Akkaraipattu	AKP	094	No. 487, Main Street, Akkaraipattu	Ampara
2	R 7	Ampara	AMP	040	No 75, D S Senanayake Street, Ampara	Ampara
3	R 8	Batticaloa	BAT	039	No 16, Liyods Avenue, Batticaloa	Batticaloa
4	R 8	Chenkalady	CDY	093	Trincomalee Road, Chenkalady	Batticaloa
5	R 8	Kalmunai	KLM	053	No: 165, Batticaloa Road, Kalmunai	Ampara
6	R 8	Trincomalee	TRI	038	No 91 & 93, North Coast Road, Trincomalee	Trincomalee
NORTH WESTERN PROVINCE						
1	R 4	Chilaw	CHI	010	50-52, Skyline Building, Colombo Road, Chilaw	Puttalam
2	R 5	Giriulla	GRU	086	No 86, Negombo Road, Giriulla.	Kurunegala
3	R 5	Kuliyapitiya	KUL	042	No 133, Main Street, Kuliyapitiya	Kurunegala
4	R 5	Kurunegala	KUR	007	6, Rajapihilla Mw, K'Gala	Kurunegala
5	R 4	Mahawewa	MHW	105	Chilaw Road, Mahawewa	Puttalam
6	R 5	Narammala	NRM	091	No 144, Kurunegala Road, Narammala	Kurunegala
7	R 4	Nattandiya	NTD	095	No 82, Marawila Road, Nattandiya	Puttalam
8	R 5	Nikaweratiya	NKW	069	No: 65, Puttalam Road, Nikaweratiya	Kurunegala
9	R 5	Puttalam	PUT	033	No 104, Kurunegala Road, Puttalam	Puttalam
10	R 5	Wariyapola	WPL	056	Navinna Bldg, Puttalam Road, Wariyapola	Kurunegala
11	R 4	Wennappuwa	WEN	036	No 204, Chilaw Road, Wennappuwa	Puttalam

Telephone : General	Telephone : Manager's Direct	Fax	Business Hours	Saturday / Sunday/ 365 days Banking
081 2354400/60	081 2351370	0812354388	Monday to Friday 9.00am to 4.00pm	Saturday Banking from 9.00am to 1.00pm
066 2285502 / 3	066 2285501	066 2285500	Monday to Friday 9.00am to 4.00pm	
081 2202776/7	081 2202779	081 2202778	Monday to Friday 9.00am to 4.00pm	Saturday Banking from 9.00am to 1.00pm
081 2202893/4	081 2202 892	081 2202895	365 Day Banking Monday to Friday (9.00am to 7.00pm)	365 Day Banking / Saturday Banking (9.00 am to 3.00pm) / Sunday & Holiday Banking (9.00 am to 1.00pm)
066 2224405 /6	066 2224403	0662224407	Monday to Friday 9.00am to 4.00pm	Saturday Banking from 9.00am to 1.00pm
054 2223933 /49	054 2223858	054 2223696	Monday to Friday 9.00am to 4.00pm	
052 2235212/3	052 2235210	052 2235214	Monday to Friday 9.00am to 4.00pm	Saturday Banking from 9.00am to 1.00pm
0812579665/6	0812579660	0812579899	Monday to Friday 9.00am to 4.00pm	
081 2493453/4	081 2493457	081 2493607	Monday to Friday 9.00am to 4.00pm	
025 4581142-3	025 2234820	254581144	Monday to Friday 9.00am to 4.00pm	
027 2245385/6	027 2245416	027 2245417	Monday to Friday 9.00am to 4.00pm	
027 2 225193/03	027 2225243	027 2224483	Monday to Friday 9.00am to 4.00pm	
0252263061 / 2	0252263064	0252263070	Monday to Friday 9.00am to 4.00pm	
025 2276872/3	025 2276871	025 2276807	Monday to Friday 9.00am to 4.00pm	
021 2271361/2	021 2271360	021 2271363	Monday to Friday 9.00am to 4.00pm	
021 2242093 / 4	021 2242092	021 2242095	Monday to Friday 9.00am to 4.00pm	Saturday Banking from 9.00am to 1.00pm
021 2221180/1	021 2221182	021 2221183	Monday to Friday 9.00am to 4.00pm	Saturday Banking from 9.00am to 1.00pm
021 2256721/2	021 2256720	021 2256723	Monday to Friday 9.00am to 4.00pm	
021 2263402/3	021 2263400	021 2263399	Monday to Friday 9.00am to 4.00pm	
021 2216441/2	021 2216440	021 2216443	Monday to Friday 9.00am to 4.00pm	
024 2225780/1	024 2225782	024 2225783	Monday to Friday 9.00am to 4.00pm	
067 2057612 / 3	067 2057611	067 2057614	Monday to Friday 9.00am to 4.00pm	
063 2223209	063 2223191	063 2223216	Monday to Friday 9.00am to 4.00pm	
065 2227944 /5	065 2227946	065 2227947	Monday to Friday 9.00am to 4.00pm	Saturday Banking from 9.00am to 1.00pm
0652054344 / 5	0652054343	0652054346	Monday to Friday 9.00am to 4.00pm	
067 2225781 / 2	067 2225780	067 2225783	Monday to Friday 9.00am to 4.00pm	Saturday Banking from 9.00am to 1.00pm
026 2226771/2	0262226773	026 2226774	Monday to Friday 9.00am to 4.00pm	
032 2220107/8	032 2222227	032 2220109	Monday to Friday 9.00am to 4.00pm	
0372288583	0372288581	0372288584	Monday to Friday 9.00am to 4.00pm	
037 2281255-6	0372281260	037 2281264	Monday to Friday 9.00am to 4.00pm	
037 2231952/3	037 2231955	037 223 1954	Monday to Friday 9.00am to 6.00pm	Saturday Banking from 9.00am to 1.00pm
032 2054402/3	032 2054401	032 2054404	Monday to Friday 9.00am to 4.00pm	
037 2249756	037 2249746	037 2249757	Monday to Friday 9.00am to 4.00pm	
032 2059441/2	032 2059440	032 2059443	Monday to Friday 9.00am to 4.00pm	Saturday Banking from 9.00am to 1.00pm
037 2260192/3	037 2260191	037 2260196	Monday to Friday 9.00am to 4.00pm	
032-2265529	032-2266031	032-2266030	Monday to Friday 9.00am to 4.00pm	
037 2267838-39	037 2267837	037 2267840	Monday to Friday 9.00am to 4.00pm	
031 2245431/2	031 2245433	031 2245434	Monday to Friday 9.00am to 4.00pm	

BRANCH NETWORK OF THE BANK

No	Region	Branch Name	Abbreviations	Branch Code	Address	District
SOUTHERN PROVINCE						
1	R 3	Akuressa	AKU	065	No. 21, Main Street, Akuressa	Matara
2	R 3	Ambalangoda	AMB	047	No : 333, Galle Road, Ambalangoda	Galle
3	R 3	Ambalantota	AMT	048	No. 127, Main Street, Ambalantota	Hambanthota
4	R 3	Elpitiya	ELP	067	No. 23, Ambalangoda Road, Elpitiya	Galle
5	R 3	Galle	GLE	021	1/A,Abeysekara Building, Wakwella Road, Galle	Galle
6	R 3	Hambanthota	HMT	057	No: 34, Wilmot Street, Hambantota	Hambanthota
7	R 3	Matara	MAT	006	60, Uyanwatte Rd, Matara	Matara
8	R 3	Tissamaharama	TSM	092	No. 133 E, New Town, Tissamaharama	Hambanthota
9	R 3	Uragasmanhandiya	UGM	081	No 131, Main Street, Uragasmanhandiya	Galle
UVA PROVINCE						
1	R 6	Badulla	BAD	018	242, Lower Street, Badulla	Badulla
2	R 6	Bandarawela	BDW	051	No : 317, Main Street, Bandarawela	Badulla
3	R 6	Mahiyanganaya	MGN	075	No: 02, New Town, Mahiyanganaya	Badulla
4	R 7	Monaragala	MNR	070	No: 29, Pothuwil Road, Monaragala	Monaragala
SABARAGAMUWA PROVINCE						
1	R 7	Balangoda	BLG	077	No 24 A, Barns Ratwatte Mawatha, Balangoda	Ratnapura
2	R 7	Eheliyagoda	ELG	078	No: 153, Main Street, Ehaliyagoda.	Ratnapura
3	R 7	Embilipitiya	EBP	058	No. 67, Pallegama , Embilipitiya	Ratnapura
4	R 7	Kahawatte	KHW	084	No 149, Main Street, Kahawatte	Ratnapura
5	R 6	Kegalle	KEG	017	261/1, Kandy Road, Kegalle	Kegalle
6	R 7	Ratnapura	RAT	013	No 211, Main Street, Rathnapura	Ratnapura
7	R 6	Warakapola	WKP	101	No. 96 & 98, Main Street, Warakapola	Kegalle
WESTERN PROVINCE						
1	R 3	Aluthgama	ALG	059	No. 267, Galle Road, Aluthgama	Kalutara
2	R 2	Athurugiriya	ATU / ATG	071	70/15A, Borella Road, Athurugiriya	Colombo
3	R 7	Awissawella	AWL	034	No. 93, Ratnapura Road, Avissawella	Colombo
4	R 2	Battaramulla	BTM	090	No 245, Main Street, Battaramulla	Colombo
5	R 2	Boralesgamuwa	BOR / BRG	072	No 39, Kesbawa Road, Boralesgamuwa	Colombo
6	R 1	Borella	BRL	052	No: 31/5, Dr. N M Perera Mawatha, Borella	Colombo
7	R 1	Colombo 7	HOB	100	103A, Dharmapala Mawatha, Colombo 7	Colombo
8	R 4	Gampaha	GAM	029	153, Colombo Road, Gampaha	Gampaha
9	R 7	Hanwella	HWL	096	No. 138 A, Colombo Road, Hanwella	Colombo
10	R 1	Havelock Town	HVL	003	117, Havelock Road, Colombo 05	Colombo
11	R 4	Hendala	HND	088	No 46A Hendala Road, Hendala	Gampaha
12	R 2	Homagama	HOM	030	64A, Highlevel Road, Homagama	Colombo
13	R 1	Horana	HOR	027	135, Panadura Road, Horana	Kalutara
14	R 4	Ja - Ela	JLA	044	No.121, Colombo Road, Ja-Ela	Gampaha
15	R 4	Kadawatha	KDW	026	147, Kandy Road, Kadawatha	Gampaha
16	R 4	Kaduwela	KWL	055	No: 501/2, Awissawella Road, Kaduwela	Colombo

Telephone : General	Telephone : Manager's Direct	Fax	Business Hours	Saturday / Sunday/ 365 days Banking
041 2284 541/2	041 2284540	041 2284 543	Monday to Friday 9.00am to 4.00pm	
091 2256562/3	091 2256561	091 2256517	Monday to Friday 9.00am to 4.00pm	Saturday Banking from 9.00am to 1.00pm
047 2225552/3	047 2225551	047 2225554	Monday to Friday 9.00am to 4.00pm	
091 2290481/2	091 2290480	091 2290483	Monday to Friday 9.00am to 4.00pm	
091 2224136/ 091 4380787	091 2233752	091 2233751	365 Day Banking Monday to Friday (9.00am to 7.00pm)	365 Day Banking / Saturday Banking (9.00 am to 3.00pm) / Sunday & Holiday Banking (9.00 am to 1.00pm)
0472222178/9	0472222177	0472222180	Monday to Friday 9.00am to 4.00pm	
041 2231542/3	041 2231544	041 2231545	Monday to Friday 9.00am to 4.00pm	Saturday Banking from 9.00am to 1.00pm
047 2 238184/5	047 2 238183	047 2 238186	Monday to Friday 9.00am to 4.00pm	
091 2264195/6	091 2264019	091 2264016	Monday to Thursday 9.00am to 4.00pm / Friday 9.00am to 6.00pm	
0552231419/20	055 2224573	055 2224627	Monday to Friday 9.00am to 4.00pm	
057 2233690/1	057 2233689	057 2233688	Monday to Friday 9.00am to 4.00pm	Sunday Banking from 9.00am to 1.00pm
055 2051671/2	055 2051670	055 2051673	Monday to Friday 9.00am to 4.00pm	Saturday Banking from 9.00am to 1.00pm
055 2277327/8	055 2277326	055 2277329	Monday to Friday 9.00am to 4.00pm	
045 2289487/8	045 2289486	045 2289489	Monday to Friday 9.00am to 4.00pm	
0362257321/2	0362257320	0362257323	Monday to Friday 9.00am to 4.00pm	Sunday Banking from 9.00am to 1.00pm
0472261752/3	047 2261751	047 2261754	Monday to Friday 9.00am to 4.00pm	
0452271538/48	0452271528	0452271558	Monday to Friday 9.00am to 4.00pm	
035-2232536/7	0352232532	0352232571	Monday to Friday 9.00am to 4.00pm	
045 2230910/11	045 2226022	045-2226042	Monday to Friday 9.00am to 4.00pm	Saturday Banking from 9.00am to 1.00pm
035 2269106/7	035 2269105	035 2269108	Monday to Friday 9.00am to 4.00pm	
034 2275625/ 0342275626	034 2275624	034 2275627	Monday to Friday 9.00am to 4.00pm	Saturday Banking from 9.00am to 1.00pm
011 2563325/ 011 2073244	011 2073243	011 2563326	Monday to Friday 9.00am to 4.00pm	Saturday Banking from 9.00am to 1.00pm
036 2233610/1	036 2233612	036 2233613	Monday to Friday 9.00am to 4.00pm	
0112 885928/ 0112 885929	0112 885298	0112 885299	Monday to Friday 9.00am to 4.00pm	
011 2509701/ 0112 150798	0112150797	011 2509702	Monday to Friday 9.00am to 4.00pm	
011 2694484/5	011 2694438	011 2694439	Monday to Friday 9.00am to 6.00pm	Saturday Banking from 9.00am to 1.00pm
011 2448448/ 011 4796262	011 2446995	011 4796278	Monday to Friday 9.00am to 6.00pm	Saturday Banking from 9.00am to 1.00pm
033 2225051/2/3	033 2234350	033 2234351	Monday to Friday 9.00am to 6.00pm	
036 2252078/ 036 2252085	036 2255519	036 2255926	Monday to Friday 9.00am to 4.00pm	
011 2591140/1	011 2591144	011 2591142	365 Day Banking Monday to Friday (9.00am to 6.00pm)	365 Day Banking / Saturday Banking (9.00 am to 3.00pm) / Sunday & Holiday Banking (9.00 am to 1.00pm)
011 2945981/2	011 2945983	011 2945984	Monday to Friday 9.00am to 4.00pm	Saturday Banking from 9.00am to 1.00pm
011 2894880/1	011 2894882	011 2894883	Monday to Friday 9.00am to 4.00pm	
034 2265171/72	034 2265173	034 2265174	Monday to Friday 9.00am to 4.00pm	
011 2248982/3	011 2248981	011 2248984	Monday to Friday 9.00am to 6.00pm	Saturday Banking from 9.00am to 1.00pm
011 2926453/4	011 2926456	011 2926455	Monday to Friday 9.00am to 4.00pm	Saturday Banking from 9.00am to 1.00pm
0112548571/2	0112548569	0112548573	Monday to Friday 9.00am to 4.00pm	

BRANCH NETWORK OF THE BANK

No	Region	Branch Name	Abbreviations	Branch Code	Address	District
WESTERN PROVINCE						
17	R 3	Kalutara	KAL	016	290, Galle Road, Kalutara South	Kalutara
18	R 4	Kandana	KDN	028	54, Negombo Road, Kandana	Gampaha
19	R 4	Katana	KAT	109	No. 05, Koongashandiya, Katana	Gampaha
20	R 4	Katunayake	KTN	082	No 745 , Baseline Road, Aweriwatta , Katunayaka	Gampaha
21	R 4	Kiribathgoda	KBG	025	No. 540, New Hunupitiya Road, Dalugama, Kelaniya	Gampaha
22	R 4	Kochchikade	KCH	089	No 96, Chilaw Road, Kochchikade.	Gampaha
23	R 2	Kohuwela	KOH	032	No. 118, S De S Jayasinghe Mawatha, Kohuwela	Colombo
24	R 1	Kollupitiya	KPY	014	712, Galle Road, Colombo 3	Colombo
25	R 1	Kotahena	KOT	024	295, George R De Silva Mw, Co -13	Colombo
26	R 2	Kottawa	KTW	111	365/1 A, High Level Road, Kottawa	Colombo
27	R 2	Maharagama	MHG	012	108 A, Highlevel Road, Maharagama	Colombo
28	R 2	Malabe	MLB	031	760, New Kandy Road, Malabe	Colombo
29	R 1	Marine Drive	MRD	103	42, Sagara Road, Marine Drive, Colombo 4	Colombo
30	R 3	Mathugama	MGM	045	No. 98, Agalawatta Road, Mathugama	Kalutara
31	R 4	Minuwangoda	MNG	063	No: 49, Negombo Road, Minuwangoda	Gampaha
32	R 1	Moratuwa	MOR	015	255, Galle Road, Idama, Moratuwa	Colombo
33	R 1	Mount Lavinia	MLV	020	No 431/433, Galle Road, Mount Lavinia	Colombo
34	R 1	Narahenpita	NAR	074	193, Kirula Road , Narahenpita , Colombo 5.	Colombo
35	R 1	Nawam Mawatha	NMB	001	No 40, Nawam Mw, Colombo 02	Colombo
36	R 4	Negombo	NEG	009	No. 121, St.Joseph Street, Negombo	Gampaha
37	R 4	Nittambuwa	NTB	054	No 496, Kandy Road, Nittambuwa	Gampaha
38	R 2	Nugegoda	NUG	004	152, Nawala Rd, Nugegoda	Colombo
39	R 1	Old Moor Street	OMS	079	No : 311, Old Moor Street , Colombo 12	Colombo
40	R 1	Panadura	PAN	035	No. 319, Galle Road, Panadura	Kalutara
41	R 2	Pelawatte	PEL	022	301, Pannipitiya Road, Battaramulla	Colombo
42	R 1	Pettah	PET	043	No. 137,133/1, Main Street, Colombo 11	Colombo
43	R 2	Piliyandala	PIL	023	No. 21, Second Cross Street, Piliyandala	Colombo
44	R 2	Pitakotte	PTK	087	No. 322B, Kotte Road, Pitakotte	Colombo
45	R 1	Private Wealth Centre	BMB	112	No. 135, Rainbow Business Centre, Baudhaloka Mawatha, Colombo 04	Colombo
46	R 2	Rajagiriya	RAJ	005	505, Sri Jayawardenapura Etul Kotte, Kotte	Colombo
47	R 1	Ratmalana	RML	073	No 151, Galle Road, Ratmalana	Colombo
48	R 4	Wattala	WTL	011	378A, Negombo Road, Wattala	Gampaha
49	R 1	Wellawatte	WEL	008	302, Galle Road, Colombo 6	Colombo
50	R 4	Yakkala	YAK	068	65/5 B, Kandy Road, Yakkala	Gampaha

All above Branches are equipped with ATM machines

Regional Head Office Details

Region	Region code	Regional Head	Regional Office located in	Address
Colombo Region	1	Sydney Downall	Borella Branch	No: 31/5, Dr. N M Perera Mawatha, Borella.
Greater Colombo Region	2	Chandima Alwis	Narahenpita Branch	No : 193, Kirula Road, Narahenpita
Southern Region	3	Thilina Hewage	Matara Branch	No: 60, Uyanwatte Road, Matara.
North Western Region	4	Romesh Tissera	Ja Ela Branch	No: 121, Colombo Road, Ja-Ela.
North Central Region	5	Sisira Herath	Kurunegala Branch	No: 6, Rajapihilla Mw, Kurunegala.
Central Region	6	Nalin Abeyratne	Kandy Branch	No: 133, Kotugodella Veediya, Kandy.
Uva - Sabaragamuwa Region	7	Vinjaya Jayasinghe	Ratnapura Branch	No: 211, Main Street, Ratnapura.
North East Region	8	Brinthapan Selvanayakam	Jaffna Branch	No: 62/6, Stanley Road, Jaffna.

Telephone : General	Telephone : Manager's Direct	Fax	Business Hours	Saturday / Sunday/ 365 days Banking
034 2229680/2	034 2236577	0342236579	Monday to Friday 9.00am to 4.00pm	Saturday Banking from 9.00am to 1.00pm
011 2228601/2	011 2228603	011 2228604	Monday to Friday 9.00am to 6.00pm	
031 2242957/8	031 2242956	031 2242964	Monday to Friday 9.00am to 4.00pm	
011 2 254960/70	011 2254950	011 2254930	Monday to Friday 9.00am to 6.00pm	
011 2907511/2	011 2907514	011 2907513	Monday to Friday 9.00am to 6.00pm	Saturday Banking from 9.00am to 1.00pm
0312272193/4	0312272192	0312272195	Monday to Friday 9.00am to 4.00pm	Sunday Banking from 9.00am to 1.00pm
011 2814224/5	011 2814226	011 2814227	Monday to Friday 9.00am to 6.00pm	
011 2504961/2	011 2504964	011 2504963	Monday to Friday 9.00am to 4.00pm	
011 2436169/70	011 2436171	011 2436199	Monday to Friday 9.00am to 6.00pm	Saturday Banking from 9.00am to 1.00pm
011 2089676/7	011 2089675	011 2089680	Monday to Friday 9.00am to 4.00pm	Saturday Banking from 9.00am to 1.00pm
011 2745091/2	011 2745093	011 2745094	Monday to Friday 9.00am to 6.00pm	Saturday Banking from 9.00am to 1.00pm
011 2762345/6	011 2762347	011 2762348	Monday to Friday 9.00am to 4.00pm	Saturday Banking from 9.00am to 1.00pm
011 2055238/ 011 2055264	011 2055184	011 2055132	Monday to Friday 9.00am to 6.00pm	Saturday Banking from 9.00am to 1.00pm
034 2249509/510	034 2249513	034 2249379	Monday to Friday 9.00am to 4.00pm	Sunday Banking from 9.00am to 1.00pm
011 2280970/ 011 2280971	011 2280969	011 2280995	Monday to Friday 9.00am to 4.00pm	Sunday Banking from 9.00am to 1.00pm
011 2642021/2	011 2642025	011 2642023	Monday to Friday 9.00am to 6.00pm	Saturday Banking from 9.00am to 1.00pm
011 2739717/ 2737144	011 2739176	011 2721249	365 Day Banking Monday to Friday (9.00am to 6.00pm)	365 Day Banking / Saturday Banking (9.00 am to 3.00pm) / Sunday & Holiday Banking (9.00 am to 1.00pm)
011 2369580/07	011 2369508	011 2369581	Monday to Friday 9.00am to 6.00pm	Saturday Banking from 9.00am to 1.00pm
0112 314640/1	011 2314643	011 2314642	Monday to Friday 9.00am to 6.00pm	
031 2220246/7	031 2220249	031 2220248	Monday to Friday 9.00am to 6.00pm	Saturday Banking from 9.00am to 1.00pm
033 229 4931/2	0332294945	0332294947	Monday to Friday 9.00am to 4.00pm	Saturday Banking from 9.00am to 1.00pm
011 2820885/7	011 2820879	011 2820893	Monday to Friday 9.00am to 6.00pm	Saturday Banking from 9.00am to 1.00pm
011 2 339902/3	011 2 339901	011 2 339904	Monday to Friday 9.00am to 6.00pm	Saturday Banking from 9.00am to 1.00pm
038 2241893/4	038-2241895	038-2241896	Monday to Friday 9.00am to 6.00pm	Saturday Banking from 9.00am to 1.00pm
011 2786708/9	011 2786710	011 2786711	Monday to Friday 9.00am to 4.00pm	Saturday Banking from 9.00am to 1.00pm
011 2331204/5	011 2331285	011 2331286	Monday to Friday 9.00am to 6.00pm	Saturday Banking from 9.00am to 1.00pm
011 2604600	011 2604685	011 2604800	Monday to Friday 9.00am to 4.00pm	Saturday Banking from 9.00am to 1.00pm
011 2856503 /34	011 2856491	011 2856479	Monday to Friday 9.00am to 4.00pm	
011 2556757/66	011 2556711	011 2556788	Monday to Friday 9.00am to 6.00pm	
011 2885790/92	011 2885794	011 2885793	365 Day Banking Monday to Friday (9.00am to 7.00pm)	365 Day Banking / Saturday Banking (9.00 am to 3.00pm) / Sunday & Holiday Banking (9.00 am to 1.00pm)
0112 716684/ 0112 719361	0112 716685	011 2719377	Monday to Friday 9.00am to 4.00pm	
011 2981519/20	011 2981522	011 2981521	Monday to Friday 9.00am to 6.00pm	Saturday Banking from 9.00am to 1.00pm
011 2361903/4	011 2361906	011 236 1905	Monday to Friday 9.00am to 6.00pm	Saturday Banking from 9.00am to 1.00pm
033 2239395/6	033 2239394	033 2239397	Monday to Friday 9.00am to 4.00pm	Saturday Banking from 9.00am to 1.00pm

Telephone : General	Telephone : Regional Head's Direct	Fax
+94 11 2 685 712	+94 11 2 685711	+94 11 2 685713
+94 11 2 369 323/5	+94 11 2 369 321	+94 11 2 369 322
+94 41 2 227 161/3	+94 41 2 227164	+94 41 2 222406
+94 11 2 071491/2	+94 11 2 071493	+94 11 2 341049
+94 37 4 692421	+94 37 2 225341	+94 37 2 231954
+94 81 2 228633/5	+94 81 2 238786	+94 81 2 202778
+94 45 2 230912	+94 45 2 223839	+94 45 2 226042
+94 21 2 217396	+94 21 2 217395	+94 21 2 217397

BRANCH NETWORK OF THE BANK

Summary dispersion of the branches - Province wise

Province	Number of ATMs including CRMs	Number of branches
Central	12	9
Eastern	7	6
North Central	6	5
North Western	13	11
Northern	8	7
Sabaragamuwa	11	7
Southern	11	9
Uva	4	4
Western	69	50
	141	108

CRM details

Location	On site/Off site	District
Hemas Hospital Wattala CRM	Offsite	Gampaha
Hemas Hospital Galle CRM	Offsite	Galle
Hemas Hospital Thalawathugoda CRM	Offsite	Colombo
Nawam Mawatha Offsite CRM	Offsite	Colombo
Nawaloka Hospital CRM	Offsite	Colombo
Kurunegala Main Street CRM	Offsite	Kurunagala
SPAR S L CRM	Offsite	Colombo
K Zone Ja- ela CRM	Offsite	Gampaha
Asiri Central Hospital CRM	Offsite	Colombo
Asiri Medical Hospital CRM	Offsite	Colombo
Asiri Surgical Hospital CRM	Offsite	Colombo
ICBT Campus CRM	Offsite	Colombo
HOB CRM	Onsite	Colombo
Pelawatte CRM	Onsite	Colombo
Kandy City Centre CRM	Onsite	Kandy
Pettah CRM	Onsite	Colombo
Awissawella CRM	Onsite	Colombo
Maharagama CRM	Onsite	Colombo
Borella CRM	Onsite	Colombo
Negombo CRM	Onsite	Gampaha
Gampaha CRM	Onsite	Gampaha
Malambe CRM	Onsite	Colombo
Kalutara CRM	Onsite	Kalutara
Batticaloa CRM	Onsite	Batticaloa
Piliyandala CRM	Onsite	Colombo
Old Moor Street CRM	Onsite	Colombo
Nuwara Eliya CRM	Onsite	Nuwara Eliya

PRV Network Details

Dharmapala Mawatha - Colombo 07	Havelock Town
Kandy City Centre	Mount Lavinia
Galle	Rajagiriya
Pelawatte	Private Wealth Centre - Bambalapitiya
Nawam Mawatha - Colombo 02	

NETWORK OF GROUP COMPANIES

UP NEXT: 
Correspondent Relationships

Head office/ branches	Postal address	Contact person	Telephone	Fax	Email address
NDB Capital Holdings Limited	Level 1, NDB Capital Building No. 135, Bauddhaloka Mawatha, Colombo 04	Mr. Vajira Kulatilaka	011-2300385/90	011-2300393	vajira@ndbib.com
NDB Investment Bank Limited	Level 1, NDB Capital Building No. 135, Bauddhaloka Mawatha, Colombo 04	Mr. Darshan Perera	011-2300385	011-2300393	darshan@ndbib.com
NDB Wealth Management Limited	Level G, NDB Capital Building No. 135, Bauddhaloka Mawatha, Colombo 04	Mr. Prabodha Samarasekera	011-2303232	011-2303237	contact@ndbinvestors.com
NDB Securities (Pvt) Limited					
Head Office	Level 2, NDB Capital Building, No. 135, Bauddhaloka Mawatha, Colombo 04	Ms. Prasansani Mendis	011-2131000/05	011-2314181	prasansini@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 (Pvt) Limited	No. 97, Dharmapala Mawatha, Colombo 07	Mr. Senaka Kakiriwaragodage	0112-303810	0112-307155	sk@emeraldfundsl.com
NDB Zephyr Partners Limited	IFS Court, Bank Street, TwentyEight Cybercity, Ebene 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) Navam 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

SOUTH AMERICA

Argentina
Bolivia
Brazil
Chile
Colombia
Peru
Uruguay

NORTH AMERICA

Bahamas
Canada
Mexico
United States

AUSTRALIA

Australia

OCEANIA

New Zealand

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

Number of Correspondent Relationships

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2018

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2017

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2016

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	102-6 Markets served	42	
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	102-18 Governance Structure	162	
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	102-41 Collective bargaining agreements	89	
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	102-54 Claims of reporting in accordance with GRI Standards	4	
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	103-3 Evaluation of the Management Approach	116	
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	103-2 The Management Approach and its components	116	
	103-3 Evaluation of the Management Approach	116	
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GRI 103: Management Approach			
	103-1 Explanation of material topics and its boundaries	54-55	
	103-2 The Management Approach and its components	116	
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	305-1 Direct greenhouse gas (GHG) emissions	117	
	305-2 Energy indirect greenhouse gas (GHG) emissions (Scope 2)	117	
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	401-2 Benefits provided to full time employees that are not provided to temporary or part-time employees	87	
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GLOSSARY OF FINANCIAL AND BANKING TERMS

A

Acceptances

Promise to pay, created when the drawee of a time draft, stamps or writes the word 'accepted' above his signature and a designated payment date.

Accounting Policies

The specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting Financial Statements.

Accrual Basis

Recognising the effects of transaction and other events when they occur without waiting for receipt or payment of cash or its equivalent.

Actuarial Gain/Loss

Gains or 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.

Amounts Due to Depositors

Money deposited by account holders. Such funds are recorded as liabilities.

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.

Available-for-Sale Financial Assets

A debt or equity security that is purchased with the intent of selling before it reaches maturity, or selling prior to a lengthy time period in the event the security does not have a maturity.

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 II

The capital adequacy framework issued by the Basel Committee on Banking Supervision in the form of the "international convergence of capital measurements and capital standards".

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.

Bills for Collection

A bill of exchange drawn by an exporter usually at a term, on an importer overseas and brought by the exporter to his bank with a request to collect the proceeds.

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.

Capital Gain (Capital Profit)

The gain on the disposal of an asset calculated by deducting the cost of the asset from the proceeds received on its disposal.

Capital reserves

Capital reserves consist of revaluation reserves arising from revaluation of properties owned by the Bank and Reserve fund set aside for specific purposes defined under the Banking Act No.30 of 1988 and shall not be reduced or impaired without the approval of the Monetary Board.

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 Method

A method of accounting whereby the investment is recorded at cost. The Statement of Profit or Loss reflects income from the investment only to the extent that the investor receives distributions from accumulated net profits of the investee arising subsequent to the date of acquisition.

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.

GLOSSARY OF FINANCIAL AND BANKING TERMS

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, favorable 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.

Foreign Exchange Profit

Profit earned on foreign currency transactions arising from the difference in foreign exchange rates between the transaction/last date of the Statement of Financial Position and the settlement/date of the Statement of Financial Position. 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.

J

Joint Control

Joint control is the contractually agreed sharing of the control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control.

Joint Venture

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control.

GLOSSARY OF FINANCIAL AND BANKING TERMS

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

Letter of Credit (L/C)

Written undertakings by a Bank on behalf of its customers (typically an importer), authorising a third party (e.g. an exporter) to draw drafts on the Bank up to a stipulated amount under specific terms and conditions. Such undertakings are established for the purpose of facilitating international trade.

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.

Loans and Receivable

Conventional loan assets that are unquoted (originated or acquired).

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.

Non-Performing Loans Cover (NPL Cover)

Cumulative loan provision as a percentage of total non-performing Loans (net of interest in suspense).

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 & 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.

Specific Impairment Allowance

Impairment is measured individually for loans that are individually significant to the Bank

Statutory Reserve Fund

A capital reserve created as per the provisions of the Banking Act, No. 30 of 1988.

Subsidiary

An entity, including an unincorporated entity such as a partnership, which is controlled by another entity (known as the Parent).

Substance Over Form

The consideration that the accounting treatment and the presentation in Financial Statements of transactions and events should be governed by their substance and financial reality and not merely by legal form.

Swaps

The simultaneous purchase of an amount of a currency for spot settlement and the sale of the same amount of the same currency for forward settlement.

T

Tier I Capital

Core capital representing permanent shareholders' equity and reserves created or increased by appropriations of retained earnings or other surpluses.

Tier II Capital

Supplementary capital representing revaluation reserves, general provisions and other capital instruments, which combine certain characteristics of equity and debt such as hybrid capital instruments and subordinated term debts.

Total Capital

Capital base is summation of the core capital (Tier I) and the supplementary capital (Tier II).

GLOSSARY OF FINANCIAL AND BANKING TERMS

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.

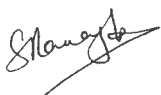
NOTES

NOTICE OF MEETING

Notice is hereby given that the Fourteenth (14th) 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, Navam Mawatha, Colombo 2 at 10.30 a.m. on Thursday, the Twenty Eighth (28th) day of March, Two Thousand and Nineteen (2019) 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 2018.
2. To reappoint Mr. Sriyan Cooray in terms of Article 44 (2) of the Articles of Association of the Bank.
3. To re-elect Mr. Kavan Ratnayaka as a Director in terms of Article 42 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 2019 under the Companies Donations Act No. 26 of 1951.

By Order of the Board,



Ms. Shehani Ranasinghe
Company Secretary

22 January 2019
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, Navam Mawatha, Colombo 2 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 7 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

UP NEXT: ►
Form of Proxy

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 and June 2015, 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 rating:
A+ (Ika)/ Negative Outlook – Fitch Ratings Lanka Limited

Basel II compliant subordinated debentures:
A (Ika) – Fitch Ratings Lanka Limited

BOARD OF DIRECTORS AND BOARD SUB COMMITTEES

Board of Directors as at 31 December 2018

Mr. Ananda Atukorala – Chairman - Independent
Mr. Ashok Pathirage – Deputy Chairman - Non-Independent
Mr. Trevine Jayasekara - Independent (Retired w.e.f. 08 February 2019)
Mrs. Kimarli Fernando - Non-Independent
Mr. Sarath Wikramanayake - Non-Independent
Mrs. Indrani Sugathadasa - Independent
Mr. Dinal Phillips, PC - Independent
Mr. Kavan Ratnayaka - Independent
Mr. Ranasinghe Semasinghe - Non-Independent
Mr. Dimantha Seneviratne – Group Chief Executive Officer-Non-Independent
Mr. Sriyan Cooray – Independent (Appointed w.e.f. 10 August 2018)

INTEGRATED RISK MANAGEMENT COMMITTEE

Board sub committees as at 31 December 2018

Mr. Sarath Wikramanayake - Chairman
Mr. Kavan Ratnayaka
Mr. Dinal Phillips, PC
Mr. Ranasinghe Semasinghe
Mr. Dimantha Seneviratne
Mr. Sriyan Cooray
Ms. Nirmala Rayen – VP – Group Risk Management
Ms. Manique Kiriella Bandara – Compliance Officer
Mr. Lalith Fernando - Group Chief Financial Officer (Resigned w.e.f. 01 January 2019)

STRATEGIC ISSUES COMMITTEE

Mr. Ananda Atukorala - Chairman
Mr. Ashok Pathirage
Mr. Trevine Jayasekara (Retired w.e.f. 08 February 2019)
Mrs. Kimarli Fernando
Mr. Sarath Wikramanayake

AUDIT COMMITTEE

Mr. Trevine Jayasekara - Chairman (Retired w.e.f. 08 February 2019)
Mr. Sarath Wikramanayake
Mrs. Indrani Sugathadasa
Mr. Ranasinghe Semasinghe
Mr. Sriyan Cooray
Mrs. Kimarli Fernando (Resigned w.e.f. 01 September 2018)

HUMAN RESOURCES & REMUNERATION COMMITTEE

Mrs. Indrani Sugathadasa - Chairperson
Mr. Ashok Pathirage
Mrs. Kimarli Fernando
Mr. Trevine Jayasekara (Retired w.e.f. 08 February 2019)
Mr. Kavan Ratnayaka
Mr. Dinal Phillips, PC

NOMINATIONS COMMITTEE

Mr. Ananda Atukorala - Chairman
Mr. Ashok Pathirage
Mr. Trevine Jayasekara (Retired w.e.f. 08 February 2019)
Mrs. Kimarli Fernando

RELATED PARTY TRANSACTIONS REVIEW COMMITTEE

Mr. Ananda Atukorala - Chairman
Mr. Trevine Jayasekara (Retired w.e.f. 08 February 2019)
Mr. Sarath Wikramanayake
Mrs. Kimarli Fernando
Mrs. Indrani Sugathadasa
Mr. Ranasinghe Semasinghe

CREDIT COMMITTEE

Mrs. Kimarli Fernando - Chairperson
Mr. Ananda Atukorala
Mr. Ashok Pathirage
Mrs. Indrani Sugathadasa
Mr. Dinal Phillips, PC
Mr. Kavan Ratnayaka (Appointed w.e.f. 21 August 2018)
Mr. Dimantha Seneviratne/ Group Chief Executive Officer

SUBSIDIARIES AND ASSOCIATE COMPANIES

Subsidiary companies as at 31 December 2018

NDB Capital Holding Limited

Directors

Mr. Ashok Pathirage - Chairman
Mr. Sarath Wikramanayake
Mr. Nihal Welikala
Mr. Dimantha Seneviratne
Mr. Arjun Fernando
Mr. Vajira Kulatilaka
Mr. Bernard Sinniah (Appointed w.e.f. 04 December 2018)

NDB Wealth Management Limited

Directors

Mr. Sarath Wikramanayake - Chairman
Mr. Dimantha Seneviratne
Mr. Vajira Kulatilaka
Mr. Nihal Welikala

NDB Investment Bank Limited

Directors

Mr. Sarath Wikramanayake - Chairman
Mr. Vajira Kulatilaka
Mr. Nihal Welikala
Mr. Dimantha Seneviratne
Mr. Buwaneka Perera
Mr. Darshan Perera

NDB Securities (Pvt) Limited

Directors

Mr. Vajira Kulatilaka - Chairman
Mr. Ananda Atukorala
Mr. Arjun Fernando

NDB Capital Limited (Bangladesh)

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 Saha

CORPORATE INFORMATION

NDB Zephyr Partners Limited (Mauritius)

Directors

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

NDB Zephyr Partners Lanka (Pvt) Limited

Directors

Mr. Sarath Wikramanayake - Chairman
Mr. Thomas Barry
Mr. Mukul Gulati
Mr. Vajira Kulatilaka

Development Holdings (Pvt) Limited

Directors

Mr. Ananda Atukorala - Chairman (Resigned w.e.f. 29 January 2019)
Mrs. Indira Malwatte
Ms. Gayathri Herath
Mrs. Thakshila Wijayaratne
Mr. Chandana Guniyangoda
Mr. Kumar Gunawardena
Mr. Dimantha Seneviratne (Appointed w.e.f. 18 February 2019)

Associate companies as at 31 December 2018

Ayojana Fund (Pvt) Limited – 50% (Under liquidation)

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 and June 2015 : S S P Corporate Services
(Pvt) Limited. No 101, Inner Flower Road,
Colombo 03.

Trustees to the rated unsecured subordinated
redeemable debentures issued in December
2013 and June 2015 : Bank of Ceylon,
Investment Banking Division No.1, BOC Square,
Bank of Ceylon Mawatha, Colombo 01.

QUERIES

On the 2018 NDB Annual Report

Ms. Suvendrini Muthukumarana

Acting Group Chief Financial Officer/ Assistant
Vice President – Finance & Planning
National Development Bank PLC
No. 40, Nawam Mawatha, Colombo 02
Email: suvendrini.muthukumarana@ndbbank.com
Tele: + 94(0)112 448 448 (Extn: 35301)

ON INVESTOR RELATIONS

Company Secretarial Department

Ms. Shehani Ranasinghe

Company Secretary/ Vice President
National Development Bank PLC
No. 40, Nawam Mawatha, Colombo 02
Email: shehani.ranasinghe@ndbbank.com
Tele: +94(0)112448448 (Extn: 33000)

Investor Relations Team

Ms. Suvendrini Muthukumarana

Acting Group Chief Financial Officer/ Assistant
Vice President – Finance & Planning
National Development Bank PLC
No. 40, Nawam Mawatha, Colombo 02
Email: suvendrini.muthukumarana@ndbbank.com
Tele: + 94(0)112 448 448 (Extn: 35301)

National Development Bank PLC, No. 40, Nawam
Mawatha, Colombo 02

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. Ananda Atukorala (Chairman of the Bank) of Colombo or failing him,
Mr. Ashok Pathirage (Deputy Chairman of the Bank) of Colombo or failing him,
Mr. Sarath Wikramanayake of Colombo or failing him,
Mrs. Kimarli Fernando of Colombo or failing her,
Mrs. Indrani Sugathadasa of Colombo or failing her,
Mr. Dinal Phillips, PC of Colombo or failing him,
Mr. Kavan Ratnayaka of Colombo or failing him,
Mr. Ranasinghe Semasinghe of Colombo or failing him,
Mr. Sriyan Cooray 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 Fourteenth Annual General Meeting of the Bank to be held on Thursday the Twenty Eighth (28th) day of March 2019 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. Sriyan Cooray in terms of Article 44 (2) of the Articles of Association of the Bank.	☐	☐
2. To re-elect Mr. Kavan Ratnayaka, as a Director in terms of Article 42 of the Articles of Association of the Bank.	☐	☐
3. To re-elect Mr. Dinal Phillips, PC as a Director in terms of Article 42 of the Articles of Association of the Bank.	☐	☐
4. To reappoint Messrs Ernst & Young, Chartered Accountants, as Auditors of the Bank as set out in Section 154 of the Companies Act No. 07 of 2007 and Section 39 of the Banking Act No. 30 of 1988 (as amended) and to fix the fees and expenses of such Auditors.	☐	☐
5. To determine the aggregate remuneration payable to Non-Executive Directors including the Chairman in terms of Article 58 of the Articles of Association of the Bank and to authorise the Board of Directors to approve other remuneration and benefits to the Directors (including the remuneration of the Executive Director/s) in terms of Section 216 of the Companies Act No. 07 of 2007.	☐	☐
6. To authorise the Board of Directors to determine donations for the financial year 2019 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 Nineteen (2019).

.....

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, Navam Mawatha, Colombo 2.
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.

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