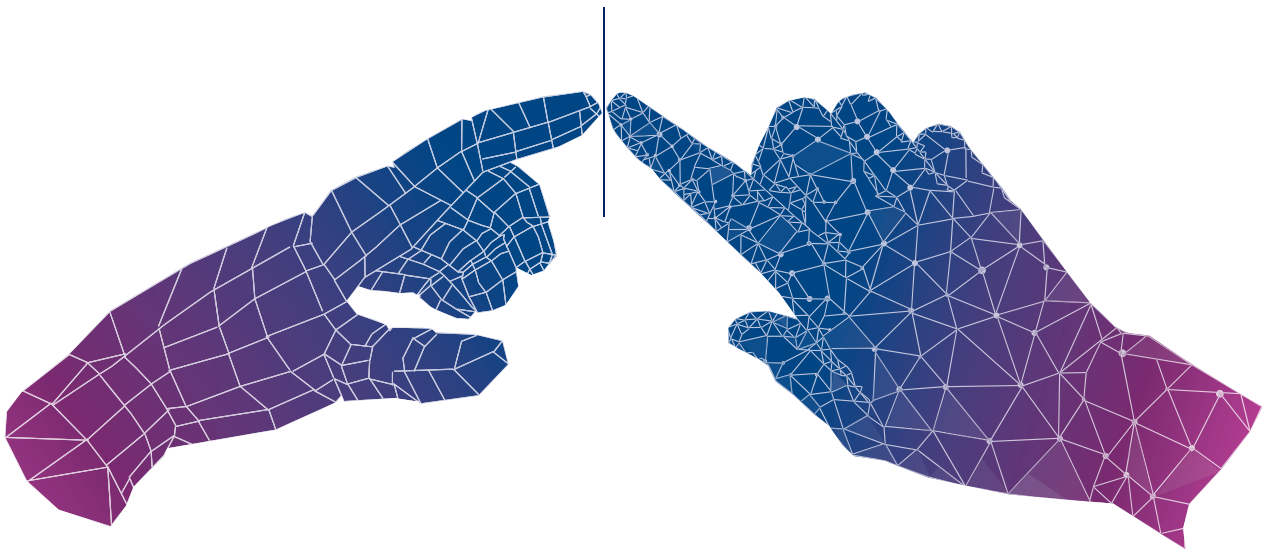


# The Nations Experience



Nations Trust Bank PLC  
Annual Report  
2018



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# The Nations Experience

Nations Trust is a truly extraordinary bank. In just 19 years we have grown to become one of Sri Lanka's most energetic, resilient and value-driven retail bank, serving diverse corporates, institutions and individuals with unmatched excellence in financial solutions.

We are constantly looking to the future, using progressive ideas and far-sighted strategies to create increasing value and better experiences for our customers and other stakeholders; - the people and partners who make us who we are today.

Our clients' interests lie at the heart of all we do. We care about what they think and feel. That's why we're working SMART to deliver the speed and convenience of online banking to every customer; dramatically transforming the way they work, play and live.

And that's the Nations Experience.

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## OUR VISION

We help people and businesses achieve today's goals and tomorrow's aspirations

## OUR MISSION

We will work **SMART** to become the most respected financial services provider.

## SMART

Smart. More with less.  
Adaptable. Responsible.  
Tech Savvy.

## VALUES

- Agile
- Proactive
- Excellence
- Winning Together
- Trust

## Navigation icons - Seven Capitals



Financial Capital



Human Capital



Digital Capital



Manufactured Capital



Intellectual Capital



Social Relationship Capital



Natural Capital

# About our Integrated Report

As an organisation which has embraced the principles of integrated thinking and reporting, Nations Trust Bank PLC has pleasure in presenting its fifth Integrated Annual Report, prepared in accordance with the principles of the <IR> Framework, published by the International Integrated Reporting Council (IIRC). The Report aims to provide an accurate and balanced assessment of the Bank's strategy, performance, opportunities and risks in relation to material financial, social and environmental issues.

## SCOPE AND BOUNDARY

This Report covers the operations of Nations Trust Bank PLC and its subsidiaries, Waldock MacKenzie Limited, Allied Properties Limited and Nations Insurance Brokers Limited for the period from 1st January to 31st December 2018. The Bank follows an annual reporting cycle, and this Report builds on the Bank's previous report

for the period from 1st January to 31st December 2017. The financial information presented from page 98 to 220 and discussed in the narrative report throughout the Integrated Report represents consolidated numbers while the non-financial information represents only the Bank.

## AUDIENCE

This Report is aimed primarily to our shareholders and providers of financial capital; however, it also contains information relevant to other stakeholders.

## REPORTING CHANGES

There were no significant changes to the Bank's size, structure, shareholding or supply chain during the year under review. There also were no significant restatements of previously reported, economic, social or environmental information. Changes to material topics and topic boundaries compared to last year are given on page 270 to 271 of this Report.

## FORWARD-LOOKING STATEMENTS

This Report contains certain forward-looking statements regarding the Group's performance, financial position and operations. These statements involve risks and uncertainty as they relate to events that occur in the future. These factors could cause actual results to differ from those expressed/implied by such forward-looking statements.

## STANDARDS AND ASSURANCE

| Elements assured  | Standards and Principles   | Assurance provider      | Scope  | Outcome and Frequency           |
|---|--|-------------------------|--|---------------------------------|
| Financial statements  | <ul style="list-style-type: none"> <li>Sri Lanka Financial Reporting Standards issued by the Institute of Chartered Accountants of Sri Lanka</li> <li>Banking Act No.30 of 1988</li> <li>Companies Act No.7 of 2007</li> </ul> | Messrs. Ernst and Young | Annual audit   | External audit opinion - Annual |
| Internal Controls (Director's Statement on Internal Controls) |  | Messrs. Ernst and Young | Assurance on the effectiveness of the Bank's internal controls | External audit opinion - Annual |
| Corporate Governance  | <ul style="list-style-type: none"> <li>Banking Act Direction No.11 of 2007</li> <li>Companies Act No.7 of 2007</li> </ul>  | Messrs. Ernst and Young | Compliance to the Banking Act Direction No. 11 of 2007         | Assurance statement - Annual    |
| Sustainability Reporting                                      | Global Reporting Initiative (GRI) Standards  | Messrs. Ernst and Young | GRI Standards: In accordance- Core option                      | Assurance statement - Annual    |

## READING THIS REPORT

The content included in this Report is structured to address key questions around the Group's performance and strategy execution in creating value to our stakeholders.

## FEEDBACK

Please direct your queries, comments and suggestions regarding this Report to,

**Kushlani Allis,**  
Vice President, Management Reporting  
and Planning  
E-mail : kushlaniallis@nationstrust.com

# The Year in Numbers



## Financial Capital

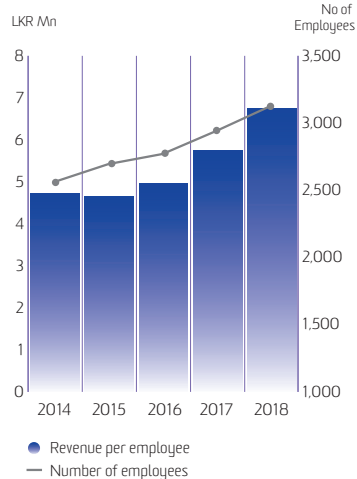
|  | 2018    | 2017    | YoY |
|--|---------|---------|-----|
| <b>Performance of the year (Group) (LKR million)</b> |         |         |     |
| Net interest income                                  | 15,163  | 11,909  | 27% |
| Gross income   | 43,237  | 35,333  | 22% |
| Operating profit before tax on financial services    | 7,726   | 7,052   | 10% |
| Profit for the year                                  | 3,702   | 3,371   | 10% |
| <b>Financial Position (Group) (LKR million)</b>      |         |         |     |
| Customer deposits                                    | 231,463 | 194,269 | 19% |
| Loans and receivables                                | 221,506 | 186,746 | 19% |
| Total assets   | 325,016 | 267,629 | 21% |
| Total liabilities                                    | 297,957 | 246,159 | 21% |
| Total equity to equity holders of the Bank           | 27,059  | 21,470  | 26% |
| <b>Profitability (Group)</b>                         |         |         |     |
| Net interest margin                                  | 4.60%   | 4.50%   |     |
| Non-performing-loans ratio                           | 4.58%   | 2.29%   |     |
| Return on assets                                     | 1.25%   | 1.41%   |     |
| Return on equity                                     | 15.26%  | 17.38%  |     |
| Cost to income ratio                                 | 47.81%  | 51.87%  |     |
| <b>Investor Information (Bank)</b>                   |         |         |     |
| Market value per share (Voting) (LKR)                | 89.20   | 78.00   |     |
| Market value per share (Non-Voting) (LKR)            | 82.10   | -       |     |
| Earnings per share-basic (LKR)                       | 13.33   | 17.50   |     |
| Net asset value per share (LKR)                      | 95.27   | 90.23   |     |
| Market Capitalisation (LKR million)                  | 24,498  | 17,987  |     |
| <b>Regulatory Ratios (Group)</b>                     |         |         |     |
| Capital adequacy ratios:                             |         |         |     |
| Tier 1 (minimum ratio of 7.875%)*                    | 12.15%  | 10.83%  |     |
| Total Capital (minimum ratio of 11.875%)*            | 15.59%  | 13.89%  |     |
| Statutory liquid assets ratio (DBU)                  | 22.32%  | 21.13%  |     |

\* Minimum capital ratios applicable as at 31st December 2018

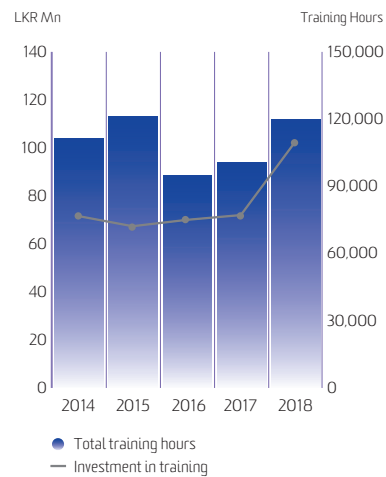


## Human Capital

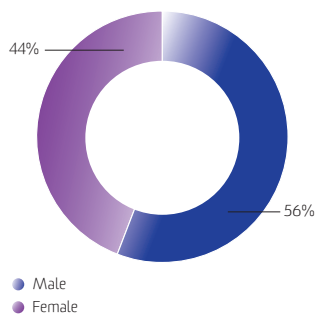
Revenue per Employee



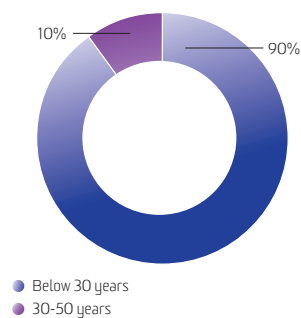
Training & Development



New Hires by Gender



New Hires by Age



## Digital & Manufactured Capital



LKR **880 Mn**  
New investment in IT

**94**  
Branches

**127**  
ATMs

**45**  
CRMs



## Social Relationship Capital



### Customers

|   |         |
|---|---------|
| Number of Customers (Nos)               | 773,679 |
| Interest Payments to Customers (LKR Mn) | 18,006  |
| Customer Satisfaction rate (%)          | 84      |



### Lending

|                                  |        |
|----------------------------------|--------|
| To SME & Micro Sectors (LKR Mn)  | 17,220 |
| Outside the Western Province (%) | 31     |



## Natural Capital

**8.2**  
Mn kw/h  
Energy  
Consumption

**14.5%**  
Paper  
Recycled

**2.14**  
tCo2e/FTE  
Emission  
Intensity

# Chairman's Message



## Dear Shareholders,

Nations Trust Bank clearly positioned itself as a futuristic and digitally agile bank with the launch of Open API Banking in 2018 following its successful launch of Sri Lanka's first digital bank, FriMi, in 2017. Visibly differentiating itself from our peers, Nations Trust continues to lead the country's technology transformation in the financial services sector, consistently delivering holistic customer experiences to an increasingly tech savvy demographic.

## INNOVATING TO DRIVE GROWTH

Innovation is key to delivering our strategic goals and the Bank invested LKR 880 million in information technology assets in 2018 which amounted for a majority of the capital expenditure. Open API Banking and FriMi have been first to market technologies in the country and we will look to maintain the momentum gathered, leveraging our expertise gained in cutting edge technology. Transformation of the bank as a technology driven customer centric bank and improvement in the cost to income ratio are just two aspects of the yield from these investments. Other returns derived from these investments include product innovation, improved turnaround times, process efficiencies, scalability and improved analytical capability which have supported improvements in key metrics such as customer satisfaction, customer migration to digital transaction platforms and employee productivity. Nurturing of our digital capital continues to be high on the Board agenda to ensure that we optimise the returns from these investments.

## REGULATORY & OPERATING ENVIRONMENT

Economic conditions were subdued in 2018 as evidenced by lower consumer demand for goods and services, tightening of credit and cashflows, declining business confidence stemming from political uncertainty and volatility and increased non-performing loans and advances in the industry. Further, depreciation of the rupee due to capital outflows from emerging markets and balance of payments issues in the country impacted commercial activity and disposable incomes.

Accordingly, industry NPLs increased from 2.5% in 2017 to 3.4% in 2018 due to the abovementioned economic conditions. This was exacerbated by increased regulatory requirements and the introduction of the accounting standard SLFRS 9 which resulted in elevated impairment charges across the entire industry. Increased vehicle taxes also negatively impacted the leasing business while the imposition of margin requirements to curtail imports to safeguard the exchange rate also had adverse impacts on import related business. The implementation of the Debt



Repayment Levy in the 4th quarter of 2018 had an adverse impact on the profitability of the industry, including that of Nations Trust. The imposition of such ad-hoc taxes continues to impact the banking industry where effective tax rates now exceed 60%.

## BALANCING PERFORMANCE

Nations Trust Bank recorded a group Profit after Tax of LKR 3.7 billion in 2018, delivering a growth of 10% over 2017. Group ROE of 15.26% remains above the industry average for Licensed Commercial Banks. Profitability was supported by healthy growth of 25% in both fund based and fee based income due to expansion of the loan book and leveraging cross sell opportunities among the various business units in the bank. Impairment charges increased from LKR 1.08 billion to LKR 3.27 billion due to more stringent regulatory and financial reporting requirements coupled with lackluster economic conditions. It is noteworthy that earnings were more broad-based across the business segments as we pursued a strategy of balanced growth.

Balance sheet growth of 21% to LKR 325 billion was supported by a 19% growth in the loan book while deposit growth was also maintained at 19% in line with the Group funding strategy of optimising liquidity and cost of funds. The rights issue early in the year and the issue of scrip dividends added LKR 3.76 billion to equity, enhancing the total capital ratio to 15.59% and the Tier I ratio to 12.15%. Our capital position exceeds the new regulatory capital requirements which came into force on 1st January 2019 for total capital and Tier I capital of 12.5% and 8.5%, respectively.

## SETTING THE TONE

Nations Trust continues to have mature governance systems which are reviewed constantly and aligned to best practices as set out in the Corporate Governance Report. The composition of the Board changed during the period under review with the appointment of 5 new directors following the resignation/retirement of a similar number from a Board comprising of 13 Directors. Accordingly, we welcome Mr. Sumit Maheshwari,

Ms. Sherin Cader and Mr. Arjun Fernando as Non-Executive Directors and Mr. Savanth Sebastian and Mr. Chanaka Wickramasuriya as Independent Non-Executive Directors to the Board. As eminent persons in their respective fields, they bring considerable expertise and skills to add value to the deliberations at the Board and to support the growth of our Bank.

The new directors participated in formal induction programmes which included briefings by the Chief Executive Officer and Key Management Personnel to facilitate greater understanding of the business. The Board continues to be diverse in terms of gender, age and expertise, paving the way for insightful deliberations on matters set before the Board.

## OUTLOOK FOR 2019

As per current trends, global growth is expected to weaken in 2019. Sri Lanka will not be isolated from global events and our own macro-economic uncertainties will exacerbate the impact of global economic volatility. We move forward to 2019 with expectations that our operating environment will continue to present challenges but remain confident that strategies are in place to overcome or manage such challenges.

I believe Nations Trust has always looked at challenges and faced them head on, knowing that only suitable preparation and having the right resources can turn the tide in our favour. Our track record of innovation and growth as a challenger within a mature industry has provided us with the agility required to create value in the short, medium and long term.

On a positive note, our exports will benefit from the weaker rupee and expectations that oil prices will be range bound in 2019 will also support the Balance of Payments of the country. Continued growth in IT literacy and smart phone penetration will support our growth strategy, particularly with our increased focus on digital banking, enabling further penetration into the Mass Affluent market.

A strengthened balance sheet, broad-basing of our business segments, digitisation and insights through data analytics gives us a strong platform for continued growth. Your Bank will continue to invest in developing our capability by enhancing our systems and technology in key areas.

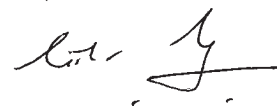
## ACKNOWLEDGEMENTS

I wish to thank Mr. Krishan Balendra who held the post of Chairman for four and a half years for the visionary leadership given to the Board and for guiding the Bank through the introduction of many new innovations. I also wish to thank Dr. Kemal de Soysa, Mr. Harsha Raghavan, Ms. Shalini Panditaratne and Mr. Kumar Jayasuriya for their invaluable contribution to the bank as members of the Board.

The Board joins me in commending the Chief Executive Officer, Ms. Renuka Fernando and the Nations Trust Team for their continuing commitment and loyalty to the bank and for delivering on strategic goals to take the bank forward in a challenging year. We also appreciate the guidance provided by officials of the Central Bank of Sri Lanka on regulatory matters.

We are driven by a vision of connecting with our customers to provide holistic solutions, even outside the traditional areas of Banking and we thank our customers for their enthusiastic uptake of the new services added to our portfolio, enabling us to drive change within the industry. Our business partners played a key role in our journey, enabling us to deliver on our customer value proposition and we wish to convey our appreciation of their contribution.

I conclude by inviting all our stakeholders to deepen your relationships with Nations Trust Bank and grow with us to realise your aspirations.



**Gihan Cooray**  
Chairman

27th February 2019

# Chief Executive Officer's Review



Nations Trust Bank has delivered another year of strong growth, taking our market share up to 3% and recording a profit of LKR 3.7 billion in a volatile and uncertain operating environment. We continue to shape the way Sri Lankans bank, punching well above our weight as we lead the way in to a new era of banking. The brand continues to make upward strides reflecting market recognition of our innovations and making our brand one of the most vibrant in the country.

## LEADING THE WAY

FriMi, our digital banking platform launched in 2017 was ranked as one of the top 30 digital banks in the Asia Pacific region by the Asian Banker. The FriMi proposition targeted at millennials gained traction reaching LKR 1 billion transactions in the month of December 2018. We continue to design and offer first to market features such as utility bill presentment, bill split, easy and convenient in-app donations to charitable organisations and a virtual debit card. FriMi also has the largest merchant QR network in the country and is the first to bring API based integration at retail level.

As the first bank to introduce Open API Banking to Sri Lanka, we continue to innovate within a mature industry, to take our customers in to the future of banking. It enables customers to seamlessly integrate banking services to their day to day operational activities and cash flow management with a secure system that conforms to European Union's PSD2 standards. It also supports further innovation in the industry as it facilitates collaboration with independent app developers, SMEs and large corporates and creates new business opportunities for their growth.

Our established business segments continue to innovate, supporting the growth of our brand. We celebrated 15 years of being in a leadership position in the cards industry with an extensive merchant network, and as a life style partner to our customers.

Structured Finance set up in 2017 continued to gain traction, and set a milestone by Lead Arranging a USD 30 million syndicated term loan facility to an off shore client, during the year. Consumer Banking strengthened and re-launched "Inner Circle" to our mass affluent customer segment using

Nations Trust Bank has delivered another year of strong growth, taking our market share up to 3% and recording a profit of LKR 3.7 billion in a volatile and uncertain operating environment.

insights gained from using demographic and behavioral data to provide a more focused value proposition which caters to their needs.

Customer experience is the core pivot for our strategy which is in pursuit of our vision to help people and businesses achieve today's goals and tomorrow's aspirations, the raison d'être for all that we do. Our mantra is to always establish metrics for measurement of success. We implemented a reliable technology-based tracking system for customer satisfaction across the entire branch network and also commenced monitoring net promoter scores for our specific customer segments and products. A customer satisfaction score of 84% for the network and a consolidated net promoter score of 60 for 2018 is encouraging and reflects positively on our progress. Our scores were supported by the launch of "The Nations Way", a service appreciation programme for our staff which is geared towards providing unparalleled customer experiences. We aspire to take the customer satisfaction score to 90% and the net promoter score to the global standard of 70 in the near future while also extending coverage of the net promoter score to all products and customer segments. The commencement of customer journey mapping and simplification of our processes across this map will support our aspirations in taking customer experiences to the next level.

### DELIVERING PERFORMANCE

We delivered a profit of LKR 3.7 billion and balance sheet growth of 21% in 2018.

Our deposit growth of 19% outpaced industry growth of 15% with an improved CASA ratio of 25%. Our loan book also grew by 19%

keeping pace with industry growth of 19% as we adopted a cautious approach to growth due to the prevailing economic conditions. Core capital and total capital ratios improved from 10.83% and 13.89% to 12.15% and 15.59% as we shored up equity with a rights issue in the first quarter of the year. The rights issue of convertible non-voting shares was the first of its kind in the Colombo Stock Exchange.

Our performance in 2018 was mainly driven by Corporate Banking followed by our product verticals of Credit Cards and Leasing. SME and Consumer Banking recorded subdued growth due to stressed market conditions necessitating a shift towards consolidating our underwriting to the low risk segments at the top of the pyramid and putting a huge focus on recoveries and proactively assisting our customers to ride the cycle through better alignment of their own collection processes and practices.

Group net interest income growth of 27% to LKR 15.2 billion was driven by growth in our Loans and advances by 19% to LKR 222 billion and well managed margins, despite tight liquidity in the market exerting pressure on cost of deposits and net margins.

Non fund based income consisting of fees and commission, trading and all other operating income recorded a growth of 18% reflecting high levels of customer engagement on fee-based activity. Consequently, total operating income increased by 25% to LKR 21 billion.

Our Impairment charges of LKR 3.2 billion reflects an increase of 201% due to growth in the loan book, elevated credit risk stemming from subdued economic performance and implementation of

**LKR 3.7 Bn**

Profit

**LKR 325 Bn**

Total Assets

**21%**

Total asset growth

## 2018 HIGHLIGHTS

### Customer Experience

- Customer Satisfaction Score 84%
- Net Promoter Score 60
- Launch of 'The Nations Way'

### Leading the way

- First bank in Sri Lanka to introduce Open API Banking
- FriMi grows to LKR 1 Bn transactions in December 2018

### Key Milestones

- 15 years of leadership in cards
- US\$ 30 Mn deal for structured finance
- Re-launch of Inner Circle

### Financial Performance

- 3% market share
- Profit of LKR 3.7 Bn
- Total assets LKR 325 Bn
- Total asset growth of 21%

### Digitisation

- 60% of customer originated transactions are digital

## Chief Executive Officer's Review

Encouragingly, 60% of all customer originated transactions including cash and cheque transactions, have now migrated to digital channels composed of mobile, online, debit POS, ATM and CRMs. This ratio has increased from 40% in 2016

SLFRS9 to comply with regulatory reporting requirements. Impairment increases were seen predominantly in the Consumer, Credit Card and SME portfolios.

The Group cost efficiency ratios improved to 48% compared to 52% in 2017 as the impact of investments in lean related process improvements, automation and robotic process automation (RPA) during the last few years began reaping their benefits. Operating expenses increased by 15% to LKR 10 billion for the Group mainly stemming from our investments for the future in areas of training and development, technology and brand.

The Debt Repayment Levy which came in to effect in the 4<sup>th</sup> quarter of 2018 amounted to LKR 179 million eroding 16% of the last quarter profits, reflected in the overall increase of taxes and levies on financial services.

Group Profit after Tax amounted to LKR 3.7 billion recording an increase of 10% over the previous year, reflecting both a progress in our strategy as well as countering economic headwinds and higher taxes and levies.

### CONNECTING THROUGH DATA & TECHNOLOGY

Encouragingly, 60% of all customer originated transactions including cash and cheque transactions, have now migrated to digital channels composed of mobile, online, debit POS, ATM and CRMs. This ratio has increased from 40% in 2016, indicating the benefits of our digitisation strategy in our delivery and distribution, over the last few years.

Our revolutionary projects of RPA and F1 Branch, which commenced in 2017 continued to gain traction with the roll out of a number of initiatives to drive efficiencies and simplification of processes throughout the Bank. This has supported a positive trend across all our productivity parameters such as turn-around times and cost per piece of key activities.

The completion of the first phase of our Business Intelligence project, has now enabled our front line management to access business intelligence on customer acquisitions, transactional data, channel, product and segment data instantaneously on real time basis on their mobile devices, helping them to better manage their unit level performance on a daily basis. The project is being rolled out also to our processing divisions for better load balancing, minimising waiting times, optimising capacities and crunching customer turnaround times while also optimising staff work-life balance.

### BALANCING RISK & REWARD

Our loan book and earnings are now well balanced by product and customer segment with SME and Corporate business segments accounting for over 55% in 2018, in comparison to 40% that prevailed in 2013 as we reduced our historical concentration on Consumer Banking.

In order to further strengthen our credit risk management capability, we re-engineered our post disbursement monitoring processes at regional and branch level to ensure early detection and proactive management of credit stress. Furthermore, we started leveraging

our strong data and analytic capability to identify future credit risks at a level of significant granularity. We also restructured and strengthened our centralised collection shop, by reviewing the collection management policies and processes and increasing the capacity of our field force collections, to make our collections far more robust and effective towards managing the new impairment rules that have been implemented with the SLFRS 9 requirements.

We have also begun to review our pricing models related to our lending products based on the changes to impairment models that have impacted the credit costs of our products.

### ALIGNING GOALS

Our performance depends on our team. Ensuring that we have the right skills to steer the Bank is key to implementing strategy. We reviewed our entire organisation structure together with the job grading structure we have in place, with the objective of having a future ready organisation, with greater opportunities for career mobility both horizontally and vertically.

It also enabled us to identify and ensure that we cover any skills and domain expertise gaps we may have in areas such as data and analytics, technology, digital, design and customer experience, so that we continue to add significant value to the Bank's business model. Accordingly, we focused on building expertise through development of existing talent and also through talent acquisition.



Our commitment to employee engagement and best practices led us to set up a specialised internal communications department in 2018. This department has already made an impact with a number of engagement activities to stimulate ideas and discussions on innovating the future and how we at Nations Trust can be at the forefront of leading this change.

Our plans for 2019 include the launch of our employer brand, with a view to communicating our employee value proposition and attracting the brightest talent to join us in making a difference.

## 2019 & BEYOND

Over the last 4 years we have built a strong strategic foundation based on our 5 strategic pillars of Financial, Customer, Delivery and Distribution, Internal Processes and Human Resources. We are now geared to deliver a record performance in 2019.

Strong relationships with our customers support our focus towards increasing our share of existing customer wallets as we pursue our quest to become their primary bank in all our target market segments. We also plan to leverage existing customer relationships to gain exponential growth in new customer relationships as we connect and offer our products and services to all their stakeholders along their entire value chain. Open API banking will be leveraged in 2019 by our Corporate and SME businesses along with the new Cash Management System to bring the full cash flow ecosystem of our commercial customers to our bank, supporting mutual growth aspirations. We will continue to leverage our branch network to provide the conduit and access across the country for all our Consumer, SME and Mid Market customers.

Managing Impairment will be a key priority in 2019. The work we have done in strengthening all areas of monitoring and recoveries in 2017/2018 will help us to manage our risks while getting ready for the next phase of growth. Diversifying our funding sources into other instruments such as securitizations will

negate the vulnerabilities faced by us in times of tight liquidity, thereby enhancing our ability to grow.

Our digital transformation will continue as we drive customer migration to digital channels. Branch digitalisation, expansion of FriMi, automating and further embedding RPA in our bank-wide processes are all on our agenda to deliver superior customer experiences and cost efficiencies.

We will review our investments made in 2018 to optimise returns and realise the envisaged benefits. Plans to implement a CRM system in 2019 has been made with a view to realising our ambitions of taking our customer experiences to the next level in Sri Lanka.

## APPRECIATIONS

It has been my privilege to lead an inspired team in what proved to be a difficult year. We worked together as one team to overcome significant headwinds posed by our operating environment. I wish to convey my sincere appreciation of their unshakable spirit, determination and SMART work that propelled our performance in 2018.

I thank the Board for their guidance and effective oversight which steered our performance through market volatility and policy uncertainty. I also place on record our appreciation of the Governor of the Central Bank of Sri Lanka and his team who have provided clarifications and guidance on all regulatory matters which supported our regulatory compliance.

I invite our customers and business partners to grow with us as we create the future of banking in Sri Lanka.



**Renuka Fernando**  
Director/CEO

27th February 2019

# Board of Directors





Left to right

**Russell De Mel** (Independent Non-Executive Director), **Sherin Cader** (Non-Executive Director), **Arjun Fernando** (Non-Executive Director), **Prasanna De Silva** (Non-Executive Director), **Savanth Sebastian** (Independent Non-Executive Director), **Murtaza Jafferjee** (Independent Non-Executive Director/Senior Director), **Gihan Cooray** (Chairman), **Renuka Fernando** (Director/Chief Executive Officer), **Suran Wijesinghe** (Non-Executive Director), **Conrad D'Souza** (Independent Non-Executive Director), **Rachini Rajapaksa** (Independent Non-Executive Director), **Chanaka Wickramasuriya** (Independent Non-Executive Director), **Sumit Maheshwari** (Non-Executive Director), **Theja Silva** (Group Company Secretary/General Counsel)

## Board of Directors

### **Cihan Cooray**

(Chairman/Non-Executive Director)

#### **Date of appointment**

Appointed to the Board on 1st May 2014

#### **Current appointments**

- Deputy Chairman/Group Finance Director of the John Keells Group and a Board member of John Keells Holdings PLC having responsibility for Finance, Accounting, Taxation, Corporate Finance & Strategy, Treasury and Information Technology functions of the Group.
- Director of many listed companies of the John Keells Group
- Committee Member of the Ceylon Chamber of Commerce

#### **Previous appointments**

- President Retail Sector, Head of Corporate Finance and Treasury of the John Keells Group

#### **Skills and experience**

He has experience in corporate finance, corporate treasury and investor relations in addition to exposure to retail supermarket operations. He has been involved in investment appraisals, capital raising and structuring transactions for the John Keells Group. He holds a MBA from the Jesse H. Jones Graduate School of Management at Rice University, Houston, USA and is an Associate Member of the Chartered Institute of Management Accountants, UK. He is also a Certified Management Accountant of the Institute of Certified Management Accountants, Australia and holds a Postgraduate Diploma in Marketing from the Chartered Institute of Marketing, UK.

### **(Ms) Renuka Fernando**

(Chief Executive Officer/Executive Director)

#### **Date of appointment**

Appointed to the Board on 15th September 2012

#### **Current appointments**

- Chairperson - Nations Insurance Brokers Limited
- Director - Allied Properties Limited
- Director - Waldo Mackenzie Limited
- Chairperson - Sri Lanka Banks' Association (Guarantee) Limited
- Director - The Financial Ombudsman Sri Lanka (Guarantee) Limited

#### **Previous appointments**

- Vice President/Head - Global Transactional Services and Head of Consumer Banking at ABM Amro Bank N.V, Sri Lanka
- AGM Corporate Financial Solutions, DGM-Retail Banking and DGM-Consumer Banking at Nations Trust Bank
- Appointed as Deputy CEO of Nations Trust Bank in June 2011

#### **Skills and experience**

During her banking career spanning 38 years, she has worked at Nederlandsche Middenstands Bank, Hong Kong and Banque Indosuez, Sri Lanka in addition to her stint at ABN Amro. She is an Associate of Chartered Institute of Bankers, UK and is a graduate of the Harvard Business School Advanced Management Programme.

### **Murtaza Jafferjee**

(Independent Non-Executive Director/Senior Director)

#### **Date of appointment**

Appointed to the Board on 15th December 2010

#### **Current appointments**

- Director/CEO of JB Securities (Pvt) Limited
- Independent Non-Executive Director at Serendib Hotels PLC
- Director of Colombo Stock Exchange since February 2019

#### **Previous appointments**

- Director of Colombo Stock Exchange from April 2007 to August 2009

#### **Skills and experience**

He has wide-ranging experience in Sri Lankan capital markets and businesses. He holds a Masters in Financial Economics from the University of Colombo, Bachelors in Computer Science and Bachelors in Engineering- Mechanical (Hons) from University of New South Wales, Australia. He is also a Chartered Financial Analyst from the CFA Institute, Charlottesville, Virginia, USA.



**Prasanna De Silva**

(Non-Executive Director)

**Date of appointment**

Appointed to the Board on 1st January, 2012

**Current appointments**

- Director of Central Finance Company PLC

**Previous appointments**

- Past Chairman of the Leasing Association of Sri Lanka

**Skills and experience**

He has over 26 years' experience in banking and finance of which 16 years have been in senior management. He has had extensive exposure to credit appraisals, recovery, operating systems, tax, regulatory framework and legal aspects at operational and managerial levels during his tenure at Central Finance Company PLC. He is an Associate Member of Chartered Financial Analyst Institute (CFA) USA and a Fellow of Chartered Institute of Management Accountants (CIMA) UK.

**Suran Wijesinghe**

(Non-Executive Director)

**Date of appointment**

Appointed to the Board on 1st November 2012

**Current appointments**

- Executive Vice President – Finance Process Improvement and Planning of John Keells Holdings PLC.

**Previous appointments**

- Group Financial Controller and the Chief Financial Officer of the Financial Services sector of John Keells Holdings PLC
- Group Finance Director of Securicor Botswana Ltd.

**Skills and experience**

He has over 35 years of work experience in the fields of auditing, financial management and general management in both local and overseas organisations. He is a Fellow Member of both the Institute of Chartered Accountants of Sri Lanka and the Chartered Institute of Management Accountants of UK.

**Conrad D'Souza**

(Independent Non-Executive Director)

**Date of appointment**

Appointed to the Board on 18th January 2016

**Current appointments**

- Member of Executive Management and Chief Investor Relations Officer of Housing Development Finance Corporation Limited (HDFC)
- Serves on the Boards of HDFC Investments Ltd., India, HDFC Education and Development Services Pvt. Ltd., India, HDFC Holdings Ltd., India, HDFC Sales Pvt. Ltd., India, Chalet Hotels Ltd., India, Association of Finance Professionals of India (AFPI), Housing Development Finance Corporation PLC, Maldives and First Housing Finance (Tanzania) Limited.
- Consultant to USAID / UNDP and IFC (Washington) and has undertaken assignments in Asia, Africa and Eastern Europe.

**Skills and experience**

In HDFC, he is responsible for strategy, corporate planning and budgeting, corporate finance and investor relations, wholesale lending to corporate and other non individual entities. He had held the position of Treasurer of HDFC for nine years and responsibilities included fund management, investments, resource mobilisation both domestic and international, asset liability management and investor relations. He has been associated with HDFC's international funding from the multilateral agencies and in the international syndicate loan markets. He holds a Masters' Degree in Commerce, a Masters' Degree in Business Administration and is a Senior Executive Program (SEP) graduate of the London Business School.

## Board of Directors

### (Ms) Rachini Rajapaksa

(Independent Non-Executive Director)

#### Date of appointment

Appointed to the Board on 29th April 2016

#### Current appointments

- Director/Immediate Past President CFA Society Sri Lanka
- Director - Nations Insurance Brokers Ltd
- Director - Asset Enterprises (Pvt) Ltd
- Director - Lanka Bond House Ltd

#### Previous appointments

- Chief Financial Officer, IBM-Sri Lanka and Bangladesh
- Senior Fund Manager at Ceybank Asset Management
- Audit Supervisor, PricewaterhouseCoopers Sri Lanka

#### Skills and experience

She holds extensive leadership experience in the fields of fund management and finance. She is a Chartered Financial Analyst of the CFA Institute, Charlottesville, Virginia USA and is a Fellow Member of the Chartered Institute of Management Accountants of UK.

### Russell De Mel

(Independent Non-Executive Director)

#### Date of appointment

Appointed to the Board on 6th June 2016

#### Current appointments

- Serves on the Boards of TAL Lanka Hotels PLC and Sunshine Teas (Pvt) Ltd.

#### Previous appointments

- Served on the Boards of EAP Holdings (Pvt) Ltd, EAP Broadcasting Ltd, EAP Films and Theatres Ltd., Singer Finance Lanka PLC and HDFC Maldives (nominee of IFC) & AIA Insurance PLC

- Served as Director/CEO and Group CEO at NDB Bank and Group
- Vice President of Group Risk Management and Corporate Banking at NDB
- Served on the Boards of over 25 listed and non-listed companies.

#### Skills and experience

He is a professional accountant with over 20 years of experience in Development Banking including Project Financing, SME Financing and Merchant Banking and around 9 years of experience in Commercial and Investment Banking. He is a Fellow of the Chartered Institute of Management Accountants, Chartered Global Management Accountant and Fellow of the Certified Management Accountants of Sri Lanka.

### Sumit Maheshwari

(Non-Executive Director)

#### Date of appointment:

Appointed to the Board on 4th October 2018

#### Current appointments:

- Appointed as Managing Director and CEO of Fairbridge Capital in 2018.
- Serves on the Boards of Fairchem Speciality Limited, Saurashtra Freight Private Limited, Fairwind Shipping Private Limited, Fairfreight Lines Private Limited, Akalya Services Private Limited, National Collateral Management Services Limited, Sterling Holiday Resorts Limited, Bangalore International Airport Limited, Privi Organics India Limited, The Catholic Syrian Bank Limited, Fairbridge Capital Private Limited, Fairfax India Holding Corporation and Thomas Cook (India) Limited.

#### Previous appointments:

- Audit and Accounting Advisory at KPMG in India

#### Skills and experience:

He is a Member of Institute of Chartered Accountants of India. He holds a Master of Business Administration degree from the Indian School of Business, Hyderabad & Bachelor of Commerce and Master of Commerce degrees from the University of Mumbai.

### Savanth Sebastian

(Independent Non-Executive Director)

#### Date of appointment

Appointed to the Board on 23rd October 2018

#### Current appointments

- Serves on the Boards of Voguetex Sri Lanka and Arpico Ataraxia Asset Management

#### Previous appointments

- Director - Subway Development
- Equities Economist and Senior Economist at Commonwealth Bank
- Senior Manager at Commonwealth Securities – International Trading and Wealth Management

#### Skills and experience

- RC 146 Australian financial markets qualification; Securities Derivatives Institute of Australia Accreditation Program, Deakin University 2004
- Bachelor of Commerce - Actuarial Studies & Finance University of NSW
- Australian Stock Exchange Accredited Advisor (Level 1 & 2)
- ASX Accreditation in Derivatives 2005 and ASX Accreditation in Derivatives – Options and Warrants Level 2 2006

**(Ms) Sherin Cader**

(Non-Executive Director)

**Date of appointment**

Appointed to the Board on 15th December 2018

**Current appointments**

- Chief Financial Officer, Financial Services Industry Group of John Keells Holdings PLC
- Director, John Keells Stock Brokers (Pvt) Ltd

**Previous appointments**

- General Manager – Finance & Planning of Union Assurance PLC
- Financial Controller of John Keells Holdings PLC

**Skills and experience**

She counts over 20 years experience in both finance and operations. She has served in diverse fields for companies within the group in the Financial Services Sector, IT Enabled Services Sector and Center Functions.

She is a Fellow Member of both the Chartered Institute of Management Accountants of UK(CIMA) and the Association of Chartered Certified Accountants of UK (ACCA). She is also a Chartered Global Management Accountant UK and a Solution Consultant mySAP Financials – Managerial & Financial Accounting.

**Chanaka Wickramasuriya**

(Independent Non-Executive Director)

**Date of appointment**

Appointed to the Board on 16th December 2018

**Current appointments**

- Joint Managing Partner of Ironwood Capital Partners

**Previous appointments**

- Managing Partner of LR Global Lanka Private Equity Fund
- Partner - Global Portfolio Manager of the Global Private Equity Fund of Aureos Capital Limited
- Country Head Fitch Ratings Lanka Ltd

**Skills and experience**

He is a Chartered Financial Analyst of CFA institute, Charlottesville VA, USA and he holds Bachelors in Electrical Engineering from the State University of New Jersey.

**Arjun Fernando**

(Non - Executive Director)

**Date of appointment**

Appointed to the Board on 18th January 2019

**Current appointments**

- Serves on the Boards of eight companies including Central Finance Company PLC, Home Finance Company in Fiji, NDB Capital Holdings PLC and NDB Securities (Pvt) Limited.

**Previous appointments**

- Served as Chief Executive Officer/(Ex-Officio) Director of DFCC Bank
- Served as Chairman/Director on the Boards of Directors of DFCC Bank's Subsidiaries, Joint Ventures and Associates
- Served as the DFCC Bank's Nominee Director on the Boards of Credit Information Bureau of Sri Lanka and the Sri Lanka Banks Association
- Served as Chairman of the Association of Development Financing Institutions in Asia and the Pacific (ADFIAP) and the World Federation of Development Finance Institutions

**Skills and experience**

Mr. Arjun Fernando is a professional banker with over 30 years experience in banking, finance and business administration. He is an Associate of the Chartered Institute of Bankers (U.K.). He holds a MSc in Management from Clemson University of South Carolina, USA and a BSc in Engineering from Southern Illinois University of Illinois, USA.

# Corporate Management







Standing left to right

**Niluka Gunatilaka** - SVP (Cards), **Chamath Munasinghe** - SVP (Banking Operations), **Chamila Sumathiratne** - Chief Risk Officer, **Hemantha Gunetilleke** - SEVP (Commercial Banking), **Priyantha Talwatte** - Deputy Chief Executive Officer, **Priyantha Wijesekera** - EVP (Leasing), **Sheahan Daniel** - SVP (Branch Network), **Thilak Piyadigama** - Chief Operating Officer, **Indrajith Boyagoda** - EVP (Treasury & Investment Banking), **Ajith Akmeemana** - Chief Financial Officer, **Nazeem Mohamed** - SVP (FriMi Digital Bank)

Seated left to right

**Gayan Ranaweera** - Chief Credit Officer, **Nanda Bandara** - EVP (Internal Audit), **Randil Boteju** - SVP (Sales & Integrated Business Development), **Shaan Wickremesinghe** - Chief Marketing Officer, **Renuka Fernando** - Director/Chief Executive Officer, **Theja Silva** - Group Company Secretary/General Counsel, **Ramanika Unamboowe** - EVP (Human Resources), **Bandara Jayathilake** - SEVP (SME Banking), **Mevan Balalle** - Chief Compliance Officer, **Nisala Kodippili** - Chief Information Officer

**SEVP** - Senior Executive Vice President

**EVP** - Executive Vice President

**SVP** - Senior Vice President

# Vice Presidents





Left to right

**Kanchana Devasurendra** - VP (Application Administration), **Kushlani Allis** - VP (Management Reporting & Planning),  
**Arosha Liyanaarachchi** - VP (Corporate Banking), **Lakmal Randeni** - VP (FX & Money Markets), **Menaka Wavita** - VP (Branches - Emerging Market),  
**Roger Rozairo** - VP (Collections & Recoveries), **Vidharshana Perera** - VP (Consumer Collection),  
**Nisaja Aryasinghe** - VP - SME Banking (Western Province), **Yamuna Silva** - VP (Legal), **Priyantha Samaradiwakara** - VP (Leasing Sales),  
**Druvi Vidyakularatne** - VP (IT Infrastructure & Operations), **Milroy Fernando** - VP (Branch Operations & Compliance),  
**Jerome Ratnarajah** - VP (Market Risk Management), **Jeremy Gnanapragasam** - VP (Nations Transformation),  
**Tharusha Ekanayake** - VP/Head - Rates (Liquidity and Structuring), **Renuka Senadheera** - VP (Consumer Services),  
**Sampath Perera** - Chief Data Officer, **Lasith Ranatunga** - VP (Corporate Credit and Special Asset Management),  
**Thushara Asuramanna** - VP (SME Credit Management), **Rasanja De Silva** - VP (Branches - Western Province)

VP - Vice President

# Value Creation Model

## OUR CAPITAL INPUTS

### Financial Capital

Shareholders' funds: LKR 27 Bn

Customer deposits: LKR 231 Bn

Medium-term borrowing: LKR 29 Bn

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### Manufactured Capital

94 branches

127 ATMs

45 Cash Recycle Machines (CRMs)

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### Digital Capital

Digital infrastructure

Digital experience capabilities

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### Human Capital

3,128 employees

Customer-centred culture

Strong compliance culture

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### Social and Relationship Capital

Over 770,000 customers

Community relationships

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### Intellectual Capital

The Nations Trust Brand, our organisational values, tacit knowledge and innovation capacity

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### Natural Capital

Natural resources which are consumed in our value creation process

8.2 Mn kwh energy consumption

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## TRENDS IN THE OPERATING LANDSCAPE

Economic environment, Regulatory changes, Demographic factors, Disruptive technology, Scarcity of skills, Implications of climate change

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### Strong Governance practices and Ethics

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### Managing Key Risks

#### Credit risk

Balanced segment concentration on Corporate and SME >55%

#### Market risk

LKR 139 Mn NII sensitivity for a 100 bps change in interest rates over the next 12 months

#### Liquidity risk

Liquidity coverage ratio of 189.7%

#### Operational risk

8% reduction in loss events

**Strategic risk, Regulatory risk, Compliance risk**

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## OUTPUTS

Financial support to consumer, SME and corporate clients

Offer saving and investment solutions

Facilitate payments and transactions

Earn interest income on amounts advanced

Payment of interest to depositors and lenders

Reward and invest in developing people

Innovating for our clients

Creating unique customer experiences

Invest in operations, technology and physical infrastructure

Pay taxes

Investment in community engagement initiatives

Managing environmental impacts



## STAKEHOLDER OUTCOMES

### Shareholders

Dividend of LKR 2.10 per share  
Share price appreciation by 14.4% (Voting)  
100% voting outcome for all resolutions at AGM  
[<Page 38>](#)

### Employees

LKR 2.9 Bn in salaries and benefits  
LKR 102 Mn investment in training and development  
545 promotions  
43% female representation  
[<Page 42>](#)

### Customers

LKR 183 Bn in total lending disbursements  
LKR 18 Bn interest payments on deposits  
Innovation to drive improved customer experiences  
Customer satisfaction rate of 84%  
[<Page 51>](#)

### Government and regulators

LKR 4 Bn in tax payments to the government  
Compliance with all regulatory requirements  
LKR 5.4 Bn SME & Micro lending outside Western Province  
[<Page 38 & 51>](#)

### Community

LKR 11.9 Mn investment in community initiatives  
1,334 Volunteer hours  
Cordial community relations  
[<Page 51>](#)

### Environmental Impacts

Recycled paper of 14.5% (or 10 MT) of paper used  
Carbon footprint of 3,482 tCO<sub>2</sub>e  
Lending towards green products such as renewable energy, agriculture and other green initiatives  
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# Managing Our Trade-offs

There are inevitable trade-offs among the capital inputs we utilise in our value creation process. In allocating our capital and resources effectively, we are compelled to make these trade-offs to drive long-term value creation. The table below lists the Bank's key trade-offs during the year.

## INVESTMENTS IN DIGITISATION

Leveraging on our digital capabilities to drive enhanced customer employee experience and improve internal processes is a key priority for the Bank. During the year we invested over LKR 880 million in digitisation efforts. While this has had a short-term impact on our cashflow and costs, over the long term these investments are expected to lead to increased customer acquisition, stronger risk management and more efficient processes.

### Relevant capitals



## HUMAN CAPITAL INVESTMENTS

The Bank's digital strategy has necessitated investments in strengthening our human capital, particularly in developing analytical capabilities, facilitating stronger engagement and driving attitudinal changes. Although these investments have had a short-term impact on financial capital, over the long-term it is expected to create a unique base of intellectual capital.

### Relevant capitals



## NURTURING NATURAL CAPITAL

In 2018, the Bank invested LKR 11.3 million in numerous environment-related community engagement initiatives and internal processes to drive energy efficiency, better waste management and preserve biodiversity. Despite the short-term financial impact, we are committed to ensuring the long-term sustainability of our natural resources and ecological system, contributing to the preservation of natural capital.

### Relevant capitals



## PORTFOLIO QUALITY AND CUSTOMER RETENTION

The challenging macro environment in 2018 led to an industry-wide deterioration in portfolio quality and banks have been compelled to strengthen collection and monitoring mechanisms to preserve portfolio quality. Despite its profitability impact, we maintained close engagement with our customers and offered flexible payment options to genuine defaulters with the objective of maintaining customer relationships.

### Relevant capitals



# Engaging Stakeholders

As a Bank, our ability to deliver value is deeply connected to the relationships we rely. When selecting and prioritising stakeholders to engage with, we give due consideration to the potential influence of their decisions on our value creation process and to what level our operations impact them.

## Stakeholder Universe



### Shareholders

#### HOW WE ENGAGE

- Annual General Meeting (Annual)
- Investor forums (Bi-annual)
- Annual Report (Annual)
- One-to-one engagement (Ongoing)
- CSE Announcements (Ongoing)
- Periodic engagement with credit rating agencies

#### TOPICS AND CONCERNS

- Returns commensurate with risks assumed
- Clear and transparent communication on the Bank's performance and strategy
- Sustainable growth in earnings
- Robust corporate governance and risk management practices

#### OUR RESPONSE

A comprehensive strategic plan, transparent and open communication

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### Employees

#### HOW WE ENGAGE

- Employee Engagement Surveys (Annual)
- Performance appraisals (Annual)
- Staff meetings at multiple levels (Ongoing)
- Town Halls (On-going)
- Employee suggestion schemes (Ongoing)
- Grievance Reporting Procedure (Ongoing)
- Work life balance events (Ongoing)

#### TOPICS AND CONCERNS

- Attractive remuneration
- Opportunities for skill and career development
- Performance enabling environment
- Work life balance
- Safe working environment

#### OUR RESPONSE

Unique employee value proposition centered on engagement and skill development

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### Customers

#### HOW WE ENGAGE

- Online and local engagement by branch teams and relationship managers (Ongoing)
- Customer satisfaction surveys (Annual)
- Market research (Ongoing)
- Production promotion campaigns (Ongoing)

#### TOPICS AND CONCERNS

- Transparent and competitive pricing
- Customer service
- Convenience and flexibility of transacting
- Upholding customer charter
- Product innovation

#### OUR RESPONSE

Unmatched customer experience, accessibility and superior service

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### Communities

#### HOW WE ENGAGE

- Local branch engagement (Ongoing)
- Social events and sponsorships (Ongoing)

#### TOPICS AND CONCERNS

- Responsible business practices
- Community empowerment and development
- Employment generation
- Preserving the environment

#### OUR RESPONSE

Drive meaningful change through CSR initiatives

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### Government/Regulators

#### HOW WE ENGAGE

- Continuous dialogue with the government ministries and SOEs (Ongoing)
- Statutory reporting (Ongoing)
- Meetings and industry forums (Ongoing)

#### TOPICS AND CONCERNS

- Compliance to all relevant laws and regulations
- Regulatory reporting
- Transparent and open communication
- Sustainable business practices
- Employment generation

#### OUR RESPONSE

Strong compliance culture

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### Suppliers/Service Providers

#### HOW WE ENGAGE

- One to one engagement (Ongoing)
- Written communication (Ongoing)
- Relationship building initiatives (Ongoing)

#### TOPICS AND CONCERNS

- Business growth
- Responsible business practices
- Ease of transacting
- Strategic partnerships
- Transparency in the procurement process
- Open communication

#### OUR RESPONSE

Nurture mutually beneficial relationships

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# The Operating Environment and Industry Review

## THE OPERATING ENVIRONMENT

### ECONOMIC ENVIRONMENT

#### Economic Policy

Sri Lanka's macro-economic performance was impacted by both global and domestic challenges in 2018. Global economic and geo-political developments, together with political instability in the last quarter of the year affected the external sector and overall macro-economic stability. From a policy front, the CBSL signalled an end to the tight monetary policy stance, although remaining cautious with the objective of managing inflationary pressures. The sharp depreciation of the Sri Lankan Rupee in the second half of the year compelled CBSL to intervene in the forex market and introduce several short-term measures to stem the depreciation.

#### Economic Growth

Sri Lanka's economic growth moderated to 3.3% in the first 9 months of the year, reflecting a slowdown in the industrial sector due to the subdued performance of the construction, mining and quarrying sub-sectors. The Agriculture sector rebounded following favourable weather conditions and the services sector achieved broad-based growth. Financial Services sub-sector continued to maintain momentum, growing by 12.3% during the same period.

#### Interest Rates

Given the favourable inflation outlook and subdued economic growth, the CBSL adopted a more contractionary monetary policy in 2018. In April 2018, the CBSL reduced the Standing Lending Facility Rate (SLFR) by 25 bps and subsequently in December 2018, increased Standing Deposit Facility Rate by 75 bps and SLFR by 50 bps while reducing Statutory Reserve Ratio by 150 bps following a careful analysis of expected development in the domestic and global economic front. Though deposit and lending rates of commercial banks remained high, private sector credit growth accelerated by 15.9% in December 2018 compared to 14.7% the year before.

#### Inflation

With the gradual transition to a system of Flexible Inflation Targeting, inflation has been maintained at relatively low levels, despite occasional spikes arising from short-term demand and supply shocks. Inflation as measured by the annual average of NCPI reversed its increasing trend of 2017 to decline to 0.4% in December 2018 from 5.4% in January 2018.

#### External Sector

Capital outflows and increased import expenditure inserted pressure on the country's external sector during the year, amid escalating global commodity prices and a broad-based strengthening of the US dollar. For most part of the year CBSL allowed market forces to determine the exchange rate to a large extent, although several short-term measures were introduced to restrict imports in a bid to address pressure on the exchange rate. As a result, the Rupee depreciated by 19% against the Dollar in 2018, falling sharply during the last 3 months of the year. Gross official reserves reached a record high at end April 2018 following the receipt of proceeds from the Hambantota port divestment and receipt of the fifth tranche from the IMF facility. However, reserves declined by the latter part of the year due to the reversal of capital flows from both the government securities and equity market.

#### Outlook

Policy reforms over the last 2 years have led to significant gains on the macro-economic front, reflected by improved public finances and an effective monetary policy. That said, downside risks stem from political uncertainty given the upcoming elections and the resultant 'wait-and-see' approach adopted by investors.

### REGULATORY CHANGES

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. A few major policy/regulatory changes in 2018 are given below;

#### January 2018

Restrictions on issuing letters of credit for vehicle imports

#### February 2018

Maximum LTV ratios on credit facilities granted for vehicle purchase

#### March 2018

Restrictions on foreign currency borrowing limits

#### August 2018

Approval, policy and procedures for financial derivatives

#### September 2018

Cash margin of 200% and 100% on LCs for importing motor vehicles and consumer durables

In addition to the above, the implementation of the Net Stable Funding Ratio and Leverage Ratio in accordance with the Basel III guidelines and adoption of SLFRS-9 Financial Instruments will compel banks to further strengthen their capital position.

### Disruptive Technologies

The exponential advancement of technology is transforming numerous aspects of banking including client expectations and interactions, new channels, employee skill requirements and internal processes. Customers' needs are also becoming increasingly sophisticated, with increased focus on accessibility, convenience and service standards. Meanwhile, disruptive technologies such as cloud computing, big data, advanced analytics and artificial intelligence are reshaping the way banks

conduct their business and organisations which are unable to respond to these changes are likely to see an erosion in their competitive position over time.

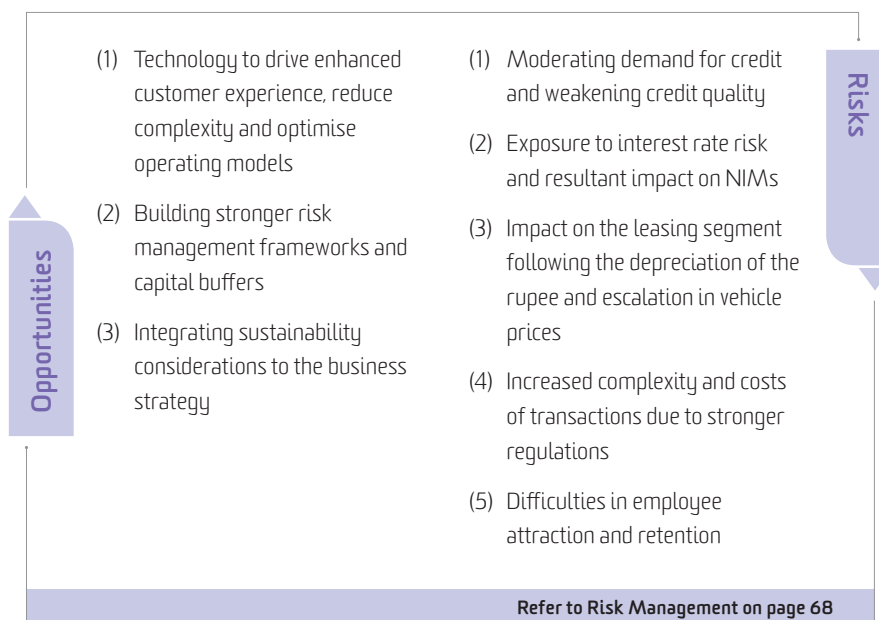
### Evolving Skills Requirements

Digitisation of financial services has resulted in the evolution of skills required by bank employees. These new skills include user-experience design, user interface design, data analytics, cyber security, data mining and social media services among others. With the competition for such skills intensifying within the industry banks have been compelled to explore new ways to attract, develop and retain talent.

### EMPHASIS ON SUSTAINABILITY

The world is facing huge economic, social and environmental challenges and the financial services sector is increasingly expected to play a role in facilitating financial inclusion, socio-economic progress and combating climate change. In its latest Risk Report, the World Economic Forum ranks both the impacts and likelihood of climate change as high, and Banks' failure to effectively manage environmental and social risks could have a significant impact on its value creation agenda.

The opportunities and risks to the Bank arising from the above mega trends in the operating environment can be summarised as follows;



## INDUSTRY REVIEW

The year under review was one of mixed fortunes for the banking sector, characterised healthy loan growth although moderating economic conditions led to rising impairments. Despite an expansion in net interest income, deteriorating credit quality adversely impacted the Sector's profitability. Capitalisation and liquidity levels remained adequate although banks may experience some medium-term challenges in raising funds to meet enhanced capital needs under the Basel III requirements.

### ASSET GROWTH

The sector recorded healthy portfolio growth in the first half of the year, before macroprudential measures, cautious investor sentiments and political instability in the latter part of the year led to moderating credit growth. Overall, the sector's assets grew by 14.6% y-o-y in 2018 supported by a 19.4% expansion in credit assets. In terms of products, growth was driven by strong expansion of overdraft facilities as well as term loans, pawning and leasing to a lesser extent. Investment portfolio growth was limited to 5% during the year which resulted in the Sector's asset composition tilting more towards credit assets, accounting for 64% of total assets in 2018 (2017: 61%).

## ASSET QUALITY

The Sector's credit quality deteriorated during the year with a broad-based influx of non-performing-loans given the moderating economic conditions. Gross NPAs spiked by 64% in 2018 while the gross NPA ratio increased to 3.4% from 2.5% in the corresponding period of 2017. Further a 30% - 40% increase in impairment provisions due to SLFRS 9 was seen across the industry. Banks have sought to stem the credit quality deterioration by strengthening collection and recovery efforts and adopting a more selective approach to lending. Provision coverage declined to 57% from 70% in 2017 as new NPLs classified under the Special Mention Category do not require additional provisioning.

### PROFITABILITY

Despite a 16% expansion in net interest income (NII) overall profit growth was moderate due to an escalation in operating expenses and 104% increase in loan loss provisioning. Sector corporate tax also increased by 23% resulting in profit after tax declining by 9% during the year. DRL impact based on 7% value addition also impacted profit growth. 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-December 2018.

## CAPITALISATION AND FUNDING

Credit growth was funded primarily through deposits which grew by 15% in 2018 and accounted for 73% of total assets. The Sector's CASA ratio declined marginally during the period due to the rising interest rate scenario. Borrowings increased by 10% during the year as banks issued Basel III compliant debentures as part of their capital augmentation plans. The sector's capitalisation levels were adequate with a common equity ratio and a total capital ratio of 12.4% and 15.7% respectively. That said, banks are likely to face challenges in raising funds to meet enhanced capital needs under the Basel III requirements.

### LIQUIDITY

The Sector's liquidity position was healthy during the year with the Statutory Liquid Assets Ratio (SLAR) of the Domestic Banking Unit (DBU) and Overseas Banking Unit (OBU) clocking in at 25% and 45% respectively by end-December 2018.

# Material Matters

Our material matters reflect the issues that have the most impact on our ability to create value. The Bank's Integrated Annual Report is anchored by these material topics and have been identified, selected and prioritised to fulfil the information needs of our stakeholders. Responsibility for determining material aspects lies with the Bank's Senior Management Team. The process for determining material matters is as follows;

## Identify

Through stakeholder engagement, scanning the operating environment and reviewing our business model

## Evaluate

Based on the importance to the Bank and the stakeholders

## Prioritise

Issues based on relative importance

## Respond

With specific action plans

## MATERIAL TOPICS 2018

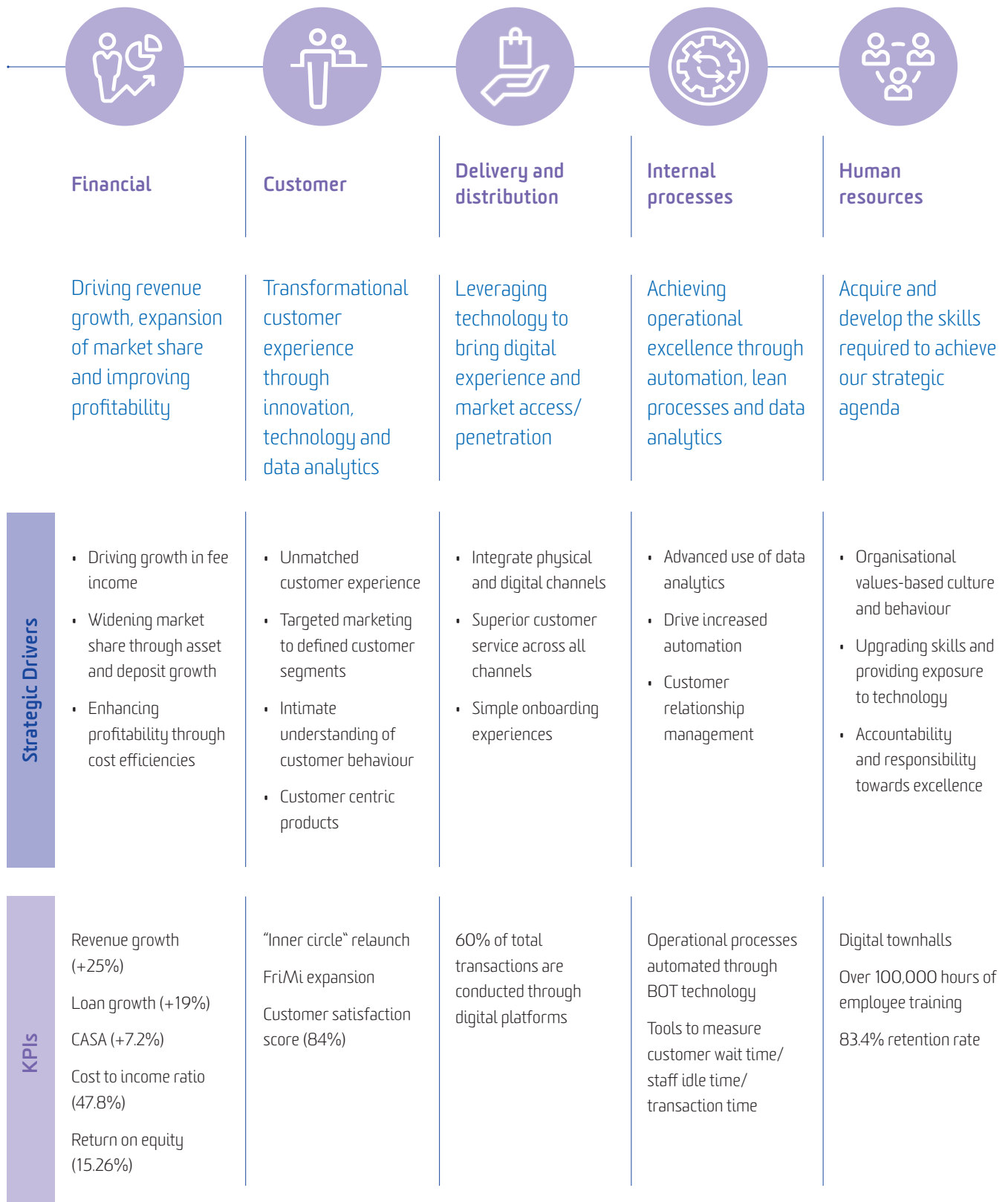
| Material topic                      | Significance of impacts | Influence on stakeholder decisions | Corresponding GRI topic(s)           | Page reference for further information |
|-------------------------------------|-------------------------|------------------------------------|--------------------------------------|--|
| Growth and profitability            | ●                       | ●                                  | 201: Economic Performance            | 55 - 57 & 38 - 41                      |
| Customer experience                 | ●                       | ●                                  |                                      |  |
| Digitisation                        | ●                       | ●                                  |                                      |  |
| Responsible lending                 | ●                       | ●                                  | 417: Marketing and labelling         | 51 - 54                                |
|                                     |                         |                                    | 418: Customer privacy                | 51 - 54                                |
|                                     |                         |                                    | 401: Employment                      | 42 - 45                                |
| Employee attraction                 | ●                       | ●                                  | 405: Diversity and equal opportunity | 42 - 45                                |
|                                     |                         |                                    | 403: Occupational health and safety  | 42 - 45                                |
| Training and development            | ●                       | ●                                  | 404: Training and education          | 42 - 45                                |
| Employee satisfaction               | ●                       | ●                                  |                                      |  |
| Operational efficiency              | ●                       | ●                                  |                                      |  |
|                                     |                         |                                    | 301: Materials                       | 55 - 57                                |
|                                     |                         |                                    | 302: Energy                          | 55 - 57                                |
| Preserving the environment          | ●                       | ●                                  | 304: Bio diversity                   | 55 - 57                                |
|                                     |                         |                                    | 305: Emissions                       | 55 - 57                                |
|                                     |                         |                                    | 306: Effluents and Waste             | 55 - 57                                |
| Corporate social responsibility     | ●                       | ●                                  | 413: Local communities               | 51 - 54                                |
| Corporate governance and Compliance | ●                       | ●                                  | 307: Environmental compliance        | 55 - 57                                |
|                                     |                         |                                    | 419: Socio-economic compliance       | 51 - 54                                |

Please refer to page 270 - 271 for details on topic boundaries and changes in materiality

● High   ● Medium   ● Low

# Strategic Focus Areas

The Bank's Strategic Plan for 2017-2019 was formulated in response to the rapidly changing operating landscape and expectations of our stakeholders. The plan defines five strategic focus areas that drive our value creating activities and are catalysts for building a future-fit, technology driven bank for the mass affluent segment.



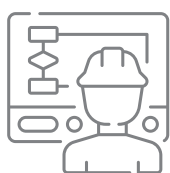
# Sustainability at Nations Trust Bank

Financial institutions are susceptible to environmental, social, governance and economic risks of geographies they operate in and their financial performance in the long-term is intricately linked to health of the real economy. With this realization, the Bank has strived to embed sustainability considerations into its strategy, daily processes and resource management. The organisation's sustainability agenda is clearly articulated in its Sustainability Policy which embodies the

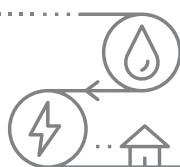
Bank's approach towards sustainable business through pillars listed below. More specific information on how Nations Trust Bank actioned these objectives during the year are detailed on the Capital Management chapters from page 38 to 57 of this Report.

The Bank is also a signatory to the Sri Lanka Banks' Association's Sustainable Banking Initiative (SLBA - SBI), an initiative that is supported by several European

Development Financial Institutions. The initiative encourages a multi-stakeholder approach towards transitioning to a green economy and contributing towards sustainable development. As a signatory, the Bank committed to upholding 11 principles of sustainable banking including Environmental and Social Risk Management in Business Activities, Financial inclusion, Promoting ethical finance and Collaborative partnerships among others.



Managing the impacts of operations and value chain and building resilience



Empowering customers to make sustainable lifestyle and investment decisions



Supporting the adoption of higher standards in Environmental, Social and Governance performance



Collaborating nationally and globally to make transformations needed to achieve SDGs

## OUR COMMITMENT TO THE SUSTAINABLE DEVELOPMENT GOALS



As a financial intermediary, we contribute towards reducing inequalities through providing access to financial services across the country



We are a technology-driven Bank and have invested substantial time and effort in delivering innovative solutions and methods of interaction



We provide opportunities for skill and career development in a rewarding and conducive environment to our employees



The Bank's key environmental preservation initiatives include the Biodiversity Conservation Project, which centres on the Hiyare rainforest



In addition to the training opportunities we provide to our employees, education is also an important pillar of our CSR agenda




We are an equal opportunity employer and provide a conducive work environment for diverse employees to thrive in



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# Leaping into the future

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While state-of-the-art technology drives our functions and success, human intelligence and skill lies at the heart of what we do. We keep looking to the future, using our inspiration and imagination to leap ahead of the competition and become a benchmark of banking excellence.

# Business Line Reviews



New branch opening



'American Express' campaign



Being awarded at Global SME Finance Forum



Corporate Motor Rally



Leasing 'Unstoppable' campaign

## Key highlights

|          |                     |       |
|----------|---------------------|-------|
| Consumer | Loans & Advances    | ▲ 15% |
|          | Deposits            | ▲ 15% |
|          | Revenue             | ▲ 17% |
|          | Cost : Income ratio | 69%   |

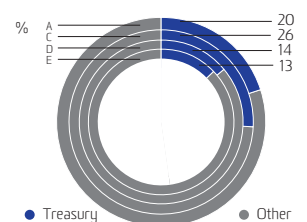
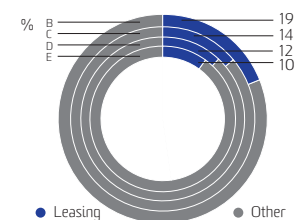
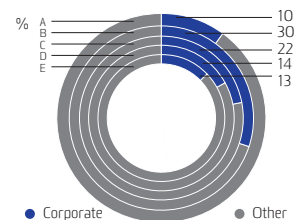
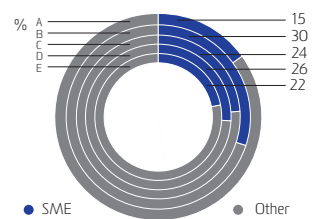
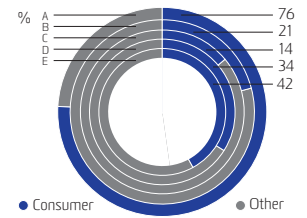
|     |                     |       |
|-----|---------------------|-------|
| SME | Loans & Advances    | ▲ 11% |
|     | Deposits            | ▲ 24% |
|     | Revenue             | ▲ 27% |
|     | Cost : Income ratio | 30%   |

|           |                     |       |
|-----------|---------------------|-------|
| Corporate | Loans & Advances    | ▲ 46% |
|           | Deposits            | ▲ 12% |
|           | Revenue             | ▲ 64% |
|           | Cost : Income ratio | 21%   |

|         |                     |       |
|---------|---------------------|-------|
| Leasing | Loans & Advances    | ▲ 20% |
|         | New Business        | ▲ 24% |
|         | Revenue             | ▲ 31% |
|         | Cost : Income ratio | 34%   |

|          |                      |       |
|----------|----------------------|-------|
| Treasury | Revenue              | ▲ 13% |
|          | FIS Portfolio        | ▲ 32% |
|          | Customer FX Income   | ▲ 22% |
|          | Cost to Income Ratio | 15%   |

## Contribution to the Group



## Quick Read

- Achieved market leadership in the cards segment
- Portfolio growth of 15% driven by increased penetration in the premium segment

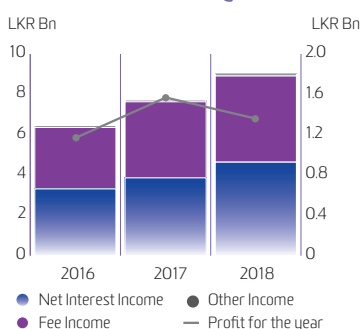


# Consumer Banking

| Product Portfolio                            |
|--|
| Savings & Investment products                |
| Loans (personal loans/vehicle loans/housing) |
| Payments and cards                           |
| Bancassurance                                |

The Consumer Banking division caters primarily to the country's mass affluent segment through a range of lending, investment and transactional banking products and has successfully nurtured deep customer relationships through superior service, innovative solutions and targeted marketing. This year, the division pursued growth in the premium segment while consolidating entry level portfolios with a view to preserving portfolio quality.

## Revenue & Profitability



## PERFORMANCE

The Consumer Banking division's net interest income increased by 20% during the year, supported by a 15% portfolio growth and wider net interest margins. Net fee and commission income also increased by 14%, as the Division sought to leverage on new bancassurance partnerships. Despite the healthy top line growth, the Division's profitability was affected by an increase in impairment charges reflecting the moderating economic conditions. As a result, the Division's pre-tax profit declined by 30% to LKR 1,244 million during the year.

Divisional assets grew by 15% to LKR 49 billion during the year, mainly driven by credit card portfolio. Customer deposits also increased by 15% while the Bank successfully grew its CASA base by 7%. The Bank's deposit proposition is underpinned on customer convenience and strong digital capabilities and its ability to consistently achieve above average deposit growth is testament to its strengthening deposit franchise.

## Progress against strategy

- The Division pursued client acquisition in the premium segment, resulting in a loan portfolio growth of 15% in 2018. Increased application of customer data enabled us to adopt targeted marketing in the mass affluent segment.
- **Cards:** The Bank fortified its market position in the Cards segment, achieving growth from the premium segment and emerging as the largest issuer of credit cards in the country. It also achieved the widest merchant network and highest customer-spend. Cards in issue increased by 3% in 2018 while the value of transactions also increased by 18%.
- **Housing Loans:** Despite the higher interest rate scenario, targeted marketing to the premium segment enabled portfolio growth of 33% during the year.
- **Personal Loans:** Amidst challenging macro economic conditions, the division managed to disburse LKR 8.1 billion new loans during the year.
- The challenging macro-economic environment had an industry-wide impact on consumer demand and decline in their disposable income. Also the application of SLFRS 9 required additional impairment provision where undrawn balances further increased it. The division focused on preserving credit quality through strengthening underwriting standards, revisiting credit limits and curtailing exposure to entry level portfolios.
- The Bank continued to make inroads in strengthening its digital proposition. Digital self-service channels were widened with the installation of 45 cash recycle machines in 42 branches and 3 off-site locations. Further upgrades were made to the online and mobile banking apps to enhance customer experience and volume of transactions performed through these platforms increased by 161% during the year.
- The firmi digital banking platform targeted at millennials gained traction with a significant increase in App downloads and crossing LKR 1 billion transactions.
- In line with the Bank's long-term objective of redefining customers' banking experience, business intelligence tools are being used to facilitate effective customer segmentation and personalised service within branches. Customer satisfaction as measured through net promoter scores have consistently been high, averaging 84% during the year.

## OUTLOOK

Driving deposits will be a key area of focus in 2019 to support asset growth with emphasis on growing the savings base. Branches and central sales teams will be deployed to source deposits across consumer customer segments whilst looking towards broad basing of savings acquisitions. The division will place strategic emphasis on consolidating its portfolio and preserving credit quality with a view to managing impairment.

- Emphasis on consolidation and preserving portfolio quality.
- Strengthened collection and recovery mechanisms
- Nurture deeper customer relationships



## SME Banking

### Product Portfolio

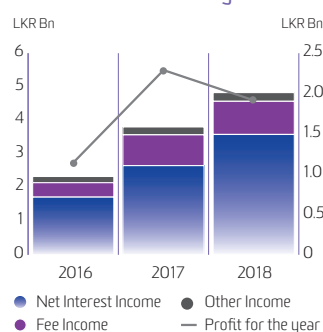
#### Business Banking

#### Investment products

Business loans (Working capital financing, Trade financing, Fixed term financing)

Following several years of aggressive growth, in 2018 the SME division placed strategic emphasis on consolidating its portfolio and strengthening its collection and recovery mechanisms. Despite an industry-wide weakening of portfolio quality, the Division achieved a portfolio and revenue growth of 11% and 27% respectively during the year.

### Revenue & Profitability



### PERFORMANCE

Despite the slowdown in portfolio expansion, the Division achieved a 35% growth in its net interest income supported by margin management. Net fee and commission income also grew by 8% and contributed 26% to the Division's operating income.

Top line growth was countered by a sharp increase in impairment, given the weakening economic fundamentals. Application of SLFRS 9 is also a key reason for the increase in impairment. While cash-flow stress remain for certain portfolios in the short term, the Division's proactive efforts towards preserving portfolio quality are expected to counter vulnerabilities to a certain extent. Despite the tough operating landscape, the Division recorded a profit before tax of LKR 2,241 million in 2018, a increase of 5% compared to last year.

### Progress against strategy

- The country's economic slowdown had a direct impact on the repayment capability of the SME sector due to certain segments' vulnerability to economic cycles. Having recognised these potential pressures in early 2018, the Division sought to consciously consolidate growth and strengthen its underwriting and recovery processes. Resultantly, portfolio growth slowed to 11% in 2018, compared to 41% in 2017.
- Increased resources were deployed towards strengthening the processes and human capital in control functions- particularly the Special Asset Management Unit and Central Collections Unit (CCU).
- Given the close relationship between branches and customers, the Division also implemented a branch collection model through which branch employees support the collection efforts of the CCU. Additional resources were also directed to branches with larger portfolios.
- The challenging market conditions also afforded an opportunity to nurture deeper relationships with our customers. Accordingly, we offered flexible payment options to smoothen the working capital cycle. The Division also continued to provide structured training and enterprise development guidance to customers through its ongoing series of SME seminars. During the year we conducted 9 such seminars, benefiting 1,000 customers across 6 districts.
- The Bank was recognised among the leading SME practitioners in the world at the Global SME Finance Forum 2018, where it received honorary mention in the Asian Region-the only Sri Lankan bank to achieve this recognition.
- The division also participated in government arranged re-finance programmes on focused economic segments during the year.
- 'Nations Peramaga', the Division's micro-financing product crossed LKR 100 million during the year. This offering is directed towards empowering micro businesses and approximately 60% of the portfolio comprises lending to female entrepreneurs.

### OUTLOOK

The Division will continue to adopt a cautious approach towards growth with emphasis on portfolio consolidation, customer relationship management and further strengthening post disbursement and credit monitoring.



## Quick Read

- Portfolio and profit growth driven by both fund and fee based sources.
- Growth in Structured Finance



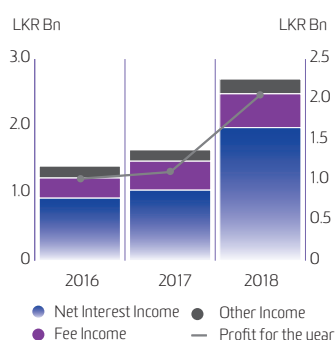
# Corporate Banking

## Product Portfolio

|                                   |
|-----------------------------------|
| Working Capital Financing         |
| Structured finance & Syndications |
| Trade Finance                     |
| Cash Management                   |
| Corporate Cards                   |

The Nations Trust Corporate Banking value proposition is based on excellent customer service, structured solutions and relationship driven customer engagement. The Division's relentless focus on a solid strategy over the last few years has allowed it to demonstrate resilience against industry challenges, recording healthy portfolio and profit growth in 2018 while maintaining healthy portfolio quality.

## Revenue & Profitability



27% of divisional net operating income. Meanwhile total advances to corporates rated above B+ (based on internal risk ratings) accounted for 68% of the total Corporate Banking portfolio as at end-December 2018.

Portfolio and fee-income expansion supported by healthy margins and impairment management enabled Corporate Banking to achieve a 74% growth in profit to LKR 1,992 million.

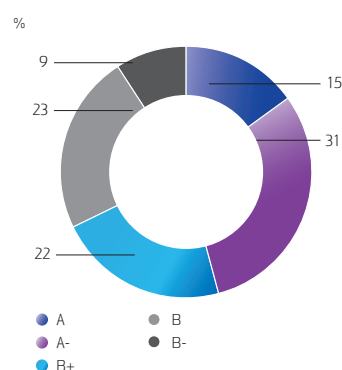
## PERFORMANCE

Corporate Banking achieved a net interest income growth of 89% during the year, supported by 46% portfolio growth and efficient management of interest margins. Deposits grew by 12% supported by the Division's strategy of providing multi-channel solutions to selected customers in growth industries. Contributions from structured financing transactions and continued expansion in specific export industries led to a 21% increase in net fee and commission income, which now accounts for an increased

## Progress against strategy

- Strategic focus on client selection and customer profitability enabled the Division to record portfolio and profit growth of 46% and 74% respectively during the year while effectively managing risk pricing dynamics.
- Despite a weakening of economic conditions, emphasis on cash-flow based lending, clear understanding of industry-specific risks, and strong analytical capabilities enabled the Division to manage impairments with a gross NPA ratio of 0.66% in 2018.
- The Division has also maintained focus on its segmentation strategy in order to provide tailor made solutions to the varied sectors.
- In Structured Finance, the Division successfully lead arranged two syndicates in 2018 which supported a 21% growth in fee-based income as well as significant asset growth.
- The Division also partnered with FriMi in creating payment platforms between its corporate customers and their business partners with good penetration in the key industry sectors.
- Streamlining lending portfolios and ongoing focus on process efficiencies have enabled the Division to achieve significant cost efficiencies with the cost to income ratio improving to 22% from 30% the year before.

## Loan Portfolio Composition by Risk Grade



## OUTLOOK

Although the external environment is likely to present numerous challenges in 2019, Corporate Banking will continue to direct its strategy towards client acquisition, preserving portfolio quality and offering tailor-made financial solutions. Key areas of focus would be client selection, targeted marketing and relationship driven portfolio management.

- Timely strategy to drive portfolio growth during the first quarter of 2018
- Manage impairment through close customer engagement



## Leasing

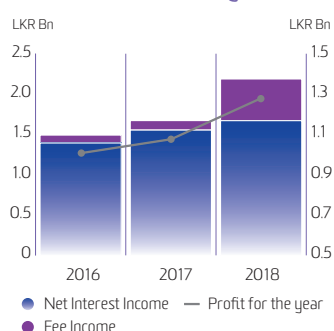
### Product Portfolio

Vehicle financing

Equipment and machinery financing

Over the past few years, Nations Leasing has outperformed its banking peers in growth, profitability and portfolio quality underpinned by its ability to seize opportunities and effectively respond to emerging risks through innovative strategies. In 2018 the Division continued its growth momentum while managing impairment, maintaining employee motivation and supporting customers through the economic downturn.

### Revenue & Profitability



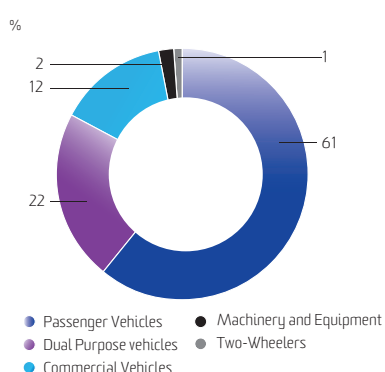
### PERFORMANCE

The Division recorded profit growth of 20% to LKR 1,289 million during the year, supported by 31% revenue growth against a portfolio expansion of 20%. Net interest income widened to LKR 1,670 million supported by portfolio growth and relatively high yields. Given the difficult operating conditions increase in impairment charges impacted profitability, although the Division's portfolio quality continues to be relatively healthier than industry counterparts. The Division contributed 10% and 19% to the Bank's consolidated earnings and loan book during the year.

### Progress against strategy

- The Division's ability to anticipate and respond to emerging market risks through an evolving strategy enabled it to demonstrate resilience to challenging conditions achieving portfolio and profit growth of 20% in 2018.
- Maintaining the growth momentum of 2017, the division aggressively pursued client acquisition and portfolio expansion in the first quarter of 2018. Although moderating economic conditions and government restrictions on vehicle imports compelled the Division to subsequently curtail acquisitions, the expansion achieved in the first quarter enabled the Division to meet its annual growth targets.
- With the increase in the Loan to Value (LTV) ratio on hybrid vehicles from 50% to 70%, the Bank increased focus on the private car segment. We also pursued opportunities in the travel and tourism sector as operators sought to expand vehicle fleets.
- The division observed cash-flow difficulties in certain segments from the 2nd quarter, as borrowers faced genuine operational difficulties. In line with the Bank's long-term view towards customer retention and value creation we worked closely with borrowers to offer flexible solutions to ride through the cash-flow cycle.
- Despite challenging market conditions, our young and tenacious team rallied together to drive the Division's strategic agenda. Significant investments were made in team-building and skill development in line with the Division's theme of 'Unstoppable Team'. Several excursion and adventure-based outdoor trainings were carried out during the year with the objective of maintaining motivation and momentum.

### Leasing Asset Mix



### OUTLOOK

Focus areas for 2019 include strengthening risk management practices and driving operating efficiencies while pursuing selective growth and preserving portfolio quality. The Division's investment in a core leasing system in May 2018 is expected to support this strategy, facilitating better information for improved decision making.

## Quick Read

- Secured USD 50 million funding line from DFIs
- Issuance of LKR 3.5 billion listed unsecured subordinated debenture



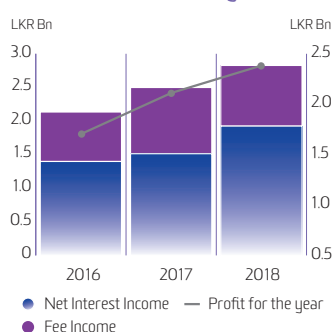
# Treasury

## Product Portfolio

- Foreign exchange trading & hedging
- Fixed income trading
- Corporate debt issuance

The Treasury Unit ensures that the Bank has sufficient funding to meet its strategic aspirations while managing the investment portfolio and facilitating foreign exchange trading. It also plays a vital role in managing the Bank's market risk exposures such as interest rate risk and liquidity risk through the ALM desk.

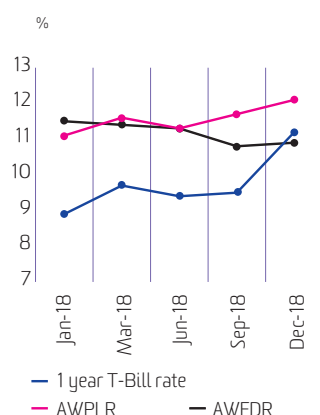
## Revenue & Profitability



## PERFORMANCE

The Treasury division's revenue grew by 13% during 2018. Net trading losses narrowed (dropped by 24%) during period under review mainly due to lower amount of losses arising from FX funding SWAPS. Bank continued to adopt the strategy of utilising FX SWAP book to fund its rupee loan growth due to the benefit arising from the relatively lower funding costs of the FX SWAPS compared to high cost rupee deposits. Additionally, FX income arising from customer and trading also recorded a good growth for the year arising from both increased volumes and favourable exchange rate movements.

## Interest Rates



## Progress against strategy

- The Treasury division's operations are susceptible to fluctuations in market variables such as interest rates and exchange rates. 2018 was a year of mixed fortunes for the division given volatility in both the foreign exchange and fixed income markets and we performed commendably to record a revenue and profit growth of 13% during the year.
- Fixed Income:** Performance was somewhat affected by narrower margins and we countered this by pursuing a strategy of volume expansion. Rising interest rates compelled us to invest in more short-tenured investments, which in turn affected the margins. While the net interest income from Government securities portfolio performed better than budget, lower margins from the corporate debt portfolio off-set the gains. Furthermore, the rising interest rate environment compelled the business to maintain a shorter tenor than intended which also limited the overall portfolio yield.
- Forex Trading:** The division's forex operations comprise customer forex trading and proprietary trading. In recent years strategic focus was placed on driving volume growth through maintaining a high level of engagement with corporate, SME and branch operations. The division performed well in 2018, achieving a 20% increase in income supported by wider margins and higher volumes in the first quarter of the year.
- Asset Liability Management:** The ALM desk is responsible for ensuring that adequate funding is available to drive the Bank's strategic growth objectives. We continued to utilise the dollar book to fund rupee lending through FX SWAPS which in turn exposed the Bank to mark-to-market losses due to fluctuating SWAP premiums. However, we continue to benefit from the relatively lower funding costs of the FX SWAPS compared to high cost rupee deposits.
- The division takes a long-term view in managing its asset and liability mixes and adjusts the maturity of its liquid asset portfolio in line with interest rate expectations, thereby generating profits as the opportunity arises. During the year the division secured a USD 50 million funding line from a DFI in August 2018.

## OUTLOOK

In 2019 the Division will focus on ensuring that liquidity levels are managed adequately to support the Bank's growth plans. Obtaining funding at competitive rates is increasingly challenging and we will continue to focus on diversifying our funding base through exploring new avenues. On a macro-economic front, interest rates are expected to stabilise towards the latter part of 2019, although a degree of fiscal slippage is anticipated given the upcoming elections. We will continue to proactively monitor these developments and capitalise on emerging opportunities.

# Capital Management Reports



## Financial Capital

Timely efforts towards strengthening its funding profile and healthy growth in performance supported by the targeted expansion in selected sectors enabled Nations Trust Bank to enhance its financial capital during the year, positioning the Bank for strong growth over the medium to long-term.

### OUR CAPITAL INPUTS

#### Financial Capital

**Shareholders' funds:**  
LKR 27.1 Bn

**Customer deposits:**  
LKR 231.5 Bn

**Borrowings:**  
LKR 29.0 Bn

### HOW WE NURTURED CAPITAL

- Healthy portfolio growth and profit generation
- Ongoing focus on cost efficiencies
- Rights issue of LKR 3.2 Bn
- Basel III compliant debenture issue of LKR 3.5 Bn
- USD 50 Mn medium-term funds sourced from DFIs

### MEASURING SUCCESS

10% growth in profit after tax

Cost to income ratio improved to 47.8%

Net interest margin managed at 4.6%

Earnings per share of LKR 13.10

Dividend per share of LKR 2.10

Tier 1 and overall capital ratios strengthened to 12.15% and 15.59%

### INCOME STATEMENT ANALYSIS

#### Net Interest Income

Healthy loan growth together with smart margin management during the year enabled the Group to grow its Net Interest Income (NII) by 27% to LKR 15.16 billion during the year. Loan expansion of 19% was upheld by strong volume growth in the Corporate Loan Book (+46%) as the segment leveraged on its deep industry insights to pursue selective client acquisition. Growth in the Consumer and SME segments were relatively moderate at 15% and 11% respectively, reflecting stressed market conditions and the Bank's efforts in consolidating these portfolios. The accelerated growth of the Corporate Loan Book and the resultant shift in portfolio composition impacted Net Interest Margins (NIM) although active management of asset liability maturity mismatches and timely repricing enabled the Bank to manage its NIM at 4.6%, compared to 4.5% the year before.

#### Non Fund Based Income

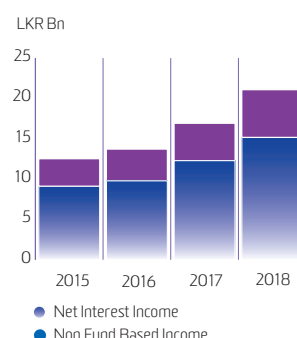
Concerted efforts towards increasing fee-based activity resulted in the Group's non fund based income expanding by 18% to LKR 5.91 billion.

- Net fee and commission growth stemmed from transactional fees, continued expansion of the Corporate Banking segment's presence in structured financing and growth in credit cards.
- The Bank continues to adopt the strategy of utilising the FX SWAP book to fund its rupee loan growth due to the benefit arising from the relatively lower funding costs of the FX SWAPS compared to high cost rupee deposits.
- Net gains from trading resulted in a LKR 2.78 billion income mainly due to favourable movement in spot/forward premiums on FX SWAPS coupled with the increase in the FX SWAP book. Additionally, FX income from customers also recorded a growth of 7%.

- Net other operating losses for the year amounted to LKR 2.67 billion mainly due to the revaluation losses stemming from balance sheet positions and FX SWAPS due to currency depreciation during the year.

Total operating income grew by 25% to LKR 21.08 billion during the year reflecting strong growth in both fund and fee-based income. Fee-based income accounted for 27.6% of the Group's total operating income during the year.

#### Revenue Composition



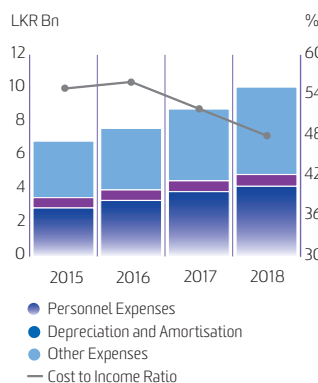


## Impairment Charges on Loans and Advances

Moderating economic conditions, tight liquidity and political instability towards the latter part of the year resulted in an industry-wide deterioration in portfolio quality and a parallel increase in impairment charges. Some of our customer segments too faced these cyclical pressures, resulting in an increase of NPLs from both the SME and Consumer businesses. This together with rules arising from the implementation of SLFRS 9 resulted in the Group's impairment charges for the year increasing to LKR 3.27 billion. The Group's gross NPL ratio increased to 4.58% (measured in accordance with CBSL guidelines) from 2.29% the year before.

## Cost Management

### Cost Composition & C:I Ratio

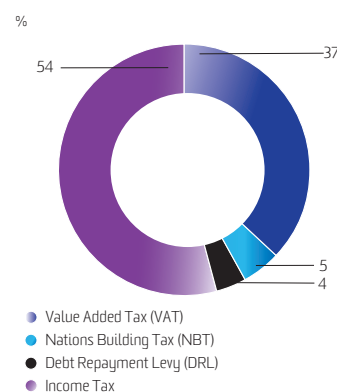


The Group's cost-to-income ratio continued to record consistent improvement, declining below 50% for the first time to record 47.81% in 2018 (2017: 51.87%). The improvements in cost efficiency reflect the Group's investments in lean culture, productivity enhancements and Robotic Process Automation. Total operating expenses increased by 15% to LKR 10 billion mainly due to the expansion in other operating costs (+22%) and personnel expenses (+8%). The growth in other operating costs stemmed from an increase in office and administration expenses arising from ongoing investments in digital capital, infrastructure and brand visibility. The increase in personnel costs were contained mainly due to reduced provisions on Performance-related Pay.

## Taxation

Value created to the government in the form of tax contributions increased by 9% to LKR 4.02 billion during the year. The Group paid LKR 178.5 million as Debt Repayment Levy which was implemented in October 2018. Thus, Taxes and Levies on Financial Services were increased by additional 3% over profit increase in 2018.

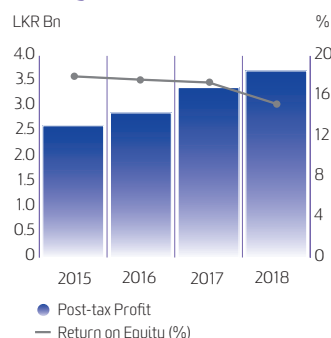
### Tax Components



## Profitability

Consolidated Profit After Tax increased by 10% to LKR 3.70 billion during the year led by healthy portfolio growth, well managed NIMs and improved cost-efficiency. At Bank level, however profits were higher than the Group bottom line at LKR 3.77 billion, although reflecting a 12% drop y-o-y due to the normalisation of an unusually high dividend received from Waddock Mackenzie in 2017 due to a share buy-back. Group level profit growth was also supported by improved profitability in both the Insurance Brokering and Property Management segments.

### Earnings



The Group's Return on Assets and Return on Equity narrowed to 1.25% and 15.26% respectively (2017: 1.41% and 17.38%) reflecting a stronger equity base following capital augmentation during the year.

## BALANCE SHEET ANALYSIS

### Asset Growth

The Group continued to record consistent balance sheet expansion with total assets increasing by 21% to LKR 325.02 billion by end-December 2018. Asset growth was upheld by healthy expansion of the Group's credit portfolio (+19%) as we pursued targeted expansion across our key business verticals. The asset composition remained relatively unchanged with credit assets accounting for 68% of total assets as at end-December 2018.

### Capital and Funding

The Group's funding position strengthened during the year supported by healthy deposit growth, capital augmentation through a rights issue and BASEL III compliant debenture issue and access to long-term foreign currency denominated funding. The deposit base widened by 19%, faster than the industry average of 15% reflecting the Bank's improving deposit franchise and ongoing efforts towards driving customer convenience and accessibility. The Bank also sought to augment its capital through a LKR 3.20 billion rights issue and a LKR 3.5 billion subordinated, redeemable, 5-year debenture issue in April 2018, which was oversubscribed. The rights issue comprised of convertible non-voting shares, the first of its kind to be issued in the Colombo Stock Exchange. Following these capital augmentation initiatives, the Group's tier 1 and overall Capital Adequacy Ratios strengthened to 12.15% and 15.59% by end-December 2018 affording a strong platform for growth. The liquidity position also strengthened towards the latter part of the year following equity and debt issues together with a moderation in loan growth in view of the market conditions.

# Ten Year Key Performance Trends

|  | 2009          | 2010          | 2011           | 2012           | 2013           | 2014           | 2015           | 2016           | 2017           | 2018           |
|--|---------------|---------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Year Ended December 31st                           |               |               |                |                |                |                |                |                |                |                |
| LKR million (Group)                                |               |               |                |                |                |                |                |                |                |                |
| <b>EARNINGS</b>                                    |               |               |                |                |                |                |                |                |                |                |
| Gross Income                                       | 14,037        | 12,215        | 11,885         | 17,673         | 20,362         | 20,854         | 20,279         | 25,547         | 35,333         | 43,237         |
| Net Interest Income                                | 3,720         | 4,565         | 4,404          | 5,755          | 7,675          | 8,940          | 9,105          | 9,786          | 11,909         | 15,164         |
| Net Fees & Other Income                            | 1,988         | 2,125         | 2,089          | 2,576          | 2,235          | 3,177          | 3,414          | 3,925          | 5,005          | 5,915          |
| Total Operating Income                             | 5,708         | 6,690         | 6,493          | 8,331          | 9,910          | 12,117         | 12,519         | 13,711         | 16,914         | 21,078         |
| Operating Expenses                                 | (3,366)       | (3,996)       | (4,017)        | (4,697)        | (5,779)        | (6,363)        | (6,862)        | (7,620)        | (8,773)        | (10,078)       |
| Impairment   | (804)         | (203)         | 235            | (432)          | (451)          | (1,182)        | (985)          | (690)          | (1,089)        | (3,274)        |
| Profit Before Taxation                             | 1,538         | 2,492         | 2,711          | 3,202          | 3,681          | 4,571          | 4,672          | 5,400          | 7,052          | 7,726          |
| Taxation & Levies                                  | (852)         | (1,408)       | (1,105)        | (1,250)        | (1,544)        | (2,035)        | (2,058)        | (2,531)        | (3,680)        | (4,024)        |
| <b>Profit After Taxation</b>                       | <b>686</b>    | <b>1,084</b>  | <b>1,607</b>   | <b>1,951</b>   | <b>2,136</b>   | <b>2,537</b>   | <b>2,614</b>   | <b>2,869</b>   | <b>3,371</b>   | <b>3,702</b>   |
| Other Comprehensive Income (OCI)                   |               |               |                |                | (9)            | 104            | (32)           | (236)          | 1,262          | (288)          |
| <b>Total Comprehensive Income</b>                  |               |               |                |                | <b>2,127</b>   | <b>2,641</b>   | <b>2,582</b>   | <b>2,633</b>   | <b>4,634</b>   | <b>3,414</b>   |
| As at December 31st                                |               |               |                |                |                |                |                |                |                |                |
| <b>ASSETS</b>                                      |               |               |                |                |                |                |                |                |                |                |
| Cash & Short-Term Funds                            | 1,431         | 1,531         | 3,695          | 2,534          | 3,020          | 6,900          | 6,392          | 4,188          | 6,850          | 6,438          |
| Statutory Deposits with Central Bank               | 2,044         | 2,416         | 4,284          | 5,089          | 4,032          | 3,992          | 5,284          | 8,512          | 11,213         | 12,762         |
| Government Treasury Bills & Bonds                  | 23,894        | 26,876        | 24,982         | 34,038         | 44,812         | 40,696         | 31,623         | 36,738         | 49,335         | 74,254         |
| Investment Securities                              | 4,239         | 4,020         | 3,153          | 2,221          | 2,315          | 3,949          | 7,065          | 6,926          | 7,028          | 2,404          |
| Loans & Advances                                   | 35,335        | 44,571        | 61,188         | 73,424         | 82,327         | 98,347         | 121,143        | 149,818        | 186,746        | 221,506        |
| Other Assets                                       | 1,210         | 1,287         | 2,280          | 2,591          | 2,894          | 1,419          | 1,386          | 1,814          | 1,941          | 2,681          |
| Property Plant & Equipment                         | 1,919         | 1,788         | 1,891          | 1,908          | 2,048          | 2,194          | 2,143          | 1,996          | 3,364          | 3,669          |
| Intangible Assets                                  | 432           | 759           | 600            | 642            | 680            | 1,283          | 1,224          | 1,189          | 1,154          | 1,303          |
| <b>Total Assets</b>                                | <b>70,504</b> | <b>83,248</b> | <b>102,073</b> | <b>122,447</b> | <b>142,128</b> | <b>158,781</b> | <b>176,262</b> | <b>211,180</b> | <b>267,629</b> | <b>325,016</b> |
| <b>LIABILITIES</b>                                 |               |               |                |                |                |                |                |                |                |                |
| Deposits   | 44,222        | 48,315        | 67,633         | 86,274         | 95,730         | 111,010        | 129,158        | 151,502        | 194,269        | 231,463        |
| Due to Banks                                       | 391           | 500           | 1,277          | 2,712          | 1,401          | 2,923          | 2,276          | 11,851         | 12,315         | 18,475         |
| Deferred Tax Liabilities                           | 437           | 456           | 236            | 280            | 341            | 413            | 733            | 969            | 1,828          | 1,050          |
| Borrowings   | 16,629        | 21,979        | 20,203         | 18,695         | 27,508         | 25,402         | 23,433         | 23,536         | 30,573         | 37,160         |
| Other Liabilities                                  | 4,048         | 5,193         | 4,095          | 4,390          | 5,410          | 5,138          | 5,491          | 6,001          | 7,175          | 9,809          |
| <b>Total Liabilities</b>                           | <b>65,727</b> | <b>76,443</b> | <b>93,444</b>  | <b>112,351</b> | <b>130,390</b> | <b>144,887</b> | <b>161,090</b> | <b>193,859</b> | <b>246,159</b> | <b>297,957</b> |
| <b>SHAREHOLDERS' FUNDS</b>                         |               |               |                |                |                |                |                |                |                |                |
| Share Capital/Stated Capital                       | 3,110         | 4,368         | 5,101          | 5,101          | 5,101          | 5,101          | 5,101          | 5,101          | 5,101          | 8,866          |
| Reserve Fund                                       | 106           | 156           | 224            | 314            | 419            | 538            | 661            | 796            | 1,011          | 1,199          |
| Reserves   | 1,561         | 2,281         | 3,304          | 4,681          | 6,217          | 8,255          | 9,409          | 11,423         | 15,358         | 16,994         |
| <b>Total Shareholders' Funds</b>                   | <b>4,777</b>  | <b>6,805</b>  | <b>8,629</b>   | <b>10,096</b>  | <b>11,738</b>  | <b>13,895</b>  | <b>15,171</b>  | <b>17,321</b>  | <b>21,470</b>  | <b>27,059</b>  |
| <b>Total Liabilities &amp; Shareholders' Funds</b> | <b>70,504</b> | <b>83,248</b> | <b>102,073</b> | <b>122,447</b> | <b>142,128</b> | <b>158,781</b> | <b>176,262</b> | <b>211,180</b> | <b>267,629</b> | <b>325,016</b> |
| Commitments & Contingencies                        | 51,591        | 60,547        | 72,792         | 86,239         | 90,267         | 98,799         | 96,792         | 123,585        | 171,587        | 190,602        |

|  | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|--|------|------|------|------|------|------|------|------|------|------|
|--|------|------|------|------|------|------|------|------|------|------|

Year Ended December 31st

#### PROFITABILITY (GROUP)

|   |       |       |        |       |       |       |       |       |       |       |
|---|-------|-------|--------|-------|-------|-------|-------|-------|-------|-------|
| Operating Income Growth (%)                 | 21.65 | 17.20 | (2.94) | 28.31 | 18.95 | 22.27 | 3.33  | 9.52  | 23.36 | 24.62 |
| Cost/Income Ratio (%)                       | 58.97 | 59.73 | 61.86  | 56.38 | 58.31 | 52.52 | 54.81 | 55.58 | 51.87 | 47.81 |
| Return On Average Assets (%)                | 0.99  | 1.41  | 1.73   | 1.74  | 1.61  | 1.69  | 1.56  | 1.48  | 1.41  | 1.25  |
| Return on Average Shareholders' Funds (%)   | 15.04 | 18.72 | 20.84  | 20.84 | 19.57 | 19.79 | 17.99 | 17.66 | 17.38 | 15.26 |
| Total Assets to Shareholders' Funds (Times) | 14.76 | 12.23 | 11.83  | 12.13 | 12.11 | 11.43 | 11.62 | 12.19 | 12.47 | 12.01 |
| Tier 1 Capital Adequacy Ratio (%)           | 11.79 | 13.43 | 13.42  | 13.82 | 14.78 | 14.16 | 13.15 | 11.40 | 10.83 | 12.15 |
| Total Capital Adequacy Ratio (%)            | 16.11 | 15.74 | 17.44  | 18.18 | 20.00 | 18.28 | 15.53 | 15.82 | 13.89 | 15.59 |

#### SHARE PERFORMANCE (BANK)

Market Value per Share (LKR)

|                                      |       |       |       |       |       |       |       |       |       |       |
|--------------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Voting                               | 36.75 | 83.40 | 57.00 | 56.00 | 62.20 | 97.00 | 86.30 | 80.90 | 78.00 | 89.20 |
| Non Voting                           | -     | -     | -     | -     | -     | -     | -     | -     | -     | 82.10 |
| Net Asset Value per Share (LKR)      | 24.10 | 28.43 | 32.86 | 38.72 | 45.61 | 54.05 | 59.13 | 67.54 | 90.23 | 95.27 |
| Earnings Per Share (LKR)             | 2.89  | 4.65  | 5.79  | 7.56  | 8.97  | 10.05 | 10.37 | 11.46 | 17.50 | 13.33 |
| Price Earning Ratio (Times) (Voting) | 12.72 | 17.95 | 9.84  | 7.41  | 6.79  | 9.41  | 8.33  | 7.06  | 4.46  | 6.69  |
| Earnings Yield (%)                   | 7.86  | 5.57  | 10.17 | 13.50 | 14.73 | 10.63 | 12.01 | 14.16 | 22.44 | 14.94 |
| Cash Dividend Per Share (LKR)        | 1.50  | 2.00  | 2.10  | 2.10  | 2.10  | 2.10  | 2.10  | 2.10  | -     | -     |
| Scrip Dividend Per Share (LKR)       | -     | -     | -     | -     | -     | -     | -     | -     | 2.10  | 2.10  |
| Dividend Payout Ratio (%)            | 51.93 | 43.04 | 36.24 | 27.78 | 22.92 | 20.36 | 20.26 | 18.33 | 12.00 | 15.75 |
| % of 20 Largest Shareholders         |       |       |       |       |       |       |       |       |       |       |
| Voting                               | 76.38 | 78.58 | 78.22 | 65.78 | 79.64 | 81.53 | 86.02 | 87.69 | 88.77 | 89.51 |
| Non Voting                           | -     | -     | -     | -     | -     | -     | -     | -     | -     | 99.57 |

#### NETWORK

|                     |       |       |       |       |       |       |       |       |       |       |
|---------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Number of Employees | 1,532 | 1,608 | 1,853 | 2,037 | 2,262 | 2,562 | 2,695 | 2,770 | 2,943 | 3,128 |
| Number of Branches  | 38    | 40    | 48    | 57    | 72    | 89    | 92    | 93    | 93    | 94    |
| No of ATMs/CRMs     | 44    | 51    | 60    | 70    | 100   | 124   | 131   | 136   | 136   | 172   |

Note : Figures prior to year 2011 are based on Sri Lanka Accounting Standards (SLAS)

Please refer page 222 to 225 for Investor Information.

## Capital Management Reports



# Human Capital

The engaged and capable Nations Trust team are ambassadors of our brand, delivering our customer experience and ultimately determining the Bank's commercial success. Our people strategy is designed to nurture an environment and culture where employees can thrive and fulfil their potential.

### OUR CAPITAL INPUTS

#### Human Capital

3,128 total employees

43% female representation

Average employee age: 28 years

16% outside Western Province

### HOW WE NURTURED CAPITAL

- Invested LKR 102 Mn in providing 119,998 hours of training
- Total value created to employees increased by 12% to LKR 2.9 Bn
- Delivering a digital experience to employees
- 545 promotions during the year and 100% eligible permanent employees receiving performance appraisals

### MEASURING SUCCESS

Revenue per employee: LKR 6.7 Mn (+17%)

Net profit per employee: LKR 1.2 Mn (+3%)

Employee Retention rate: 83.4%

Investment in training increased by 42%

### MANAGEMENT APPROACH

The Bank's approach to managing its human capital is clearly set out in its HR Framework comprising a Board-approved suite of policies, clearly defined governance structures, systems and processes. The Bank does not have collective agreements in place. The framework is structured to ensure compliance with all legal frameworks as well as industry best practice. Implementation of the HR framework is the responsibility of the HR Department which reports to the CEO and to the Remuneration Committee on matters assigned to them by the Board. Employees undergo regular training on relevant policies and procedures and in 2018 we conducted several awareness sessions on whistle-blowing policy, anti-corruption and anti-bribery, grievance handling and sexual harassment.

Engaged Team



Development Opportunities



Valuing Performance



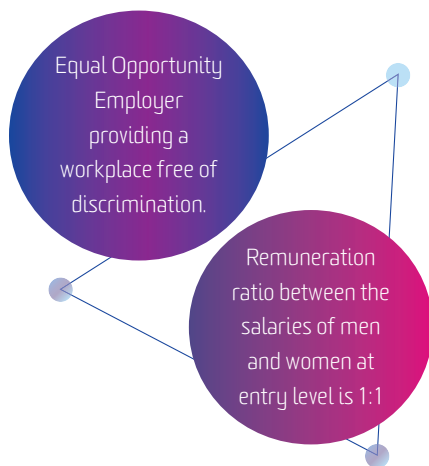
Satisfied and Motivated Employees

### PEOPLE STRATEGY IN 2018

The People Strategy for 2018 was designed with specific reference to the Bank's overall strategy of deploying technology to enhance the experience of external and internal customers. The Bank's increasing digitisation has resulted in a change in the core competencies we seek from new employees, leading to revisions to the Bank's recruitment and selection processes. Continued emphasis was also placed on equipping employees with the skills required to handle increasingly sophisticated customers through competency-based certification schemes.

## Attracting and Retaining Employees

We seek to attract and retain a dynamic and diverse workforce to drive our strategic ambitions and enhance performance in 2018. We continued to invest in our critical skill needs, particularly in digital and data analytics due to which our headcount increased by 6% (185) during the year. Selection procedures are designed to identify recruits who have the right ethos to thrive in the Bank's agile and collaborative culture, with emphasis on ability to manage change and work in teams. The Bank is also an equal opportunity employer and our policies are designed to employ, remunerate and evaluate employees based on their skills, experience and performance irrespective of gender, age or religion.



Retention continues to be an industry-wide challenge given the increasing competition for young talent. We strive to retain employees by

investing in a conducive work environment and offering unique opportunities for development. The Bank's overall attrition rate for 2018 was 16.6% (2017: 13.2%), mainly due to turnover in junior categories. At senior and corporate management levels attrition was 10.7%.

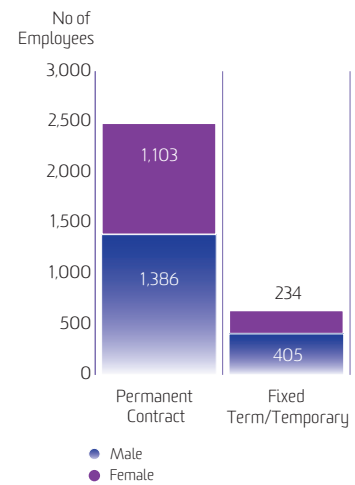
## Diversity Focus

We understand that workforce diversity plays a key role in fostering creativity, encouraging broader perspectives and ensuring commercial success. The Bank's overall female representation is 43% (2017: 40%) and accounted for 44% of promotions during the year. Female representation at senior and corporate management level was 26.1% in 2018.

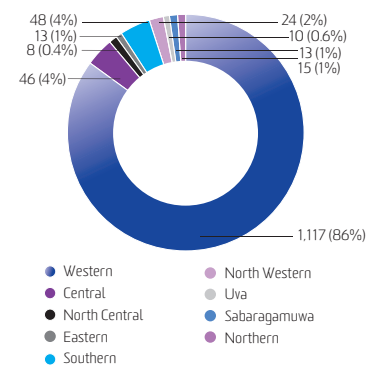
## Team Profile

| Employees by Region and Contract |              |            |
|----------------------------------|--------------|------------|
|                                  | Permanent    | Temporary  |
| Western                          | 1,949        | 562        |
| Central                          | 99           | 12         |
| North Central                    | 23           | 7          |
| Eastern                          | 36           | 6          |
| Southern                         | 152          | 22         |
| North Western                    | 90           | 11         |
| Uva                              | 49           | 7          |
| Sabaragamuwa                     | 44           | 5          |
| Northern                         | 45           | 7          |
| Overseas                         | 2            | 0          |
| <b>Total</b>                     | <b>2,489</b> | <b>639</b> |

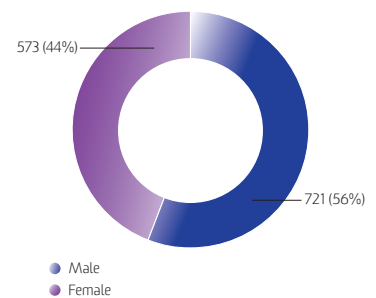
## Employees by Contract & Gender



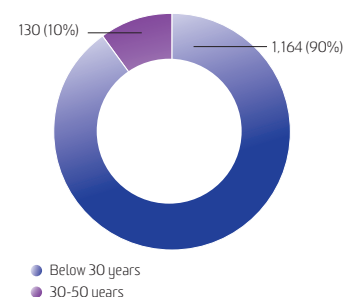
## New Hires by Region



## New Hires by Gender



## New Hires by Age



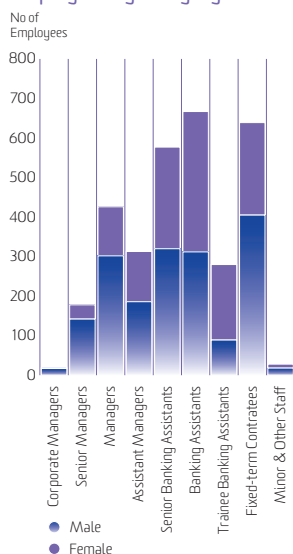
| Employees by Gender, Category and Age |              |              |              |              |             |             |
|---------------------------------------|--------------|--------------|--------------|--------------|-------------|-------------|
|                                       | Below 30     |              | 30 -50       |              | 50 Above    |             |
|                                       | Male         | Female       | Male         | Female       | Male        | Female      |
| Corporate Managers                    | 0.0%         | 0.0%         | 0.3%         | 0.0%         | 0.3%        | 0.1%        |
| Senior Managers                       | 0.1%         | 0.0%         | 4.3%         | 1.0%         | 0.2%        | 0.1%        |
| Managers                              | 1.1%         | 0.5%         | 8.5%         | 3.4%         | 0.1%        | 0.1%        |
| Deputy Managers                       | 2.1%         | 1.4%         | 3.8%         | 2.5%         | 0.0%        | 0.2%        |
| Senior Banking Assistants             | 5.5%         | 5.9%         | 4.6%         | 2.3%         | 0.1%        | 0.0%        |
| Banking Assistants                    | 8.8%         | 10.4%        | 1.1%         | 1.0%         | 0.1%        | 0.0%        |
| Trainee Banking Assistants            | 2.8%         | 6.1%         | 0.0%         | 0.0%         | 0.0%        | 0.0%        |
| Fixed Term Contractees                | 12.2%        | 7.4%         | 0.5%         | 0.1%         | 0.2%        | 0.0%        |
| Minor & Other staffs                  | 0.1%         | 0.2%         | 0.3%         | 0.1%         | 0.2%        | 0.0%        |
| <b>Total</b>                          | <b>32.8%</b> | <b>32.0%</b> | <b>23.4%</b> | <b>10.4%</b> | <b>1.1%</b> | <b>0.4%</b> |

The Bank typically engages employees on a full-time basis ; outsourced employees are used for specific function which are not critical

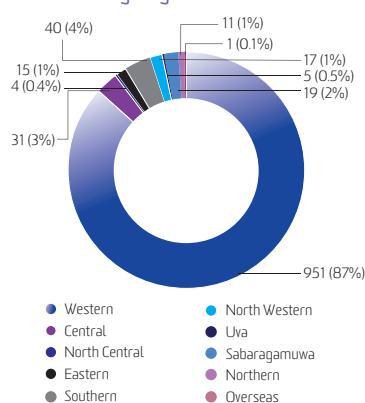
# Capital Management Reports

## Human Capital

Employees by Category and Gender



Turnover by Region



### An Engaged Team

As the average age of a Nations Trust employee is 28 years, we have focused on building engagement platforms that are suited to the thinking and attitudes of millennials. These mechanisms are founded on the principles of transparency, leader communication and openness and have played a key role in nurturing the Bank's unique organisational culture. In 2018, the Bank also sought to develop and implement an Internal Communications Strategy to drive increased collaboration and engagement across the Bank. Key aspects of this strategy are listed below.



'Ape Game Avurudu'

In addition to the engagement mechanisms, the following were conducted during the year;

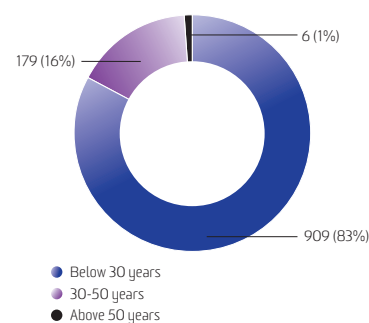
- Activity clubs including the Music and Photography club which are sponsored by the HR department
- Long Service Awards
- Bring-the-kids-to-work day
- Branch employee engagement forums with the participation of the Corporate Management
- International Women's Day forum
- Open access to social media

### Rewarding Performance

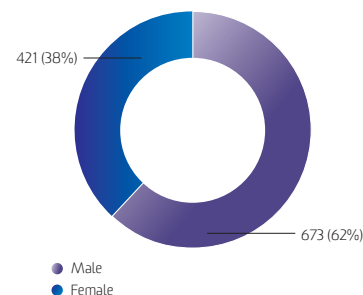
The Bank's reward schemes have been designed to nurture a performance-based culture and ensure a balance between guaranteed and performance-based components. Remuneration is determined based on qualifications, competencies and performance. All our permanent employees undergo annual performance appraisals based on their date

of joined. In 2018, we further refined the performance management framework to move towards value chain based KPIs.

Turnover by Age



Turnover by Gender



### Unique Development Opportunities

Unique opportunities for skill and career development are a key aspect of our employee value proposition. In 2018, 2,589 (or 83%) of our employees underwent training with our spend on training and development increasing by 42% to LKR 102 million as we invested in technical, leadership and customer servicing skills. We also widened the scope of our certification programmes to include more front-line roles; these programmes focus on developing customer servicing skills, personal grooming and product knowledge to facilitate the Bank's deeper penetration to the mass affluent segment. In line with the Bank's digitalisation strategy and given the high proportion of millennial employees on our team we also sought to enhance our online training capabilities.

Streamlining messaging across all channels of communication

Involve corporate management in strengthening leader communication

Drive internal brand identity through communicating key organisational news

Regular branch engagement and support branches in developing their own communication platforms in line with overall strategy

Sharing success stories



## LIFE CYCLE TRAINING

We adopt a life cycle approach to training and 2018 featured the last year of the Bank's first life cycle training program which comprised of structured training interventions for each grade to develop both technical and leadership skills. Focus was placed on refining the life cycle trainings for next year with emphasis on problem solving, analytics and design thinking elements.

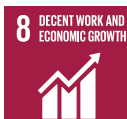
Key training opportunities in 2018 are listed below;

- 247 young managers underwent training through the 'First-time manager' program
- 180 employees successfully completed the certification program for Inner Circle Ambassadors and Private Banking relationship officers so far
- 313 employees obtained training through the Nations Learning Academy
- Approved professional training provided for 27 CA Sri Lanka and CIMA employees
- Internship opportunities for 62 university students

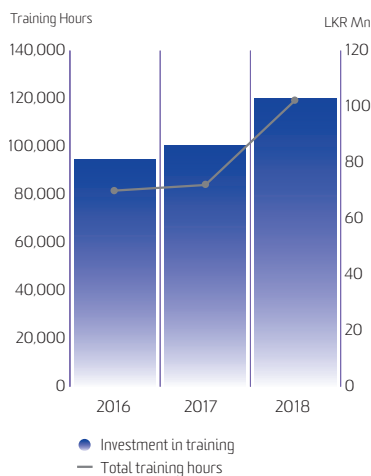
### Average Training Hours

|                            | Male      | Female    |
|----------------------------|-----------|-----------|
| Corporate Managers         | 16        | 3         |
| Senior Managers            | 22        | 25        |
| Managers                   | 30        | 44        |
| Assistant Managers         | 32        | 37        |
| Senior Banking Assistants  | 30        | 36        |
| Banking Assistants         | 35        | 37        |
| Trainee Banking Assistants | 30        | 25        |
| Fixed Term Contractees     | 74        | 45        |
| Minor & Other Staff        | 0         | 11        |
| <b>Total</b>               | <b>40</b> | <b>36</b> |

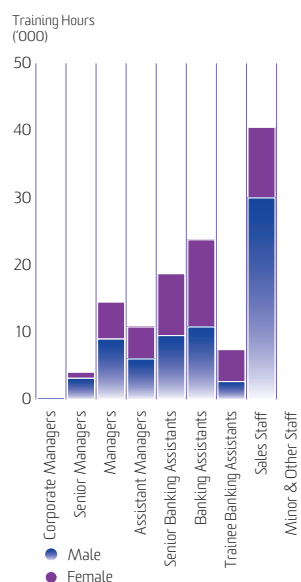
### Relevance to SDGs



### Training Hours & Investment



### Total Training Hours by Gender & Category



High performers are identified and groomed to be the next generation of leaders within the Bank. We maintained a good internal hire ratio with 62% vacancies filled by existing employees in 2018, thereby providing

them with career progression opportunities, attesting to the strength of our internal talent pipeline. The promotion policy has also been revised to minimise subjective judgement and improve transparency.

## HR IN A DIGITAL WORLD

As we strive to build a digital bank, it is vital that we deliver a digital experience to our employees and customers. In 2018, we launched V-Solve an automated HR issue management system which serves as a platform to escalate employee grievances. Digitised engagement mechanisms, such as the Nations Connect App, a cloud-based HRMS application, video conferencing facilities and digital townhalls serve to provide an enhanced employee experience and has proven extremely successful among our millennial workforce. Investment in technology such as Microsoft 365 have also paved way for increased collaboration and team work across the Bank.

## A SAFE WORKPLACE

The most significant safety risk to employees arise from the large volumes of cash handled at delivery point. Our premises have CCTV and are manned by trained security guards with well-established communication systems which can be used to raise alarm in the event of any untoward incident. Special allowances are also provided for certain categories of staff in recognition of the additional risks they are exposed to in specific roles. Other safety measures include periodic fire training, workshops on sexual exploitation and dengue prevention campaigns. During the year, there were no workplace related injuries.



Annual Dinner Dance 2018

# Capital Management Reports



## Digital Capital

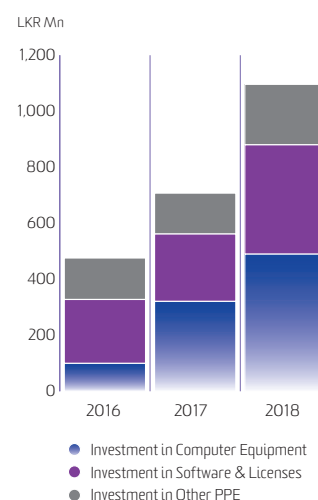
Digital Capital provides a significant competitive advantage to the Bank as we seek to shape the way Sri Lankans bank and also contribute to the development of the fintech industry in the country. This builds on the success of FriMi launched in 2017 which was recognised as one of the Top 30 Digital Banks, support performance through analytics and improve productivity. It is an integral part of our strategy as we seek to transform the way Sri Lankans bank.



Digital Capital comprises monetized elements which include the Bank's investment in hardware and software. Non-monetised elements such as a tech savvy team and a dedicated innovation centre propel our effective use of the monetized elements and provide our competitive advantage. Digital capital is the main focus of investment over the past two years accounting 79% and 80% respectively in 2017 and 2018 and reflected in the Balance Sheet at a net book value of LKR 2,019 mn which amounts to 41% of the PPE.

Digital capital has been identified separately from Manufactured Capital as its relevance to our strategy is greater than the monetary value reflected in the financial statements. It paves the way for transformation of the industry supporting financial inclusion through scalability and cost effective solutions while empowering the customer and making banking more convenient. Accordingly, this report looks at how this key capital is managed to create value to both the Bank and stakeholders and its impact on the economy, society and the environment.

Investment in Digital Capital





## HIGHLIGHTS FOR 2018

## First Bank in Sri Lanka to offer API Banking

Enable businesses to directly link their bank accounts for transactions and information sharing, facilitating innovation in fintech and cost efficiencies and streamlined processes for businesses.

## Providing Future Ready Solutions for Businesses

01

Payments for online purchases on express card payment mode (card on payment)

02

ERP automations and management

03

Credit flow management for corporates

04

Cash flow management automations.

05

Fund transferring among account holders and allows SME to open their market for users who do not use payment cards.

06

White labeling banking services

## Developing the Fintech in Sri Lanka

How simple is this !

Check out our 3 easy steps to get started

**Sign up & Build**

Sign up for a Developer's account and you have access to our full featured library of tools and sample code.

**Experiment**

Explore the code in Sand box before testing with real data validation.

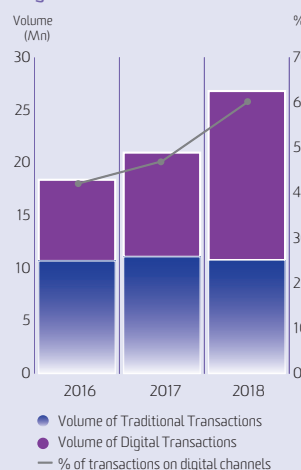
**Launch**

Go live with your integration, Expand, automate and innovate in your market.



Recognition of FriMi among the top 30 digital banks in Asia Pacific by the Asian Banker Magazine

## Digital Transactions



- 60% of banking transactions are digital which is one of the highest in the banking industry
- Digital transaction volumes increased by 62%
- Digital transaction values increased by 140%

# Capital Management Reports

## Digital Capital

The key strategic pillars are interconnected and facilitate the future readiness of the Bank which is our competitive advantage. Our IT capabilities accelerated in the past 5 years enhancing our agility and our ability to deliver innovative solutions to internal and external stakeholders.

### IT GOVERNANCE

IT is a matter reserved for the attention of the Board and the Supervisory Board assists the Board in discharge of its duties. Time devoted to the IT agenda of the Bank has grown in tandem with its strategic importance and investments to ensure that we optimise the value derived and created from the projects initiated by the Bank. The COO and the Chief Information Officer have executive responsibility for implementation of IT strategy approved by the Board. The IT Steering Committee assists the CEO in oversight of the implementation of the Bank's digital strategy and reviews the adequacy of information and cyber risk management mechanisms to safeguard the information assets of the Bank.

Currently IT security measures are defined based on following areas ;

- Security Governance
- ISO 27001:2013, Policies and Procedures, Security Governance, Regulatory Compliances
- Cyber Drills
- Security Testing and Assurance – VAPT, Security reviews, Threat hunting
- Access Controls , Firewalls
- Event correlation, Log review, Alerts, Monitoring
- Malware Protection
- Web Security
- Email Protections
- Authentication and Cryptographic controls
- CERT Support

Our innovation centre, Kaffeine Lab, actively engages and collaborate with other ecosystems such as non-financial sector industries, academics, start-ups and customers to solve real customer problems.



Our innovation centre, Kaffeine Lab, actively engages and collaborates with other ecosystems such as non-financial sector industries, academics, start-ups and customers to solve real customer problems. Our aim is to enhance customer experience through disruptive digital transformation, radically changing the operating and business models in the financial services industry and to foster a strong innovative and digital culture within Nations Trust by working closely with all internal stakeholders to prototype, pilot and implement solutions which transforms the way the bank works.

### OUTLOOK

We will continue to invest in growing our digital capital in 2019 while optimizing returns from our past investments. Customer migration to digital channels will continue as we roll out more exciting digital products and services to enhance customer experiences. Operationalising Open API banking will be a key priority as we seek to leverage our competitive edge to bring holistic solutions to businesses supporting supply chain management. Branch digitalisation and implementing further applications for Robotic Process Automation will enhance our cost efficiencies.



# Manufactured Capital

Our island-wide branch network is the key contact point for customer engagement and plays a vital role in driving asset and liability growth, facilitating the customer experience and nurturing brand recognition. Consumer, SME, Leasing and Mid-Corporate product offerings are promoted to customers through the branch network facilitating both deposit mobilization and credit growth.

## OUR CAPITAL INPUTS

### Manufactured Capital

Network of 94 branches

Property, plant and equipment  
LKR 3.7 Bn

## HOW WE NURTURED CAPITAL

- New branch in Dambulla
- Investment in PPE: LKR 706 Mn
- Consolidation and optimisation of network to increase penetration
- Driving improvements in customer experience in branches
- Implementation of a branch KPI and ranking framework

## MEASURING SUCCESS

Improved cross - sell ratio

7.2% growth in CASA deposit base

21% loan growth in branch network

Deeper relationships with existing customers

## PRIORITIES IN 2018

In recent years, the Bank's overall channel strategy has been driven towards strengthening its digital channels; on the branch network focus has been on consolidating and optimising the reach. The strong expansion of our network between 2012-2014 has afforded the Bank a strong platform to pursue regional growth opportunities and we pursued a strategy aimed towards strengthening the CASA base, nurturing deeper customer relationships and enhancing the overall customer experience. We adopt a three-tiered branch structure through which branches have been classified to three grades based on growth opportunities within the geography and this has facilitated more effective deployment of resources in capturing market share. Branch performance is assessed through a robust monitoring system which comprises of KPI dashboards and business

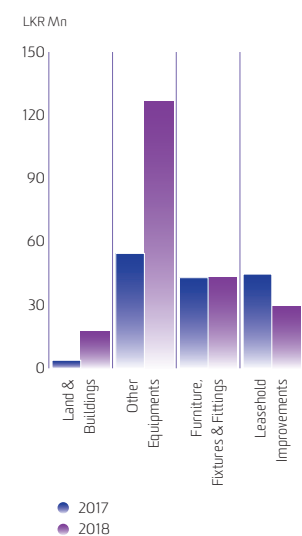
intelligence tools. This has facilitated better performance visibility across the network.

Over the years the network has also transformed in selling all products to its customers which has resulted in cross sold products of cards, personal loans and leasing contributing to 16% of total branch revenue.

In line with the Bank's overall thrust towards enhancing customer experience we also sought to implement more robust systems for monitoring customer experience such as feedback devices and dedicated customer service officers.

(In reflecting the Bank's strategic emphasis on digitalisation, this year we have dedicated a separate chapter to the Bank's digital capital.)

## Value Addition to Manufactured Capital



## Capital Management Reports



# Intellectual Capital

The Bank's organisational values, collective tacit knowledge and robust systems play a key role in aligning our team, culture, technology and operations to our strategic aspirations.

### OUR CAPITAL INPUTS

#### Intellectual Capital

#### Organisational Values

#### Tacit knowledge & experience

#### Nations Trust Brand

#### Systems and processes

### HOW WE NURTURED CAPITAL

- Process improvements by leveraging on digital capabilities
- Transforming the customer/employee experience
- Ongoing investment in product and process innovation

### MEASURING SUCCESS

Country's 30th most valuable brand with a brand value of LKR 4.05 Bn

Among Sri Lanka's most respected entities in 2018-LMD

Reduced turnaround time of key processes

### ORGANISATIONAL VALUES

The Bank's organisations values are Agile, Proactive, Excellence, Winning Together and Trust. These are the operating philosophies and principles that guide our internal conduct, define our stakeholder relationships and shape our organisational culture. The organisational values are reinforced through employee and leadership engagement, a collaborative culture and strong internal communications.

### TACIT KNOWLEDGE

Our collective knowledge is shared among the Nations Trust team through innovative engagement platforms and collaborative working models which ensure that tacit knowledge is retained and passed on through the years. Governance structures and practices also support the nurturing of intellectual capital through safeguarding the Bank's reputation and providing guidance on employee conduct. This knowledge is part of

the Bank's DNA and has played a key role in shaping our unique, future-ready customer propositions.

### SYSTEMS AND PROCESSES

Our systems and processes play a key role in operational stability, managing risk and customer and employee experiences. The Bank's focus on digitisation has led to substantial process improvements through use of technology such as robotic process automation, workflows and collaboration tools. Performance management has been strengthened through advanced analytics, performance dashboards and access to real time information. Meanwhile innovative digital propositions such as FriMi have uniquely positioned the Bank for customer acquisition and retention, sharpening its edge in an intensely competitive market.

### OUR BRAND

The Nations Trust brand was valued at LKR 4.05 billion by Brands Lanka, ranking as the country's 30th most valuable brand. The Bank was also recognised as one of Sri Lanka's most respected entities of 2018 by LMD while notching up 6 positions in the Business Today top 30 rankings.

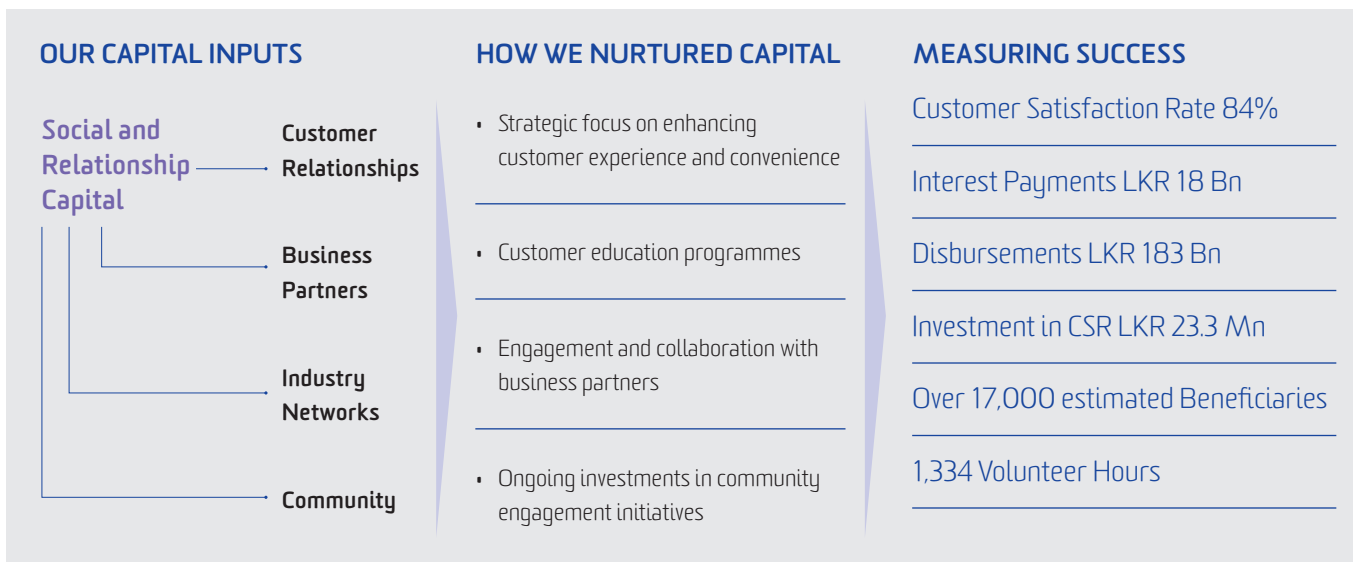
### INNOVATIVE CAPABILITIES

The Bank has embraced the digital frontier, focusing on transforming the customer experience, simplifying processes and driving improved decision making through product and process innovation. This vision has enabled the creation of a future-ready bank, offering a myriad of opportunities for customer acquisition and collaborations across value chains.



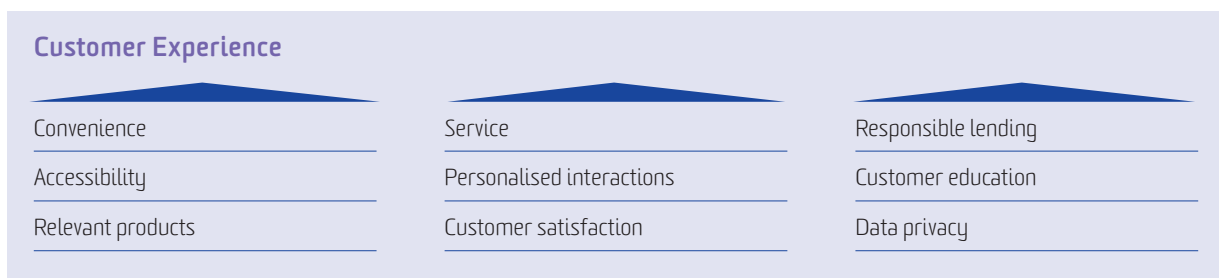
# Social & Relationship Capital

Collaborative relationships with customers, business partners, communities and other stakeholders underpin our social license to operate. The Bank nurtures these relationships through unique value propositions, sound governance practices and integration of identified needs into corporate strategy.



## CUSTOMER RELATIONSHIPS

Acquiring and retaining customers through offering an unmatched customer experience is central to our strategy. We create value to our customers through relevant products and excellent customer service which are delivered across convenient and accessible platforms.



### Convenience

The launch of FriMi in 2017 redefined customer convenience by enabling the customer to perform a range of banking transactions (including opening an account)

and payments through the touch of a button. Our FriMi subscriber base grew by over 400% in 2018. We also continued to invest in our multi-channel strategy by strengthening digital platforms and self-service channels. In 2018, the Bank's digital transactions

surpassed its traditional transactions in both volume and value, accounting for 60% of total transactions. In addition to its digital platforms, the Bank operates 94 branches and accounts for a network of 127 ATMs and 45 CRMs.



# Capital Management Reports

## Social & Relationship Capital

### Service

We utilise Business Intelligence tools to observe customer interactions at branches and combine intelligence across channels to identify service drops and design personalised customer service. Satisfaction is measured based on feedback received from the Call Centre and Centralised Customer Service Unit while customer feedback devices have been installed in all the branches. A Customer Service Experience Champion has also been appointed in each branch to obtain customer feedback and share best practices. Monthly grievance statistics are reported to the Customer Service Steering Committee which holds responsibility for ensuring customer complaints are addressed and resolved. Customer complaints have been on a declining trend in 2018 while the overall satisfaction score for the year amounted to 84%.

### Responsible Lending

The Bank's Customer Charter clearly sets out its' responsibilities in communicating product information, safeguarding customer interests and servicing vulnerable segments. Relevant information such as interest rates on deposits and loans, exchange rates, product features, terms and conditions are clearly communicated to customers in all three languages. Our marketing communications are designed to ensure compliance to relevant regulatory requirements, ethics and consistency to branding guidelines. Customer

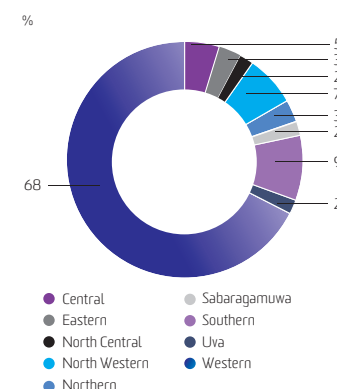
security and data privacy is a key priority for a financial institution and we understand that our increased thrust towards digital platforms could present higher risks for data breaches. We have invested substantial resources in strengthening the security of our IT infrastructure and ensuring that these platforms are secure. The Bank has also obtained ISO27001: Information Security Management System.

### Customer Education

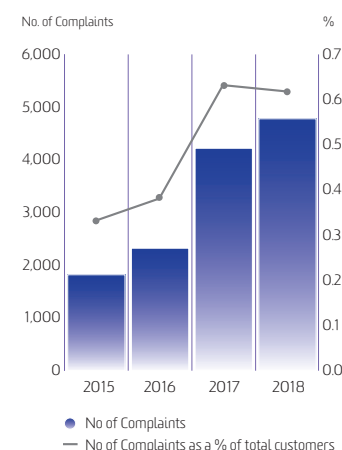
Despite experiencing challenging conditions during the year, we continued to invest in customer capacity building through our ongoing seminar series targeting SME customers. In 2018 we conducted 9 such engagement activities across the island with the participation of over 1,000 customers. Key areas of focus included developing business skills, entrepreneurship and self-development. In 2018 we also conducted a series of robotics and IoT training sessions for account holders' children as part of its digital literacy initiative.

| District     | No. of seminars | Participants |
|--------------|-----------------|--------------|
| Colombo      | 4               | 415          |
| Galle        | 1               | 90           |
| Gampaha      | 1               | 90           |
| Kalutara     | 1               | 80           |
| Kurunegala   | 1               | 205          |
| Rathnapura   | 1               | 120          |
| <b>Total</b> | <b>9</b>        | <b>1,000</b> |

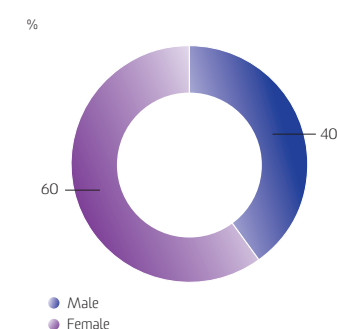
### Customer Brakedown by Region



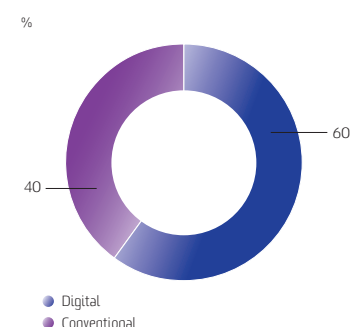
### Customer Satisfaction



### Micro Finance Lending



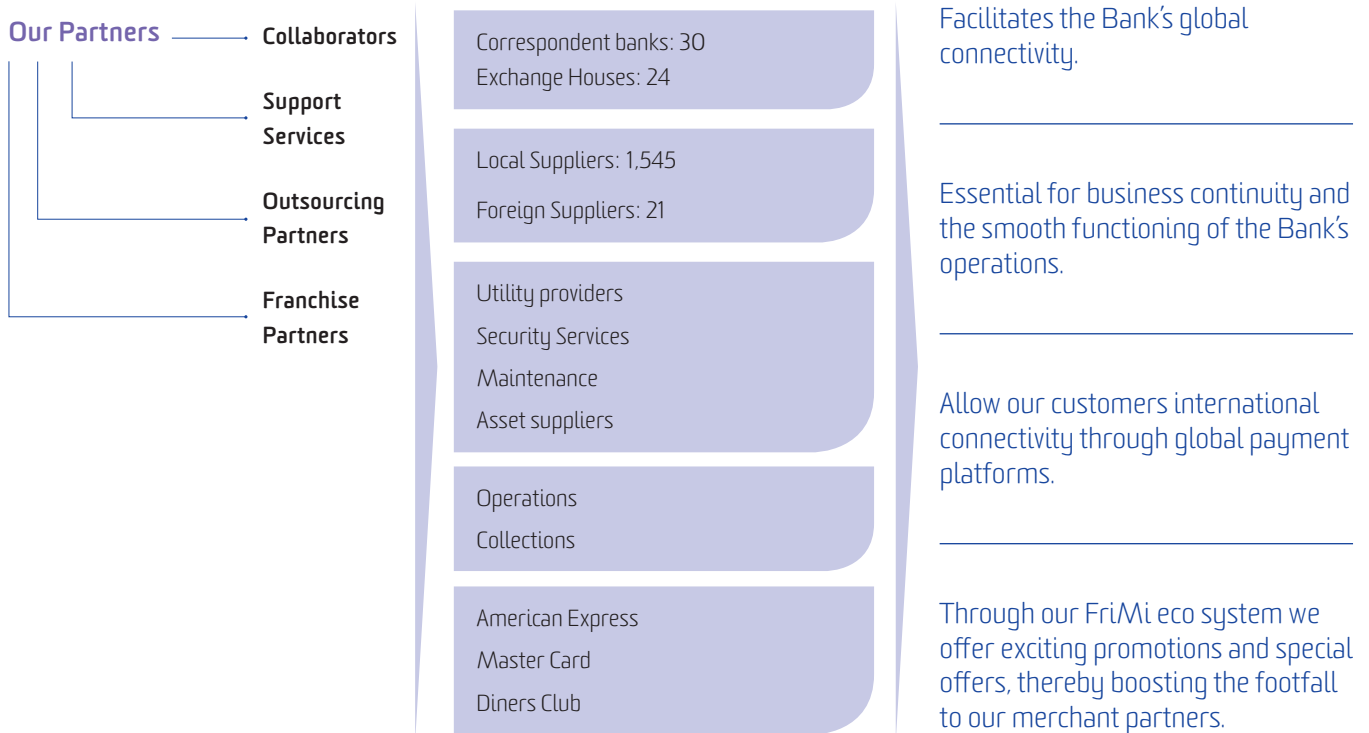
### % of Transactions on Digital Channels



|   |     |
|---|-----|
| Incidents of non-compliance concerning product and service labelling                        | Nil |
| Incidents of non-compliance concerning marketing communications                             | Nil |
| Substantiated complaints regarding breaches of customer privacy and losses of customer data | Nil |
| Incidents of non-compliance with social and economic laws                                   | Nil |

## BUSINESS PARTNERS

The Bank's value creation is facilitated by numerous business partners who are a vital part of our supply chain. We create value for these partners through active engagement, transparent procedures and timely payments. The Bank's ecosystem of business partners is graphically shown below.



The Bank is an active member in industry forums, engaging with stakeholders and contributing ideas to resolve industry-related issues. The Bank and/or its employees holds membership in the Sri Lanka Banker's Association, Institute of Bankers of Sri Lanka, Ceylon Chamber of Commerce and Sustainable Banking Initiative of Sri Lanka among others.

## COMMUNITY ENGAGEMENT

### Approach and Governance

The Bank's strategic approach towards community engagement is aligned to the Sustainable Development Goals with focus on Goal 4 (Quality education) and Goals 13, 14 & 15 which address environmental conservation. The policy set by the Board of Directors also directs that 1% of the Bank's previous year's profit after tax should be utilised for CSR activities. The Bank's CSR Committee guides and reviews the selection, effective implementation and monitoring of CSR initiatives undertaken by the bank.

### Progress in 2018

#### Empowering the Next Generation

##### Socio-emotional skill development: University of Colombo

The bank conducts workshops on socio-emotional skills for undergraduates. The program includes a mentoring component, with members of senior management team guiding undergraduates for a period of 3 months. Skills developed includes emotional intelligence, interpersonal communication and personal resilience.

In September 2018, an annual review of the program was conducted and partners and mentors who contributed to the success of the initiative were felicitated. Vice Chancellor of the University of Colombo has recognized

the value addition from the program with 6 workshops conducted to date empowering 148 undergraduates to transition from university to place of work. Bank is extending this program to offer internship opportunities for undergraduates.

##### Socio-emotional skill development for school students

Conducted as an ongoing series of seminars, this program aims to provide guidance for ordinary and advance level students on aspects of emotional health, social interactions and leading a balanced life while engaging effectively in studies. During the year, programs were held in schools in Elpitiya, Ambalangoda, Kegalle, Weligama, Tangalle, and Gampola with each program having over 200 participants.

## Capital Management Reports

### Social & Relationship Capital

#### Digital literacy programmes

In recognizing the need to bridge the digital divide to empower children and youth and in line with bank's digital transformation strategy, bank invested in digital infrastructure including on upgrade of two school IT labs in Akuressa Godapitiya Kanitu Viduhala and at Vidyaloka College, Galle. These infrastructure upgrades are coupled with extensive training in visual programming, IoT and Robotics (4-day training, covering over 400 students) conducted by Shilpa Sayura Foundation. A community program was also conducted for 35 children and youth from undeserved community in Slave Island in partnership with "We Build Colombo Together" initiative and Shilpa Sayura Foundation and the bank intends to set up community level IT labs in 2019 with support of CMC in furtherance of this program.

Bank had also supported SLIIT Student Interactive Society to upgrade IT facilities at Konthahela Vidyalaya, Bandarawela and Amuhenkandha Sri Wimalasara Maha Vidyalaya, Ratnapura.

#### Entrepreneurial competency and Incubation support for entrepreneurs

The Bank in partnership with the Embassy of Sri Lanka in South Korea conducted workshops and e-learning sessions in 5 Korean cities for Sri Lankan expats. The workshops were aimed towards developing entrepreneurial thinking and start-up support, to ensure that expats invested their savings wisely upon returning to Sri Lanka.

#### Infrastructure support in under privileged schools

Conducted as an ongoing program, the Bank supports the infrastructure development in 4 selected schools (Galgamuwa Nithalawa Kanishta Vidyalaya, Ratnapura Amunuthenna Kanishta Vidyalaya, Mulativu Mullivaikkal East GTM School and Kebethigollawa Wahalkada D-5 Viduhala). This includes provision of stationery and consumables, lab equipment and books. The Bank has funded infrastructure development of Welikanda Kurulubedda School during the latter part of the year.



Socio-emotional skill development: University of Colombo



Digital literacy programmes



Entrepreneurial competency and Incubation support for entrepreneurs

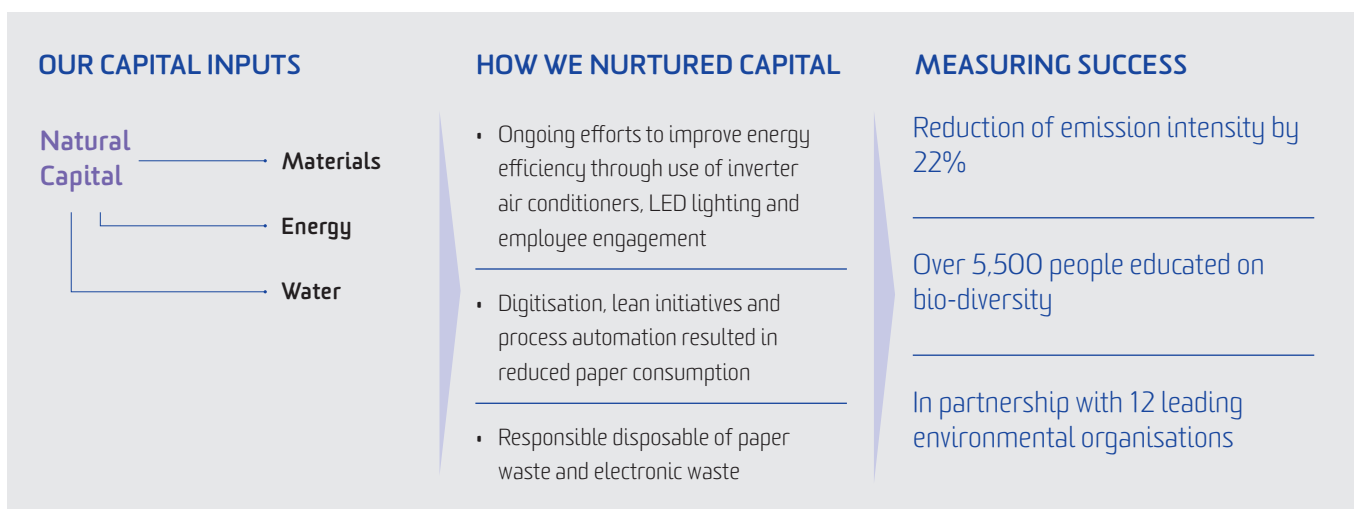


Infrastructure support in underprivileged schools



# Natural Capital

The Bank's commitment to environmental stewardship is reflected in its multi-pronged approach to reduce the environmental footprint of its operations, preserve biodiversity through strategic philanthropy and collaborate with stakeholders in raising awareness on critical environmental issues.



## ENVIRONMENTAL MANAGEMENT FRAMEWORK

The Bank's environmental impacts arise directly through our banking operations and indirectly via our lending and procurement practices. Management of our direct environmental impacts is governed by comprehensive policy frameworks, operating manuals and external certifications. During the year there were no instances of non-compliance to any environmental laws & regulations.



### Energy



#### Management Approach

Bank intends to reduce energy demand by raising awareness among employees and implementing Energy Efficiency Measures, whilst setting ambition to source all energy from renewable sources by 2050.



### Materials



Reducing paper consumption through digitisation, lean initiatives, simplifying and automating processes and encouraging customers to switch to e-statements.



### Waste



Employees are encouraged to re-use and recycle paper and adopt paperless platforms for communication. Electronic waste is disposed through approved 3rd party recyclers. Bank is attempting to extend the useful life of obsolete computers through managed placements of these assets in children's development centres and community spaces for learning purposes.



### Emissions



Comprehensive carbon management program is in place to measure the Bank's carbon footprint in accordance with the GHG Protocol of the World Resources Institute (WRI). Hub operations certified as Carbon Conscious for the 4th consecutive year.



# Capital Management Reports

## Natural Capital

### IMPLICATIONS OF CLIMATE CHANGE

Banks are exposed to climate-related risks such as droughts, floods and an overall warmer climate through lending to vulnerable sectors such as agriculture and fisheries. Nations Trust Bank commenced an initiative to educate its branch management team on climate action, climate risks and climate finance with 23 of its Branch Managers undergoing a detailed briefing earlier in the year, drawing inspiration from the Climate Reality Project. We have engaged with partners such as Carbon Consulting Company and University of Colombo and hope to quantify the impact of such climate risks on our business in the future.

#### Carbon footprint

GHG emissions data for Nations Trust Bank's Union Place, Nawam & Kotahena Offices, and 10 selected Branches for the period 1st January to 31st December 2018

#### Carbon dioxide equivalent emissions (tonnes of CO<sub>2</sub>e)

|  | 3 Main Offices |          |          |          | 10<br>Selected<br>Branches<br>2018 |
|--|----------------|----------|----------|----------|------------------------------------|
|  | 2018           | 2017     | 2016     | 2015     |                                    |
| Scope 1                                  | 183.0          | 141.7    | 313.5    | 100.3    | 4.6                                |
| Scope 2                                  | 1,780.6        | 1,856.3  | 1,930.8  | 1,856.0  | 362.8                              |
| Scope 3                                  | 1,127.4        | 1,361.0  | 1,472.9  | 1,327.2  |                                    |
| Total                                    | 3,090.96       | 3,358.99 | 3,717.25 | 3,283.51 | 367.39                             |
| % change previous year                   | -7.98%         | -9.64%   | 13.21%   |          |                                    |
| % change base year (2016)                | -16.85%        | -9.64%   |          |          |                                    |
| Number of Employees                      | 1,442          | 1,398    | 1,351    | 1,303    | 497                                |
| % change previous year                   | 3.15%          | 3.48%    | 3.68%    |          |                                    |
| % change base year (2016)                | 6.74%          | 3.48%    |          |          |                                    |
| Tonnes of CO <sub>2</sub> e per employee | 2.14           | 2.40     | 2.75     | 2.52     | 0.74                               |
| % change previous year                   | -10.79%        | -12.68%  | 9.19%    |          |                                    |
| % change base year (2016)                | -22.10%        | -12.68%  |          |          |                                    |



Restoring one hectare of degraded forest close to Kanneliya Reserve



Animal rescue programme at Hiyare

#### Explanation

Emissions from Nations Trust Bank main offices (Union Place, Nawam Mawatha & Kotahena) decreased by approximately 8% between 2017 and 2018. This mainly comes from a reduction in Scope 3 emissions due to Food Waste being sent to for composting rather than landfill along with reductions in emissions from Hired Vehicles and Employee Commuting. Reductions were also observed in Scope 2 Electricity emissions at Kotahena (due in part to a strategy to minimize electricity consumption during employee overtime hours) and Nawam Mawatha (due to same strategy as well as the installation of occupancy sensors and the continued use of solar generated electricity). It should be noted that electricity consumption at Union Place has reduced in November and December compared to the previous months of 2018, potentially due to the installation of new reconditioned A/C package units in November 2018. Emissions from Scope 1 has increased mainly due to higher refrigerant gas leaks at Nawam Mawatha (due to replacement

of old, inefficient air-conditioners) as well as increment in Leased Vehicle usage.

In addition to the hub operations, 10 site locations (Colpetty Home Loan Center, Frimi & Innovation Lab, Private Banking Center and Cinnamon Gardens Branch in Colombo 07, City Office in Fort and branch locations in Mt. Lavinia, Kiribathgoda, Thalawathugoda, Ward Place, Havelock & Piliyandala) were also brought under Carbon Footprint calculation boundary). Together, these 13 site locations house 1,939 employees, accounting to 62% of the cadre. Emissions per Full Time Employee of the 3 main offices have decreased by nearly 11% compared to the previous year, even though there was an increase in the number of employees by over 3%.

#### Notes

We have reported on all of the Scope 1 & 2 emission sources for which we have operational control for our 3 main offices at Union Place, Nawam and Kotahena as well as the 10 selected

branches. We have also reported selected Scope 3 emissions including Employee Commuting, Hired Vehicles, Waste, Local third party deliveries and Air Travel for the 3 main offices. Emissions from other locations / branches and activities have been excluded for this assessment. Base year emissions were initially set as 2015 for the 3 main offices - which is the first year of reporting. However, since more robust data was collected in 2016, the base year has now been adjusted to 2016. The base year for the 10 branches has been set as 2018. It should be noted that the calculations have been completed without taking into account off-site ATM electricity usage under the responsibility of the 3 individual offices and 10 selected branches.

We have followed the GHG Protocol Corporate Accounting and Reporting Standard (revised edition) and the CarbonConscious® Guideline to calculate emissions. Bank's main three hub operations have been awarded the CarbonConscious® certification by Sustainable Future Group.



## LENDING OPERATIONS

When disbursing loans, the Bank adopts the precautionary principle to the extent that all corporate and SME facilities above LKR 25.0 million are screened for environmental criteria such as compliance to CEA requirements and potential environmental impacts.

## INITIATIVES AND RESULTS IN 2018

### Direct Impact through our operations

#### Energy

The Bank's total electricity consumption for the year increased by 10% to 8,246,494 Kwh mainly due to increased operational activity; electricity intensity (per LKR million in operating income) however declined by 11% (50 kwh). Key energy initiatives during the year were,

- (1) Ongoing replacement of CFL bulbs with LED lighting. The Bank occupied sections of the Millennium House building is powered completely by LED lighting solutions.
- (2) Installation of efficient air conditioners
- (3) Installation of capacitor banks at Millennium House building in April 2018
- (4) Installation of a new generator for backup power at Millennium House building
- (5) Increased use of hybrid vehicles in the fleet

#### Case Study

Nations Trust Bank is committed to helping Sri Lanka move towards a more sustainable future, including encouraging the installation of clean, renewable energy in homes and businesses. To demonstrate our own commitment, we installed a 40KW solar panel array at our Nawam Office, Colombo in early 2017, and continue to consume solar generated electricity instead of grid electricity when possible. During the 2018 assessment period, this system generated approximately 55,151 kWh of renewable electricity avoiding around 27 tonnes of carbon dioxide equivalent emissions.

The Bank also intends to introduce a concessionary loan scheme for property owners of branch buildings to invest in solar power generation, with a commitment to buy back all units generated through solar.

#### Paper

In an attempt to improve bank's disclosures on paper consumption, bank conducted an exercise to capture weights of paper items, in addition to weight of A4s which it had disclosed in earlier years. Therefore, with this reclassification, weight of items such as paper envelopes and marketing material with some paper composition were identified. Total weight of A4s consumed has decreased from 37.44 MT in 2017 to 34.39 MT in 2018, which is a decline of 8% year on year. This reduction is due to process efficiency measures promoted through lean initiatives and as a result of digitalisation efforts taken within the bank. However, with the other paper based consumables also being captured in reporting this year, bank's total paper consumption for the year is 69.86 MT. The results of this detailed study will enable the bank to consider alternate options for marketing and other customer communications.

#### Waste

The Bank recycled 10,047 kgs of paper in 2018 through an approved third-party recycler, which is approximately 14.5% of the total paper usage. We also engage in the responsible disposal of electrical and electronic waste and details of e-waste sent for recycling is listed alongside.

In April 2018 the Bank conducted a LeanTechHack, engaging employees to present innovative ideas in using IT based solutions to reduce waste.

## ENVIRONMENTAL EDUCATION

We are committed to raising awareness on environmental issues and support the propagation of conservation related information through our long-standing partnerships with the Wildlife Conservation Society of Galle (WCS-G), Wildlife and Nature Protection Society (WNPS), Biodiversity Sri Lanka platform of the Ceylon Chamber of Commerce, University of Colombo Center for Environmental Initiatives, BEEZ Society and Young Zoologists' Association.

In December 2018, we brought together our partner network that now includes Environmental Foundation Limited, Biofin Initiative, IUCN, Eco-V and Rainforest Rescue International to formulate joint plans of action for 2019 and beyond that include pooling of spatial data on biodiversity, conducting

awareness sessions island wide, strengthening policy and legal framework, fostering research and promoting market based mechanisms for biodiversity conservation and leveraging technology and media for better impact.

### Conservation through education



- 'Life' forest restoration project - Support for the restoration of 1 ha of degraded land over 5 years
- Sponsoring workshops on human-wildlife conflict to relevant stakeholders in partnership with WNPS
- Conducted street drama program in Badulla to raise awareness on water management and sustainable lifestyles with support from Uwa Wellassa University Performing Arts students.
- Supported the 'No-Kunu' initiative with 15 bank volunteers engaging on a door-to-door campaign covering 1,000 houses to encourage waste segregation by providing bins and reusable polysack bags

### Conservation of Hiyare sanctuary

The Bank's partnership with the Wildlife Conservation Society of Galle spans over a decade and we have supported the upkeep of the Hiyare Sanctuary through environmental education programmes, funding animal rescue, breeding programmes and research initiatives. Progress made in 2018 is illustrated below;

### Other Environmental Education Initiatives

The Bank continues to sponsor a monthly lecture series of the Wildlife and Nature Protection Society and during the year 11 lectures were conducted with over 3,500 participants. We have also sponsored the annual publications of the society. Loris and Warana/Waranam and this year partnered with the Young Zoologists Association in sponsoring their publication.

# Independent Assurance 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 Assurance Report to Nations Trust Bank PLC on the Sustainability Reporting Criteria Presented in the Integrated Annual Report - 2018

### INTRODUCTION AND SCOPE OF THE ENGAGEMENT

The management of Nations Trust 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").

- Limited assurance on other information presented in the Report, prepared in accordance with the requirements of the Global Reporting Initiative GRI Standards: 'In accordance' – Core guidelines.

### BASIS OF OUR WORK AND LEVEL OF ASSURANCE

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

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

Our engagement provides limited assurance as well as reasonable assurance. A limited assurance engagement is substantially less in scope than a reasonable assurance engagement conducted in accordance with SLSAE-3000 and consequently does not enable to obtain assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement. Accordingly, we do not express an opinion providing reasonable assurance.

### MANAGEMENT OF THE COMPANY'S RESPONSIBILITY FOR THE REPORT

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

### ERNST & YOUNG'S RESPONSIBILITY

Our responsibility is to express a conclusion as to whether we have become aware of any matter that causes us to believe that the Report is not prepared in accordance with the requirements of the Global Reporting Initiative, GRI Standards: 'In accordance' - Core guidelines. This report is made solely to the Company in accordance with our engagement letter dated 07 January 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;

- 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

27th 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

A member firm of Ernst & Young Global Limited

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# Visionary Leadership

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Visionary leadership drives our success and that is how we unleash the creativity required for outstanding products, the expertise to deliver unmatched services and the integrity that ensures good governance.



# Corporate Governance

Strong and effective governance underpins our performance as it defines our conduct and how we do business. Key elements of our governance framework set out alongside form the basis for this concise report on how we govern the affairs of the Bank.

## GOVERNANCE STRUCTURE

Shareholders appoint the Board of Directors who are responsible for the affairs of the Bank including the appointment of the Chief Executive Officer. The Board of Directors have appointed sub committees to facilitate oversight of specific areas to assist in discharge of its duties, taking into account regulatory requirements and best practice. The Board and Board Committee Terms of Reference provide guidance on related roles and responsibilities, facilitating accountability and reporting. Roles and responsibilities of the Board Committees are summarised in Annexure I while the committee reports on pages 83 to 92 provide insights in to their activities. Executive committees complement the organisation structure facilitating joint decision making, co-ordination and collaboration.

## POLICY FRAMEWORK

The Bank's policy framework ensures compliance with the following key regulatory requirements and voluntarily adopted standards and codes. Compliance is facilitated through internal documents which build on the content in external documents and articulate our expectations.

## Key Elements of Governance Framework

### Governance Structure

- Facilitates a balance of power, accountability, oversight and specialisation

### Policy Framework

- Defines our values and expectations in the conduct of business

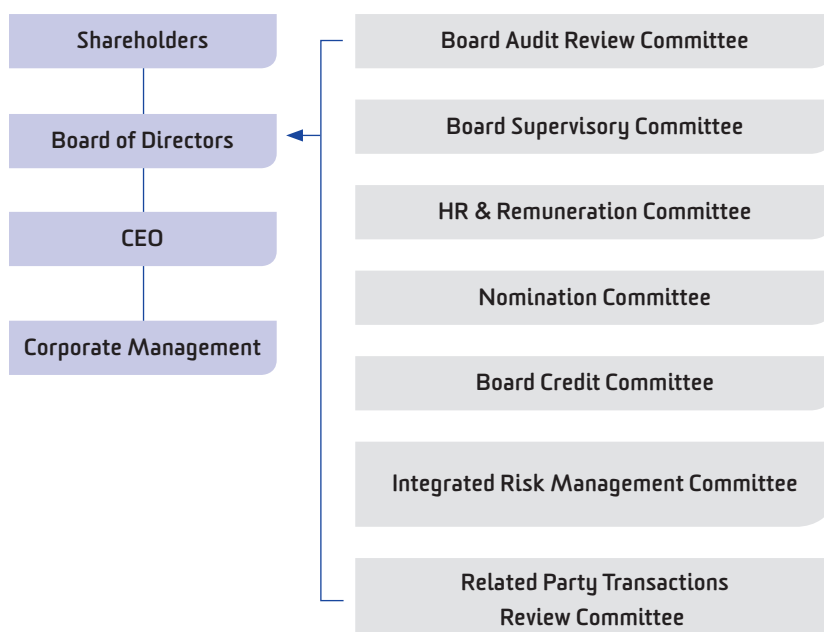
### Culture & Values

- Shapes our behaviours and how we do business, starting with the Tone at the Top

### People, Processes & Systems

- Implementation of strategy within a sound governance framework is dependent on these key elements

## Governance Structure



## Key External instruments

## Internal Documents

## Regulatory

- Companies Act No. 7 of 2007
- Banking Act No.30 of 1988 and amendments thereto
- All directions for licensed commercial banks issued by the Central Bank of Sri Lanka
- Continuing listing requirements of the Colombo Stock Exchange

- Articles of Association
- Board and Sub-Committees Terms of Reference
- Code of Ethics
- Code of Conduct
- Board approved policy framework

## Voluntary

- Integrated Reporting Framework issued by the International Integrated Reporting Council (IIRC)
- GRI Sustainability Reporting Standards issued by Global Reporting Initiative

Annexure II on page 227 provides insights into the Bank's compliance with the Direction No.11 of 2007 on Corporate Governance issued by the Central Bank.

## CULTURE &amp; VALUES

Our organisational culture shapes beliefs and the conduct of our team and we are conscious of the need to ensure that it is aligned to our vision and values. The Board sets the tone by driving performance while ensuring regulatory compliance and balancing stakeholder needs to deliver value to shareholders. Codes of Ethics and Conduct articulate expectations and set out processes for dealing with perceived deviations supporting the evolution of our culture. These are reinforced regularly at meetings with Corporate Management who reinforce it with their teams in turn.

## PEOPLE, PROCESSES AND SYSTEMS

Sound governance requires people to adhere to processes while questioning them and improving them through agreed upon procedures. Systems are necessary for the effective functioning of the numerous processes, supporting people with effective and efficient tools that facilitate effective discharge of their duties. They are inextricably interlinked and the Board governs by ensuring that the composition of the Board and Key Management Personnel are fit for their roles and by ensuring that processes are in place for effective functioning of the Bank, adequately supported by systems and other resources. Key processes in place to facilitate governance are given in Annexure II reflecting compliance with regulatory requirements.







## 2018 BOARD HIGHLIGHTS

- Raised LKR 3.2 Bn through a rights issue of 40,105,614 ordinary convertible non-voting shares
- Conversion of 2,065,650 convertible non-voting shares to ordinary shares
- Issued a scrip dividend of LKR 2.10 per ordinary share amounting to LKR 568 mn
- Issue of 35,000,000 Basel III compliant, Tier II, listed, rated, unsecured, subordinated, redeemable debentures amounting to LKR 3.5 bn
- Appointment of Mr. Gihan Cooray as Chairman of the Board
- Appointment of Mr. Sumit Maheshwari, Ms. Sherin Cader and Mr. Arjun Fernando as Non-Executive Directors and Mr. Savanth Sebastian and Mr. Chanaka Wickramasuriya as Independent Non-Executive Directors
- Resignation of Dr. Kemal de Soysa, Mr. Harsha Raghavan, Mr. Kumar Jayasuriya and retirement of Ms. Shalini Panditaratne and Mr. Krishan Balendra



# Corporate Governance

## BOARD COMPOSITION

| Key External instruments                   |   | Gender Diversity   | Tenure on Board |    |
|--|---|--|-----------------|----|
| Chairman<br>(Non-Executive)                |  | <br>10/13 | 5 years         | 04 |
| Independent<br>Non-Executive Directors     |  |  | 3 – 5 Years     | 02 |
| Non-Independent<br>Non-Executive Directors |  | <br>3/13  | 1-3 Years       | 02 |
| Executive Director                         |  |  | < 1 year        | 05 |

Directors undertake training in their personal capacity and also attend forums organised by the Central Bank of Sri Lanka and other institutions to update their knowledge. Auditors and other experts make presentations from time to time on relevant topics to enhance overall awareness on significant issues.

## BOARD AND BOARD SUB-COMMITTEE MEETINGS

| Director                                   | Board | Audit Review<br>Committee | Board<br>Supervisory<br>Committee | HR and<br>Remuneration<br>Committee | Credit<br>Committee | Integrated<br>Risk<br>Management<br>Committee | Nomination<br>Committee | Related<br>Party<br>Transactions<br>Review<br>Committee |
|--|-------|---------------------------|-----------------------------------|-------------------------------------|---------------------|---|-------------------------|---|
| Mr. Gihan Cooray (Chairman)                | 12/13 |                           | 11/12                             | 00/00                               | 01/01               | 06/06   | 04/04                   |   |
| Mr. Murtaza Jafferjee<br>(Senior Director) | 12/13 |                           | 11/13                             | 00/00                               |                     |   | 05/05                   | 04/04   |
| Mr. Prasanna De Silva                      | 11/13 |                           | 11/13                             |                                     | 12/12               |   | 01/01                   |   |
| Ms. Renuka Fernando                        | 13/13 |                           |                                   |                                     |                     | 06/06   |                         | 04/04   |
| Mr. Suran Wijesinghe                       | 13/13 | 15/16                     | 13/13                             | 01/01                               |                     | 05/06   |                         |   |
| Mr. Conrad D'Souza                         | 12/13 |                           |                                   |                                     |                     |   |                         |   |
| Ms. Rachini Rajapaksa                      | 12/13 | 15/16                     |                                   |                                     |                     | 03/04   |                         |   |
| Mr. Russell De Mel                         | 12/13 |                           |                                   |                                     | 11/12               |   |                         | 03/03   |
| Mr. Sumit Maheshwari                       | 03/03 |                           |                                   |                                     |                     |   |                         |   |
| Mr. Savanth Sebastian                      | 02/02 | 00/00                     | 00/00                             |                                     |                     |   |                         |   |
| Ms. Sherin Cader                           | 00/00 | 00/00                     | 00/00                             |                                     |                     | 00/00   |                         |   |
| Mr. Chanaka Wickramasuriya                 | 00/00 |                           |                                   |                                     | 00/00               |   |                         |   |
| Mr. Krishan Balendra                       | 12/12 |                           |                                   | 01/01                               | 11/11               |   | 05/05                   |   |
| Dr. Kemal de Soysa                         | 03/03 |                           |                                   | 01/01                               |                     | 02/02   | 01/01                   | 01/01   |
| Ms. Shalini Panditaratne                   | 11/13 | 15/16                     |                                   |                                     |                     |   |                         |   |
| Mr. Kumar Jayasuriya                       | 11/13 | 14/16                     |                                   | 01/01                               |                     | 00/00   | 04/04                   |   |
| Mr. Harsha Raghavan                        | 02/04 |                           |                                   |                                     |                     |   |                         |   |

\* Mr. Arjun Fernando was appointed to the Board of Directors on 18th January, 2019.

# Annual Report of The Board of Directors on the Affairs of the Bank

The details set out herein provide the pertinent information in accordance with the statutory requirements, of relevant regulatory authorities for the listed companies in the financial industry and best accounting practices.

## GENERAL

The Directors have pleasure in presenting to the members their Report together with the Audited Financial Statements for the year ended 31st December, 2018 of Nations Trust Bank PLC, a public Limited liability company incorporated in Sri Lanka on 21st January 1999 under the Companies Act No. 17 of 1982, quoted in the Colombo Stock Exchange in May 1999 and a licensed commercial bank under the Banking Act No. 30 of 1988. The Bank was re-registered on 14th February 2008 as required under the provisions of the Companies Act No. 7 of 2007.

The Annual Report of the Board of Directors and the Audited Financial Statements were approved by the Directors on 27th February 2019.

## STATEMENT OF COMPLIANCE ON THE CONTENTS OF THE ANNUAL REPORT

The Annual Report including the Audited Financial Statements have been prepared and presented with the disclosures in accordance with the Sri Lanka Accounting Standards and other applicable regulatory requirements.

## PRINCIPAL ACTIVITIES

Nations Trust Bank PLC is a Banking Company licensed as a commercial bank. There are three fully owned subsidiaries of Nations Trust Bank PLC which together constitute the Group.

## BANK

The principal activities of the Bank are commercial, personal and private banking, trade services, leasing, factoring, treasury and capital market services and fee based activities.

## SUBSIDIARIES

The principal activities of the Bank's subsidiaries viz. Waldock Mackenzie Ltd., Allied Properties Ltd., and Nations Insurance Brokers Ltd. are margin trading, money market operations and fund and fee based

activities, property rental, and insurance broking, respectively.

There has been no material change to the activities of the Bank or any of the subsidiaries mentioned above during the period under review.

## FINANCIAL STATEMENTS

Financial Statements of the Bank and the group are given on pages 98 to 220 of this Annual Report.

## AUDITORS' REPORT

Auditors' Report on the Financial Statements is given on Page 95.

## SIGNIFICANT ACCOUNTING POLICIES

The Accounting Policies adopted in the preparation of the Financial Statements are given on pages 103 to 220. The Accounting Policies have been amended in line with the new Sri Lanka Accounting Standards.

## INTERESTS REGISTER

All Directors have made general declarations as provided for in Section 192 (2) of the Companies Act No. 7 of 2007. Arising from these, details of contracts in which they have an interest is given on page 67 of this Report.

## DIRECTORS' SHAREHOLDINGS

Directors' shareholding as at 31st December, 2018 and 2017 are given below.

| Name of the Director       | No. of Shares |           |
|----------------------------|---------------|-----------|
|                            | 2018          | 2017      |
| Mr. Gihan Cooray           | 8,618 (V)     | 8,400(V)  |
|                            | 1,497 (NV)    | -         |
| Mr. Murtaza Jafferjee      | 447,283 (V)   | 70,826(V) |
|                            | 136,800 (NV)  | -         |
| Mr. Prasanna De Silva      | -             | -         |
| Mr. Suran Wijesinghe       | 40,680 (V)    | 39,650(V) |
|                            | 7,074 (NV)    | -         |
| Ms. Renuka Fernando        | 70,486 (V)    | 68,700(V) |
| Mr. Conrad D'Souza         | -             | -         |
| Ms. Rachini Rajapaksa      | -             | -         |
| Mr. Russell De Mel         | -             | -         |
| Mr. Sumit Maheshwari       | -             | -         |
| Mr. Savanth Sebastian      | -             | -         |
| Ms. Sherin Cader           | -             | -         |
| Mr. Chanaka Wickramasuriya | -             | -         |

The Following entries were made in the Interests Register during the year under review:

1. Approval of remuneration to the Executive Director by the Board – 31 March, 2018
2. Purchase of ordinary voting shares by Mr. Murtaza Jafferjee, Senior Director on 5th January, 9th January, 11th January, 17th January and 18th July, 2018
3. Purchase of ordinary non-voting convertible shares by Mr. Murtaza Jafferjee, Senior Director on 8th March, 2018
4. Subscription in the Rights Issue of ordinary non-voting convertible shares by Mr. Krishan Balendra, Mr. Murtaza Jafferjee, Mr. Suran Wijesinghe and Mr. Gihan Cooray on 20th February, 2018
5. Allotment of ordinary non-voting convertible shares and ordinary voting shares in the scrip dividend to Mr. Krishan Balendra, Mr. Murtaza Jafferjee, Mr. Suran Wijesinghe, Mr. Gihan Cooray, Ms. Renuka Fernando and Mrs. M. S. D. Jayasuriya (Spouse of Mr. Kumar Jayasuriya) on 20th March, 2018
6. Reclassification/ conversion of ordinary non-voting convertible shares to ordinary voting shares in the name of Mr. Murtaza Jafferjee, Senior Director on 13th August, 2018

# Annual Report of The Board of Directors on the Affairs of the Bank

## DIRECTORS' REMUNERATION

Directors' fees and emoluments paid during the year are given in Note 46.1 (A).

## CORPORATE DONATIONS

No donations have been made by the Bank during the year.

## DIRECTORATE

The names of the Directors of the Bank during the year under review and their attendance at the Board meetings during the year were as follows;

| Name and the designation   | Eligibility | Present | Excused |
|--|-------------|---------|---------|
| <b>Non Executive Directors</b>   |             |         |         |
| Mr. Gihan Cooray   | 13          | 12      | 01      |
| Mr. Prasanna De Silva  | 13          | 11      | 02      |
| Mr. Suran Wijesinghe   | 13          | 13      | Nil     |
| Mr. Sumit Maheshwari   | 03          | 03      | Nil     |
| Ms. Sherin Cader   | N/A         | N/A     | N/A     |
| Mr. Krishan Balendra<br>(Ceased to be a member on 1st December, 2018)      | 12          | 12      | Nil     |
| Mr. Kumar Jayasuriya<br>(Resigned w.e.f. 31st December, 2018)              | 13          | 11      | 02      |
| Mr. Harsha Raghavan<br>(Resigned w.e.f. 25th May, 2018)                    | 04          | 02      | 02      |
| <b>Independent Non Executive Directors</b>                                 |             |         |         |
| Mr. Murtaza Jafferjee-Senior Director                                      | 13          | 12      | 01      |
| Mr. Conrad D'Souza   | 13          | 12      | 01      |
| Ms. Rachini Rajapaksa  | 13          | 12      | 01      |
| Mr. Russell De Mel   | 13          | 12      | 01      |
| Mr. Savanth Sebastian  | 02          | 02      | Nil     |
| Mr. Chanaka Wickramasuriya   | N/A         | N/A     | N/A     |
| Dr. Kemal de Soysa<br>(Resigned w.e.f. 31st March, 2018)                   | 03          | 03      | Nil     |
| Ms. Shalini Panditaratne<br>(Ceased to be a member on 16th December, 2018) | 13          | 11      | 02      |
| <b>Executive Director</b>  |             |         |         |
| Ms. Renuka Fernando  | 13          | 13      | Nil     |

Mr. Sumit Maheshwari was appointed as a Non Executive Director with effect from 4th October, 2018. Mr. Savanth Sebastian was appointed as an Independent Non Executive Director with effect from 23rd October, 2018. Ms. Sherin Cader was appointed as a Non Executive Director with effect from 15th December, 2018. Mr. Chanaka Wickramasuriya was appointed as an Independent Non Executive Director with effect from 16th December, 2018

Mr. Murtaza Jafferjee and Mr. Conrad D'Souza retire by rotation and being eligible for re-election are recommended by the Board for re-election as provided for in the Article No. 27 of the Articles of Association of the Bank.

Mr. Sumit Maheshwari, Mr. Savanth Sebastian, Ms. Sherin Cader, Mr. Chanaka Wickramasuriya and Mr. Arjun Fernando who were appointed to the Board subsequent to the last Annual General Meeting are recommended for election by the shareholders pursuant to Article No.25 of the Articles of Association of the Bank and in terms of Direction No. 3 (2) (x) of Banking Act Direction No. 11 of 2007 (Directions on Corporate Governance for Licensed Commercial Banks).

Having given due consideration to the criterion set out in the Banking Act No. 30 of 1988 and Banking Act Direction No. 11 of 2007, Board is of the view that all the directors of the Bank including those who are recommended for re-election are fit and proper persons to hold office as Directors of the Bank.

## AUDITORS

Bank's Auditors during the period under review were Messrs. Ernst & Young, Chartered Accountants. The following payments were made to them during the year.

|                         | Bank<br>(LKR<br>'000) | Group<br>(LKR<br>'000) |
|-------------------------|-----------------------|------------------------|
| Audit Fees              | 10,525                | 11,995                 |
| Fees for Other Services | 3,580                 | 3,580                  |

Other services consisted of advisory and tax related work.

As far as the Directors are aware the Auditors do not have any relationship with or interest in the Bank or any of its subsidiaries other than those disclosed above.

## RESULTS AND DIVIDENDS

Consolidated Statement of Profit or Loss along with the Bank's Statement of Profit or Loss for the year is given on page 99 Statement of Financial Position of the Bank and the Group are given on page 98.

Having satisfied the solvency test requirement under the Companies Act No. 7 of 2007, the Directors have declared a first and final scrip dividend of LKR 2.10 per share to holders of both Ordinary Voting shares and Ordinary Non Voting Convertible shares, to be satisfied by the issue and allotment of new shares of similar description, subject to applicable withholding tax. The scrip dividend is subject to approval of the Colombo Stock Exchange.

## INFORMATION ON SHARES AND DEBENTURES

Information relating to holdings of shares and debentures is given in pages 222 to 225 of this Report.

## POST- BALANCE SHEET EVENTS

No circumstances have arisen since the reporting date that would require adjustment or disclosure other than those disclosed in Note 52 to the Financial Statements contained on page 217.

## CAPITAL ADEQUACY

The Group's capital adequacy ratios as at 31 December, 2018 were 12.15% for Tier I and 15.59% for Total Capital and are above the minimum requirements of the Central Bank of Sri Lanka.

## REPORT ON COMPLIANCE WITH PRUDENTIAL REQUIREMENTS, REGULATIONS, LAWS AND INTERNAL CONTROLS

The Bank has complied with all the regulatory and prudential requirements arising from the provisions in the statutes applicable to the Bank including the Banking Act No. 30 of 1988, directions and determinations issued by the Central Bank of Sri Lanka under the Banking Act, Monetary Law Act No. 58 of 1949, Foreign Exchange Act No. 12 of 2017, Companies Act No. 7 of 2007, Sri Lanka Accounting and Auditing Standard Act No. 15 of 1995, Prevention of Money Laundering Act No. 5 of 2006, Financial Transactions Reporting Act No. 6 of 2006, Convention on the Suppression of Terrorist Financing Act

No. 25 of 2005, Inland Revenue Act No. 10 of 2006, Value Added Tax Act No. 14 of 2002, Finance Act No. 5 of 2005, Economic Service Charge Act No. 13 of 2006, Listing Rules of the Colombo Stock Exchange, Securities and Exchange Commission Act No. 36 of 1987, Financial Leasing Act No. 56 of 2000, Payment of Gratuity Act No. 12 of 1983, Employees' Provident Fund Act No. 15 of 1958, Employees' Trust Fund Act No. 46 of 1980 etc. and amendments to such statutes.

The Bank has established and maintained an effective system of internal controls which is improved on a continuous basis based on the recommendations of Internal Audit Department and the observations of the Central Bank of Sri Lanka and the external auditors during their inspections and audits.

## COMPLIANCE WITH TRANSFER PRICING REGULATIONS

All transactions entered into with associated persons during the period are on an arm's length basis and are comparable with transactions carried out with non-associated persons.

## TRANSACTIONS WITH RELATED PARTIES

Bank is in compliance with the rules of the Colombo Stock Exchange and Directions Issued by CBSL on Related Party Transactions. Details of significant related party transactions are given in the table below;

| Category of Related Party                             | Subsidiary Companies * |                  | Directors of the Bank |                  | Key Management Personnel (KMP) of the Bank |                  | Close Relations of Directors and KMP |                  | Shareholders owning a material interest in the Bank ** |                  | Concerns in which Directors, Close Relations of Directors or material shareholders have a substantial interest |                  |
|---|------------------------|------------------|-----------------------|------------------|--|------------------|--------------------------------------|------------------|--|------------------|--|------------------|
|   | 2018<br>LKR '000       | 2017<br>LKR '000 | 2018<br>LKR '000      | 2017<br>LKR '000 | 2018<br>LKR '000                           | 2017<br>LKR '000 | 2018<br>LKR '000                     | 2017<br>LKR '000 | 2018<br>LKR '000                                       | 2017<br>LKR '000 | 2018<br>LKR '000   | 2017<br>LKR '000 |
| <b>Items in the Statement of Financial Position</b>   |                        |                  |                       |                  |  |                  |                                      |                  |  |                  |  |                  |
| <b>Assets</b>   |                        |                  |                       |                  |  |                  |                                      |                  |  |                  |  |                  |
| <b>Accommodation</b>                                  |                        |                  |                       |                  |  |                  |                                      |                  |  |                  |  |                  |
| Loans and Advances                                    | -                      | -                | 6,954                 | 5,129            | 81,470                                     | 67,836           | 28,443                               | 24,820           | 815,514  | 169,261          | 59,881   | 198,855          |
| Credit Cards  | -                      | -                | 2,844                 | 1,261            | 7,641                                      | 6,533            | 1,876                                | 1,518            | -  | -                | 4,100  | 766              |
| Derivative Financial Assets                           | -                      | -                | -                     | -                | -  | -                | -                                    | -                | -  | -                | 61,637   | -                |
| Other Assets  | 1,124                  | -                | -                     | -                | -  | -                | -                                    | -                | -  | -                | 13,146   | 19,666           |
| <b>Total Accommodation</b>                            | <b>1,124</b>           | <b>-</b>         | <b>9,798</b>          | <b>6,390</b>     | <b>89,111</b>                              | <b>74,369</b>    | <b>30,319</b>                        | <b>26,338</b>    | <b>815,514</b>   | <b>169,261</b>   | <b>138,764</b>   | <b>219,287</b>   |
| Less: Cash Collaterals against Total Accommodations   | -                      | -                | 14,058                | 12,249           | 48,755                                     | 43,441           | 49,874                               | 30,026           | -  | -                | -  | -                |
| <b>Total Net Accommodation</b>                        | <b>1,124</b>           | <b>-</b>         | <b>-</b>              | <b>-</b>         | <b>40,356</b>                              | <b>30,928</b>    | <b>-</b>                             | <b>-</b>         | <b>815,514</b>   | <b>169,261</b>   | <b>138,764</b>   | <b>219,287</b>   |
| Total Net Accommodation % of Total Regulatory Capital | 0.00%                  | 0.00%            | 0.00%                 | 0.00%            | 0.13%                                      | 0.13%            | 0.00%                                | 0.00%            | 2.54%  | 0.73%            | 0.43%  | 0.94%            |
| <b>Liabilities</b>                                    |                        |                  |                       |                  |  |                  |                                      |                  |  |                  |  |                  |
| Due to Customers                                      | 472,399                | 26,114           | 105,372               | 104,079          | 162,300                                    | 136,872          | 127,310                              | 85,365           | 5,567,281  | 1,595,022        | 1,413,884  | 1,803,874        |
| Borrowings & Others                                   | 102,348                | 378,405          | -                     | -                | 1,504                                      | 587              | -                                    | -                | 2,559,503  | 2,942,630        | 352,252  | 354,664          |
| Debenture Issued                                      | -                      | -                | -                     | -                | -  | -                | -                                    | -                | -  | -                | 629,500  | -                |
| Other Liabilities/Financial Guarantees                | -                      | -                | 1                     | -                | -  | -                | -                                    | -                | 9,942  | -                | 257,148  | 273,225          |
| Derivative Financial Liabilities                      | -                      | -                | -                     | -                | -  | -                | -                                    | -                | -  | -                | 721  | 11,346           |
| <b>Equity</b>   |                        |                  |                       |                  |  |                  |                                      |                  |  |                  |  |                  |
| Dividends Paid (Net)                                  | -                      | -                | 1,102                 | 427              | 110  | 78               | 14                                   | 20               | 379,572  | 284,474          | -  | -                |
| <b>Commitments</b>                                    |                        |                  |                       |                  |  |                  |                                      |                  |  |                  |  |                  |
| Undrawn Facilities                                    | -                      | 1,800,000        | 3,776                 | 7,163            | 52,969                                     | 52,609           | 8,305                                | 11,352           | 6,737  | 639,880          | 743,658  | 630,458          |
| Letter of Credit / Guarantees                         | -                      | -                | -                     | -                | -  | -                | -                                    | -                | 42,764   | 225,874          | 446,291  | 484,320          |
| Forward - Foreign Exchange Contracts                  | -                      | -                | -                     | -                | -  | -                | -                                    | -                | -  | -                | 562,945  | 708,931          |

# Annual Report of The Board of Directors on the Affairs of the Bank

Contd.

| Category of Related Party                   | Subsidiary Companies * |          | Directors of the Bank |          | Key Management Personnel (KMP) of the Bank |          | Close Relations of Directors and KMP |          | Shareholders owning a material interest in the Bank ** |          | Concerns in which Directors, Close Relations of Directors or material shareholders have a substantial interest |          |
|---|------------------------|----------|-----------------------|----------|--|----------|--------------------------------------|----------|--|----------|--|----------|
|   | 2018                   | 2017     | 2018                  | 2017     | 2018                                       | 2017     | 2018                                 | 2017     | 2018   | 2017     | 2018   | 2017     |
|   | LKR '000               | LKR '000 | LKR '000              | LKR '000 | LKR '000                                   | LKR '000 | LKR '000                             | LKR '000 | LKR '000   | LKR '000 | LKR '000   | LKR '000 |
| <b>Items in statement of profit or loss</b> |                        |          |                       |          |  |          |                                      |          |  |          |  |          |
| Interest Income Earned                      | 798                    | 5,747    | 581                   | 411      | 7,317                                      | 4,737    | 2,755                                | 1,015    | 50,813   | 22,682   | 5,987  | 4,977    |
| Interest Expenses Paid                      | 39,051                 | 57,024   | 8,085                 | 5,391    | 15,246                                     | 11,134   | 9,909                                | 3,404    | 659,844  | 528,294  | 159,234  | 153,864  |
| Other Income Earned                         | 8,046                  | 14,656   | 511                   | 398      | 378  | 459      | 120                                  | 853      | 5,741  | 3,615    | 141,890  | 14,280   |
| Dividends Received (Gross)                  | 290,529                | 440,100  | -                     | -        | -  | -        | -                                    | -        | -  | -        | -  | -        |
| Share Repurchase                            | -                      | 671,925  | -                     | -        | -  | -        | -                                    | -        | -  | -        | -  | -        |
| Expenses Paid                               | 80,777                 | 41,686   | 716                   | 1,607    | 159  | -        | -                                    | -        | 37,399   | 46,657   | 89,830   | 77,770   |
| <b>Compensation paid</b>                    |                        |          |                       |          |  |          |                                      |          |  |          |  |          |
| Short Term Employee Benefits                | -                      | -        | 71,127                | 53,539   | 276,773                                    | 218,240  | -                                    | -        | -  | -        | -  | -        |
| Post Employment Benefits                    | -                      | -        | 3,728                 | 3,230    | 28,382                                     | 28,063   | -                                    | -        | -  | -        | -  | -        |
| <b>No. of Shares of the Bank acquired</b>   |                        |          |                       |          |  |          |                                      |          |  |          |  |          |
| Voting                                      | -                      | -        | 379,491               | 70,826   | -  | -        | -                                    | -        | -  | -        | -  | -        |
| Non-Voting                                  | -                      | -        | 145,371               | -        | -  | -        | -                                    | -        | -  | -        | -  | -        |
| <b>No. of Shares of the Bank disposed</b>   |                        |          |                       |          |  |          |                                      |          |  |          |  |          |
|   | -                      | -        | -                     | -        | -  | -        | -                                    | -        | -  | -        | -  | -        |

\* Subsidiaries of the Group include Waldock Mackenzie Limited, Allied Properties Limited and Nations Insurance Brokers Limited.

\*\* Since John Keells Holdings PLC together with Mackinnon Keells Limited, HWIC Asia Fund and Central Finance Company PLC together with CF Growth Fund Limited and CF Insurance Brokers Limited hold material interest in the Bank transactions with these companies have been disclosed.

\*\*\* Significant investor related entities include entities controlled and/or jointly controlled by the significant investors of the Bank.

Key Management Personnel (KMP) consists of Bank's Corporate Management as designated by the Corporate Governance structure.

As required by rule 9.3.2 (a) of the CSE listing rules, there are no non-recurrent related party transactions which exceeds the lower of 10% of the equity or 5% of the total assets.

As required by rule 9.3.2 (b) of the CSE listing rules, there are no recurrent related party transactions which exceeds 10% of the gross revenue/income.

## DIRECTORS OF SUBSIDIARY COMPANIES

### Waldock Mackenzie Limited

Mr. Prasanna De Silva - Chairman  
Mr. Suran Wijesinghe  
Ms. Renuka Fernando

### Nations Insurance Brokers Limited

Ms. Renuka Fernando - Chairperson  
Ms. Rachini Rajapaksa

### Allied Properties Limited

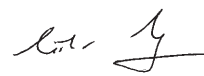
Mr. Prasanna De Silva - Chairman  
Mr. Suran Wijesinghe  
Ms. Renuka Fernando

## GOING CONCERN

Directors after making necessary inquiries have a reasonable expectation that the Bank has adequate resources to continue in operational existence for the foreseeable future. Therefore the going concern basis has been adopted in the preparation of the Financial Statements.

## ANNUAL GENERAL MEETING

Annual General Meeting of the Bank will be held at the Auditorium of the Institute of Chartered Accountants of Sri Lanka, 30A, Malalasekera Mawatha, Colombo 07, Sri Lanka on 29th March, 2019 at 10.00 a.m.



**Gihan Cooray**  
Chairman



**Renuka Fernando**  
Director/Chief Executive Officer



**Theja Silva**  
Company Secretary

27th February 2019

# Directors' Interest in Contracts with the Bank

The Bank carried out transactions in the ordinary course of its business at commercial rates with the following Director related entities.

## Details of the transaction carried out by Director related entities during the year 2018

| Name of the related party                   | Name of Director      | Relationship | Details  |
|---|-----------------------|--------------|--|
| Allied Properties Limited                   | Mr. Prasanna De Silva | Director     | A sum of LKR 24,645,242.39 was paid as Interest Expense    |
|   | Mr. Suran Wijesinghe  | Director     | A sum of LKR 80,776,656 was paid as Rent Expenses          |
|   | Ms. Renuka Fernando   | Director     | A sum of LKR 28,771,947.01 was received as Dividend        |
| Asian Hotels & Properties PLC               | Mr. Gihan Cooray      | Director     | A sum of LKR 8,875 was received as Other Income            |
|   |                       |              | A sum of LKR 26,942,872.49 was paid as Interest Expense    |
| Central Finance Company PLC                 | Mr. Prasanna De Silva | Director     | A sum of LKR 50,811,124.38 was received as Interest Income |
|   |                       |              | A sum of LKR 119,585,712.31 was paid as Interest Expense   |
|   |                       |              | A sum of LKR 5,299,808.96 was received as Other Income     |
|   |                       |              | A sum of LKR 28,628,819.22 was paid as Other Expenses      |
| Ceylon Cold Stores PLC                      | Mr. Gihan Cooray      | Director     | A sum of LKR 61,650,054.28 was paid as Dividend            |
|   |                       |              | A sum of LKR 3,825.84 was received as Interest Income      |
|   |                       |              | A sum of LKR 64,763.74 was received as Other Income        |
| CF Growth Fund Limited                      | Mr. Gihan Cooray      | Director     | A sum of LKR 167,307.56 was paid as Interest Expense       |
|   |                       |              | A sum of LKR 27,761,313.41 was paid as Dividend            |
|   |                       |              | A sum of LKR 399,457.18 was received as Other Income       |
| CF Insurance Brokers (Pvt) Ltd              | Mr. Prasanna De Silva | Director     | A sum of LKR 27,950,782.62 was paid as Dividend            |
|   |                       |              | A sum of LKR 1,050.00 was received as Other Income         |
| CF Venture Management Company Limited       | Mr. Prasanna De Silva | Director     | A sum of LKR 1,050.00 was received as Other Income         |
| Jaykay Marketing Services (Private) Limited | Mr. Gihan Cooray      | Director     | A sum of LKR 84,376.85 was received as Interest Income     |
|   |                       |              | A sum of LKR 1,533,708.51 was paid as Interest Expense     |
|   |                       |              | A sum of LKR 232,000 was received as Other Income          |
|   |                       |              | A sum of LKR 34,432,702.95 was paid as Other Expenses      |
| John Keells Holdings PLC                    | Mr. Gihan Cooray      | Director     | A sum of LKR 1,500.00 was received as Interest Income      |
|   |                       |              | A sum of LKR 540,258,364.61 was paid as Interest Expense   |
|   |                       |              | A sum of LKR 42,122.32 was received as Other Income        |
|   |                       |              | A sum of LKR 8,770,000 was paid as Other Expenses          |
|   |                       |              | A sum of LKR 123,764,986.02 was paid as Dividend           |
| John Keells Hotels PLC                      | Mr. Gihan Cooray      | Director     | A sum of LKR 9,200 was received as Other Income            |
| John Keells PLC                             | Mr. Gihan Cooray      | Director     | A sum of LKR 63,010.38 was received as Interest Income     |
|   |                       |              | A sum of LKR 91,645.9 was paid as Interest Expense         |
|   |                       |              | A sum of LKR 5,500 was received as Other Income            |
| John Keells Stock Brokers (Pvt) Ltd         | Ms. Sherin Cader      | Director     | A sum of LKR 481,650 was received as Other Income          |
|   |                       |              | A sum of LKR 15,000 was paid as Other Expenses             |
| Keells Food Products PLC                    | Mr. Gihan Cooray      | Director     | A sum of LKR 3,075 was received as Other Income            |
| Nations Insurance Brokers Limited           | Ms. Rachini Rajapaksa | Director     | A sum of LKR 10,157,692.45 was paid as Interest Expense    |
|   | Ms. Renuka Fernando   | Director     | A sum of LKR 7,067,856.64 was received as Other Income     |
|   |                       |              | A sum of LKR 54,363,431.02 was received as Dividend        |
| Rajawella Holdings Limited                  | Mr. Gihan Cooray      | Director     | A sum of LKR 50,723.27 was received as Interest Income     |
|   |                       |              | A sum of LKR 12,939,016.79 was paid as Interest Expense    |
|   |                       |              | A sum of LKR 256,844.51 was received as Other Income       |
| Waldock Mackenzie Limited                   | Mr. Prasanna De Silva | Director     | A sum of LKR 798,360.74 was received as Interest Income    |
|   | Mr. Suran Wijesinghe  | Director     | A sum of LKR 4,248,124.32 was paid as Interest Expense     |
|   | Ms. Renuka Fernando   | Director     | A sum of LKR 977,700.51 was received as Other Income       |
|   |                       |              | A sum of LKR 207,393,692.37 was received as Dividend       |
| Walkers Tours Limited                       | Mr. Gihan Cooray      | Director     | A sum of LKR 3,433.61 was received as Interest Income      |
|   |                       |              | A sum of LKR 5,051,134.85 was paid as Interest Expense     |
|   |                       |              | A sum of LKR 377,033.92 was received as Other Income       |

## Details of accommodation granted and balances outstanding as at 31 December 2018

| Name of the related party   | Name of Director      | Relationship | Accommodation Granted     | Limit - LKR | Amount outstanding as at 31 December 2018 |
|-----------------------------|-----------------------|--------------|---------------------------|-------------|---|
| Central Finance Company PLC | Mr. Prasanna De Silva | Director     | Working Capital Financing | 850,000,000 | 815,514,466                               |

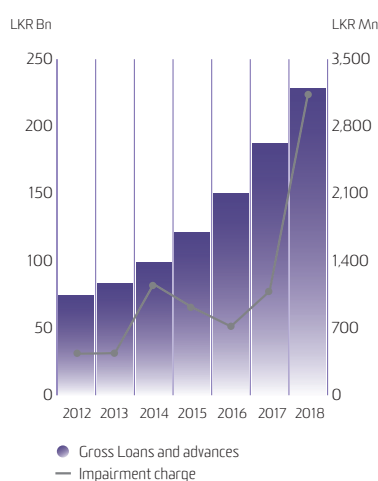


# Risk Management

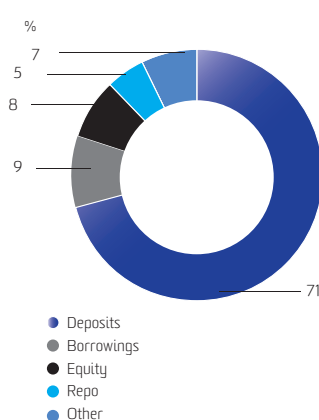
At Nations Trust Bank, the sustainable creation of stakeholder value is underpinned by robust risk management framework and practices which have evolved over the years to become deeply embedded in our culture.

In response to emerging risk trends, regulatory change and an increasingly dynamic business environment, the Bank has focused on proactively strengthening its integrated risk management framework, allowing it to be resilient through business cycles. This report provides a concise yet comprehensive understanding of the integrated risk management framework in place within the Bank and key aspects of our risk performance during the year.

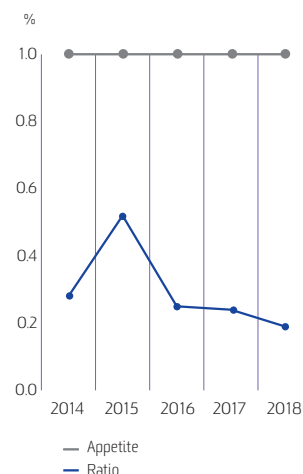
## Loan Book & Impairment



## Funding Composition



## Operating Losses against Operating Expenses



## EXTERNAL FACTORS AFFECTING THE BANK'S RISK PROFILE

During the year under review, the following external drivers had an impact on the Bank's overall risk profile

### Macro-economic Conditions

The moderate expansion of the country's Industrial and Services sector provided opportunities for growth, while the disappointing performance of the construction and infrastructure as well as exogenous factors impacting the Agriculture Sector affected our lending book. Increase in USD rates and movement in global oil prices also had a cascading impact locally.

### Regulatory Changes

- Measures taken to curtail imports
- Parallel reporting for Liquidity Coverage Ratio and Net Stable Funding Ratios and implementation of leverage ratio
- New Foreign Exchange Act
- SLFRS 9 implementation

### Government Policy

A relatively tight monetary policy stance and increased flexibility in determining the exchange rate had an implication on our market risk factors. Ad-hoc policy changes and political instability had a negative impact during the year.

### Customer Preferences

Increasing customer sophistication and need for multi-channel banking, better customer service and wider accessibility has compelled us to revisit our customer service proposition.

### Cyber Threats

Increasing connectivity has afforded numerous opportunities for customer engagement and servicing, although this is complemented by numerous risks related to cyber security, customer privacy and information system risks.

### Climate Change

Implications of climate change have been felt through erratic weather conditions including a prolonged drought and floods which have impacted the Country's Agriculture sector.

## (A) LINKING BUSINESS STRATEGY TO RISK MANAGEMENT

At Nations Trust Bank, risk management is embedded into strategic planning including projects and all daily operations. In addition to regulatory requirements, our risk management framework embraces globally accepted best practices in identifying, assessing, measuring and managing the key risks faced, including the critical interdependencies between the risks.

### Corporate Strategy

How will we create value?

### Business Model

How does strategy translate into value?

### Key Performance Indicators

How will we measure our performance?

### Risk Management

What can go wrong?

## Our Business Model and Risk Exposures

The Bank's risk profile is reflected in its business model which represents the business activities and processes in place to transform inputs into long-term value for stakeholders. The risk management framework is aligned to the Bank's overall business strategy, enabling it to proactively identify, measure, mitigate and respond to emerging risks arising due to the Bank's strategic agenda. Key risks stemming from the Bank's business model are given below;

| Activity   | Risk exposure   |
|--|---|
| Risks arising from the Bank's operations and processes | Lend ▶ Credit risk  |
|  | Fund ▶ Funding and liquidity risk   |
|  | Trade ▶ Market risk   |
|  | Key operations and processes ▶ Operational risk (IT, People related risk, Legal risk) |
|  | Compete ▶ Strategic risk  |
|  | Regulated industry ▶ Compliance risk  |
| Risks monitored by the Bank for impact                 | Geopolitical risk   |
|  | Macro-economic risk   |
|  | Legal risk / Regulatory risk  |

Assessing the components of the business model enables the Bank to evaluate the robustness of the existing business model and identify the events that could impact sustainable value creation. The assessment also identifies opportunities for improving operational and compliance efficiency. This enables the Bank to identify the risks it is willing to take – often defined or characterized as the risk appetite.

## (B) APPROACH TO RISK MANAGEMENT

Our systematic, timely and structured approach to risk management contributes to efficiency and to consistent, comparable and reliable results. It is underpinned by setting objectives, strategies, policies, risk appetite and tolerance limits for key types of risk.



# Risk Management

## Integrated Risk Management Framework

The Bank's Integrated Risk Management (IRM) Framework underpins the foundation for managing risk and clearly defines the tools, techniques and activities in place to ensure that all material risks are identified, measured, managed and reported. Clearly defined roles and responsibilities, both at Board and Executive Committee level ensure independence of judgment and judicious empowerment. A comprehensive framework of policies ensures the consistency and clarity in the identification, measurement, management and reporting of key risks.

## The Bank's Key Risk Management Objectives are,

- Establish a framework that supports the business activities to maximize risk-adjusted returns within the Board approved Risk Appetite and other aspects such as regulatory requirements and the Bank's internal controls
- Accurately identify and measure the sources of these risks
- Recommend appropriate levels of risks, consistent with the Board of Directors' appetite or tolerance for such risks
- Control the level of risks by establishing limits and routinely monitoring the risk exposures to these limits
- Ensure that there is no breach of relevant CBSL regulatory requirements and applicable laws including Exchange Control regulations, ICASL guidelines, Stock Exchange Requirements, CSE regulations, Company Law requirements etc.
- Seek to enable a balance between controlling these risks and generating optimal returns within these risk constraints
- Add value to the Bank's business units, Senior Management and Board of Directors by providing analysis and recommendations to support the achievement of the overall Bank's strategic objectives.

## Risk Appetite

An integral part of the Bank's Integrated Risk Management (IRM) is the development of key risk metrics, exposure limits, and governance and oversight processes to ensure enterprise-wide risks are within acceptable and manageable levels. A best-practice approach to addressing these requirements is to implement a clearly defined Risk Appetite Statement (RAS).

While developing the Bank's RAS, we have considered the following fundamental aspects with respect to strategy, risk management, and operations, including:

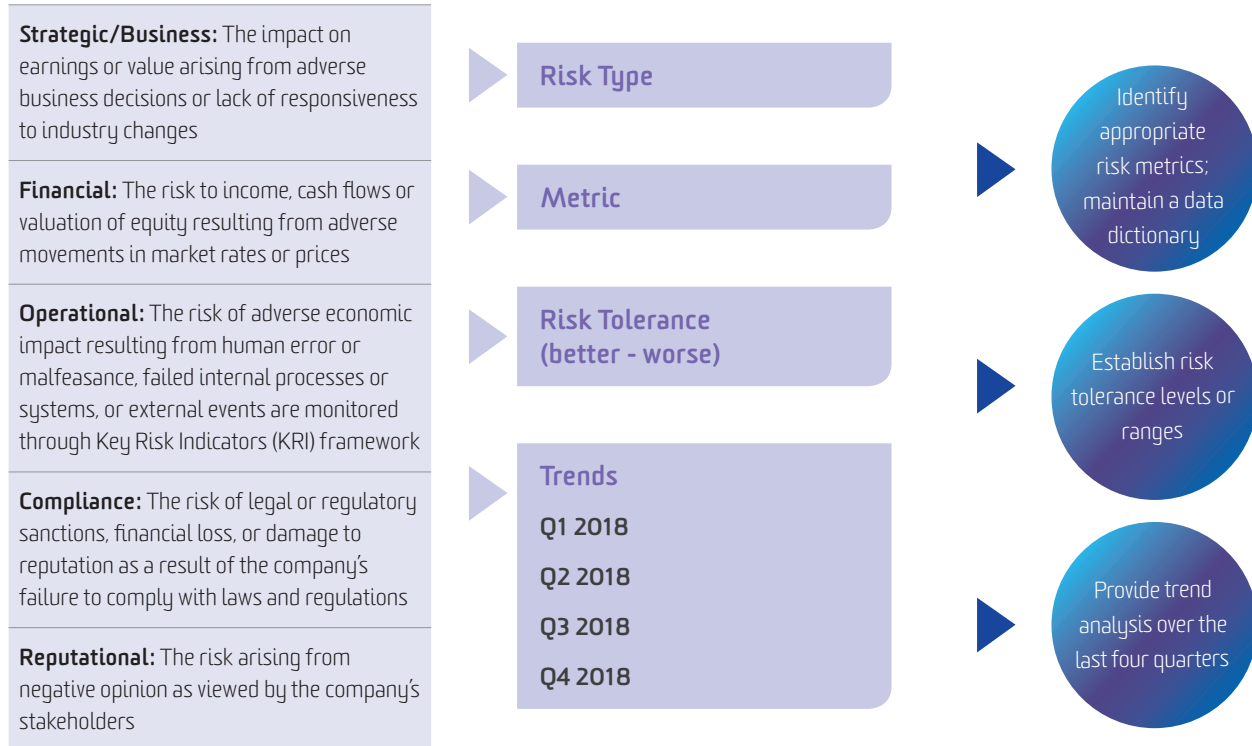
- The strategies for the overall organisation and individual business units and the key assumptions underlying those strategies
- The significant risks and aggregate risk levels that the Bank is willing to accept in order to achieve its' objectives
- The governance structures and risk management policies to oversee and control risks
- Assess and quantify the key risks so that the Bank can monitor our exposures and key trends over time

- Establish the appropriate risk tolerances given our business objectives, profit and growth opportunities, and regulatory requirements
- Integrate our risk appetite into strategic and tactical decision making in order to optimize our risk profile
- Establish an IRM feedback loop and provide effective reporting to the Board and Senior Management

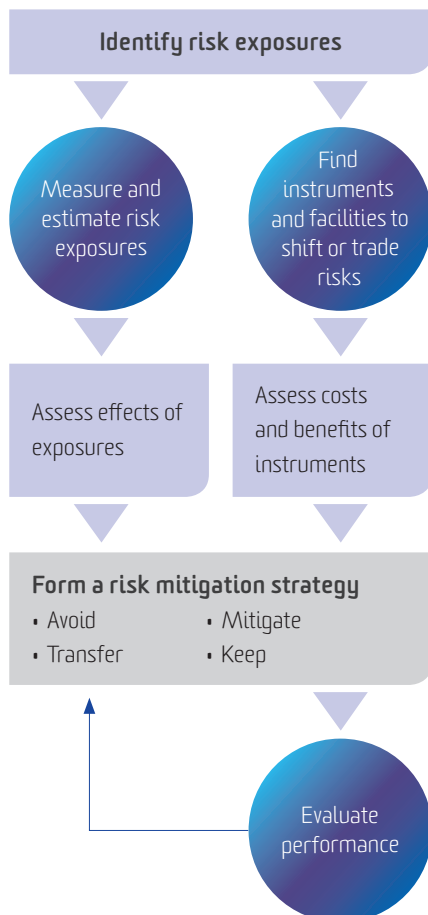
The risk appetite is defined by the Board of Directors and clearly articulates the type and quantum of risk the Bank is willing to take in the normal course of business. It is expressed in the form of tolerance levels and triggers across a range of parameters which reflect the key risks the Bank is exposed to. The Risk appetite is reviewed and updated regularly by the Board of Directors in line with the Bank's strategic and financial objectives. During the year, certain credit and market risk parameters were revised to reflect evolving risks in the industry as depicted below.

|   | Position as at<br>End 2018 | Limit/Range<br>for 2018 | Limit/Range<br>for 2017 |
|---|----------------------------|-------------------------|-------------------------|
| <b>Credit Risk</b>  |                            |                         |                         |
| Impairment Ratio  | 2.56%                      | 1.5% - 2.25%            | 1.5% - 2.25%            |
| <b>Market Risk</b>  |                            |                         |                         |
| Sensitivity of the Trading portfolio against interest rate fluctuations | 0.15%                      | Below 2%                | Below 2%                |
| <b>Liquidity Risk</b>   |                            |                         |                         |
| Loan to Deposit Ratio (L/D Ratio)                                       | 97.40%                     | <100%                   | <100%                   |
| <b>Operational Risk</b>   |                            |                         |                         |
| Operational Losses to Operating Expenses Ratio                          | 0.19%                      | <1%                     | <1%                     |

### Risk Dashboard Define risk tolerances for five primary risks:

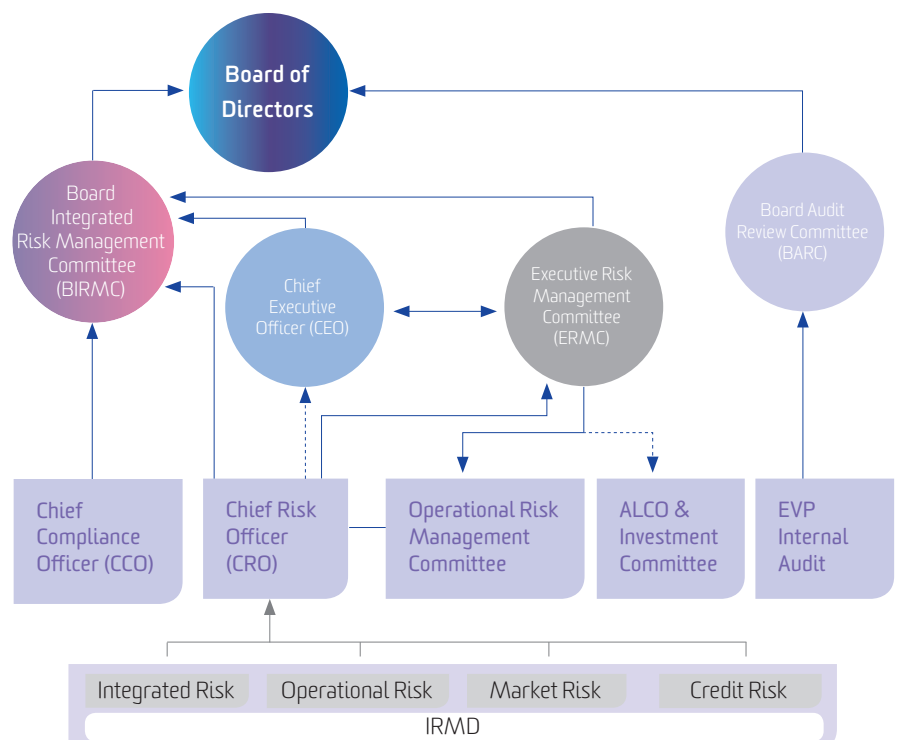


### Risk Management process



### (C) RISK GOVERNANCE

Clearly defined risk governance structures enable the segregation of duties and judicious empowerment of employees. The Board of Directors holds apex responsibility for the effective management of risk within the Bank including setting the risk appetite, formulating policy and reviewing risk-related management processes. The Board of Directors is assisted by several sub-committees and executive committees in the discharge of its duties related to risk management as illustrated below.



# Risk Management

## Board Integrated Risk Management Committee (BIRMC)

The BIRMC provides independent oversight of all risk related aspects within the Bank and Group including overseeing the formulation of risk management policies and supporting the Board of Directors in determining overall risk appetite. The composition, responsibilities of the BIRMC and its key areas of focus during the year is given in the Committee Report.

## Board Audit Review Committee (BARC)

The BARC plays a key role in assessing the adequacy and effectiveness of the Group's internal controls on financial reporting, risk management measures and governance structures in place to mitigate current and emerging risks. For further details on the composition and activities of BARC, please refer the Committee Report.

## Board Credit Committee (BCC)

The BCC assists the Board of Directors in formulating credit policies and procedures, provides direction on the Bank's lending exposures (including approving large loan exposures) and consistently monitors the quality of the Bank's credit portfolio. For further details on the composition and activities of BCC, please refer the Committee Report.

In addition to these Board Committees, the following Executive Committees are responsible for specific risk management aspects;

## Executive Risk Management Committee (ERMC)

The Executive Risk Management Committee provides recommendations to the BIRMC on the Bank's overall risk management policies, risk appetite and risk management procedures. The Committee is also responsible for reviewing the Bank's risk grid and implementing specific actions to mitigate identified risks. This Committee is chaired by the Chief Risk Officer and represented by all members of the Corporate Management team.

## Asset and Liabilities Management Committee (ALCO)

Chaired by the CEO, all heads of business units and managers from the risk, management reporting and financial risk reporting divisions, the ALCO is entrusted with the responsibility of managing the Bank's balance sheet within the performance and risk parameters defined by the Board of Directors. The ALCO implements Board-approved ALM policies, regularly reviews the liquidity, pricing of assets and liability products, cash flow and asset liability maturity mismatches within the Bank.

## IT Steering Committee (ITSC)

In addition to implementing the Bank's digital strategy, the Committee is responsible for ensuring that mechanisms are in place to effectively monitor and manage the Bank's IT projects, systems and information security. Committee membership is held by the CEO, CIO, and Business line heads, COO, CFO and CRO among others.

## Operational Risk Management Committee (ORMC)

The ORMC is the main interaction point between all operational functions of the bank encompassing end to end process coverage. The Committee is chaired by the Bank's CRO and includes the COO, CIO, Senior VP Banking Operations, Chief Compliance Officer and several operational heads. The primary purpose of this committee is to critically assess operational processes and internal controls with a view of strengthening the operational risk management framework at a functional level. The committee will provide its recommendation to ERMC and subsequently to BIRMC if required.

## Three Lines of Defense Model

We adopt the globally accepted three lines of defense governance model which ensures transparency and accountability in risk management through clear segregation of duties as depicted below.

1

### First line of defense

#### Functions that own and manage risk

The identification, management and reporting of risks at business unit level, ensuring that specific risks are managed at the source as effectively as possible

2

### Second line of defense

#### Functions that oversee risk

Centralized oversight of the first line of defense by the risk management, compliance, finance and other support functions.

3

### Third line of defense

#### Functions that provide independent assurance

Provides independent and objective assurance on the risk exposures, processes and practices in place. Comprises of Internal and External Audit Functions



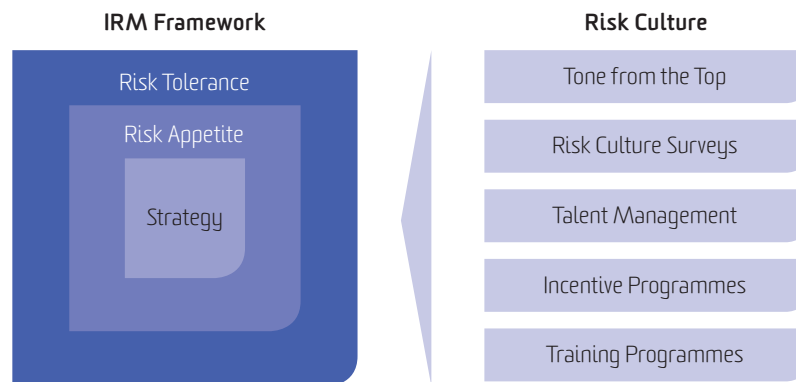
## The Integrated Risk Management Department (IRMD)

Led by the Bank's Chief Risk Officer, the IRMD independently assures that the Bank's risk parameters are maintained within the risk appetite approved by the Board of Directors. The IRMD is responsible for multiple aspects of the Bank's risk management framework as illustrated below;

| Nurturing a Risk Culture   | Risk Measurement  | Risk Monitoring   | Risk Management  |
|--|---|---|--|
| Nurtures an organisation wide risk culture through development of a common risk language and Bank-wide risk training and support | Carry out impairment of loans and advances comprehensively ensuring adequate loan loss reserves           | Monitor compliance with risk management policies and procedures   | Development and review of risk management tools  |
| Provides interpretation of risk-related regulations/ leading practices and disseminates to business units                        | Carry out "Loan review Mechanism" and continuously improve and strengthen lending processes and practices | Monitor the Bank's overall risk profile, including risk aggregation, reporting, trends, and change in material risk positions | Devise and implement Credit Portfolio Management techniques and advice management/BIRMC as appropriate |

## (D) RISK CULTURE

The success of the risk management frameworks and practices implemented within the Bank are ultimately dependent on the values, attitudes and awareness of our employees. We persistently strive to nurture a culture of risk awareness through numerous engagement mechanisms, ongoing communication and risk-related training. Procedure manuals are in place for all critical operations, compelling employees to follow standard guidelines in day to day activities. Ongoing communication through news bulletins, collaboration tools and e-mails are aimed towards strengthening the risk dialogue within the Organisation. Risk also forms a vital part of the Bank's training proposition, comprising several mandatory training modules for all employees. The Risk Reporting process which include the Risk and Control Self-Assessment (RCSA) Process and Transaction In Difficulty (TID) / Operation Loss Events (OLE) reporting have helped to instill a culture of risk-awareness.



## (E) RISK MEASUREMENT

The Bank adopts an array of tools and techniques to measure its key risk exposures as listed below;

| Risk exposure     | Tools and techniques  |
|-------------------|---|
| Credit Risk       | Probability of Default (PD), Loss Given Default (LGD) and Exposure At Default (EAD).<br>Trends and Sector Concentration, NPL Ratios, Early Warnings monitoring  |
| Market Risk       | Maturity/Interest Rate Risk Gap analysis, Interest Rate Risk Ratio, PVBP, VAR, Duration Analysis, Sensitivity Analysis, and Stress Testing on IRR in Trading / Banking book (EAR/EVE)   |
| Liquidity Risk    | Maturity Mismatch, Concentration of Funding, Liquidity Coverage Ratio (LCR), Net Stable Funding Ratio (NSFR), Liquidity Early Warning Signals, Intraday liquidity Management, Contingency Funding Plan, Liquidity Transfer Pricing, Liquidity Simulations |
| Operational Risk  | Transaction In Difficulty (TID), Risk Control Self-Assessment (RCSA), Heat map, Scenario Analysis, Key Risk Indicators  |
| Reputational Risk | Customer feedback/complaints, Positive/Negative publicity through qualitative scorecard approach  |
| Strategic Risk    | Banks financial performance/Peer performance and strategic initiatives through Qualitative scorecard approach   |

# Risk Management

## (F) RISK REPORTING

Clearly defined risk reporting mechanisms ensure that key risk exposures are identified and escalated to the relevant personnel and ultimately the Board of Directors in a timely and relevant manner. Risk reporting encompasses all key risk exposures as given below and are clearly communicated to all relevant employees across the organisation.

| Risk Exposure    | Reporting line                       | Risk Reporting                             | Content  |
|------------------|--------------------------------------|--|--|
| Credit Risk      | Board of Directors                   | Credit Risk Summary                        | Portfolio Health / aging & trend analysis, Allowance for Impairment, Concentration Risk, Analysis, NPL vintage Analysis  |
|                  |                                      | Exposure vs Risk appetite                  | NPL ratio Net of IIS, Specific Provision Cover, Impairment Ratio, NPA stress test,   |
|                  |                                      | Loan Review Mechanism (LRM) Reports        | LRM findings & recommendations   |
|                  | Management/Management Sub committees | Credit Risk Management Report              | Top 20 Exposures, Portfolio Health / aging & trend analysis, Analysis of Impairment assessment.  |
|                  |                                      | Early Warning Signals Summary              | Analysis of Early warnings / exposures   |
|                  |                                      | Watch lists                                | Management watch list customer updates   |
| Market Risk      | Board of Directors                   | Exception Report                           | Breaches of FX Net Open Position Limits, Stop loss Limits and other Market Risk limits   |
|                  |                                      | FIS performance                            | Government Security movement and performance   |
|                  |                                      | USD and other Investments Report           | Performance on investment in foreign currency securities and corporate debt securities   |
|                  |                                      | Market Risk Dashboard                      | Interest rate Risk Ratio, IRRBB, Liquidity Gap Reports, Liquidity Stress testing, Liquidity Coverage, Statutory Liquidity Ratio, Loans / Deposit Ratio (L/D), Average FX NOP Sensitivity                                     |
|                  |                                      | Quarterly Stress testing on Trading book   | Stress testing based on historical market rate movements   |
|                  | Management/Management Sub committees | Treasury Profitability, Performance Report | Liquidity Reserve ratio, M2M of FX and FIS portfolios, Daily Treasury Profitability, Treasury Exceptions   |
|                  |                                      | ALCO Report                                | Maturity Gap, Liquidity Reserve Ratio, Liquidity Coverage Ratio, Liquidity Stress Testing, Other Liquidity Stock ratios, Monitoring of Contingency Funding plan, Interest rate risk ratios, FX Risk and Sensitivity Analysis |
|                  |                                      | Management Report                          | Performance of Investments in Government Securities  |
| Operational Risk | Board of Directors                   | Exposure vs Risk Appetite                  | Uninsured Operational Losses Vs net income, Total Operational Losses Vs Operating Expenses, Summary of Operational Losses & Loss Events  |
|                  | Management/Management Sub committees | Monthly Operational Risk Management Report | Operational Risk - Risk Appetite, Detailed analysis of Operational Losses  |

## (G) STRESS TESTING

Stress testing is conducted on an ongoing basis to identify the potential impacts that fluctuations in market variables and other risk factors could have on the Bank's risk profile. Impacts are measured with reference to capital, earnings and liquidity positions. The findings of the Bank's stress testing activities are an input into several processes including capital computation under ICAAP, strategic planning and risk management among others. The BIRMC conducts regular reviews of the stress testing outcomes including the major assumptions that underpin them.

|                              |   |   |
|------------------------------|---|---|
| <b>Credit Risk</b>           | Deterioration in asset quality, Increase in large NPLs, Shifts in NPL categories    | Potential impact on,<br>• Earnings<br>• Capital Adequacy<br>• Funding<br>Capability/Liquidity |
| <b>Interest Rate Risk</b>    | Movements in interest rate by +/- 100 bps and 200 bps                               |   |
| <b>Foreign Exchange Risk</b> | Forex Risk on Net Open Position   |   |
| <b>Liquidity Risk</b>        | Funding Capability of a cash outflow in a Liquidity stress scenario - up to 1 month |   |
| <b>Operational Risk</b>      | Scenarios based on historical events from internal and external loss data           |   |

### • Risk Scoring

Tailor-made risk scorecards which adopt advanced statistical data analytics are utilized when underwriting consumer and SME loans. These scorecards are based on creditworthiness of individual customers, disposable incomes and broader characteristics of the customer demographic group and provide an indication on the level of credit that can be granted based on the projected repayment capacity.

### • Risk Rating System

The Bank has implemented a sophisticated internal risk rating system to rate its obligors. The system incorporates five rating models which are able to effectively gauge the risk profile of the Bank's diverse client portfolios of large and mid-sized corporates, SMEs and retail/individual customers. The system provides an indicative probability of default for the borrower. The ratings thus derived are mapped into a Bank wide single point indicator rating scale.

### • Culture of responsible lending

The Bank has been successful in nurturing a culture of risk awareness and responsible lending through a high level of internal communications and comprehensive training programs.

## (H) MITIGATING KEY RISK EXPOSURES

The Bank's key risk exposures during the year under review are illustrated below;



### Credit Risk Management

The Board Credit Committee (BCC) functions as the steering committee holding overall responsibility for implementing the Bank's credit risk management framework. At an executive level, the responsibility of managing the Bank's credit risks have been delegated to the Head Office Credit Committee (HOCC). The HOCC is headed by the CEO and comprises of the Heads of business units with the CRO also contributing as an independent observer. The credit risk management framework is composed of the following;

### • Comprehensive credit policy framework

This is formulated by the BCC on behalf of the Board of Directors. Key aspects of the Group's credit policies include directions on pre-credit sanctioning which includes well-defined credit criteria and prudential limits in line with the defined risk appetite, post-credit monitoring and delegated approval authority at multiple levels. The framework is reviewed and updated regularly based on evolving best practices as well as emerging risks and opportunities.

The Board defined credit appraisal and monitoring procedures include the following;

#### Pre-credit sanctioning

- Multiple levels of approval authority
- Sophisticated risk rating and scoring system
- Prudential limits for concentration risk
- Structured and comprehensive credit appraisal and defined credit criteria

#### Post-credit monitoring

- Portfolio evaluation with emphasis on Early warning signals
- Robust credit review mechanism
- Stress testing and scenario analysis
- Review of selected exposures

#### Portfolio management

- Regular monitoring of concentration risk and other prudential limits
- Structured loan review mechanism
- Creation of loan loss reserves through Impairment assessment.
- Periodic reporting to HOCC, BCC and BIRMC

# Risk Management

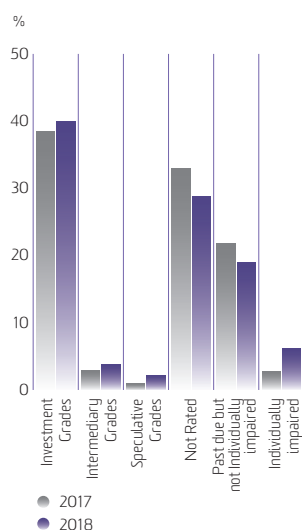
## Areas of Focus in 2018

- **Strengthened pre-credit sanctioning and collections:** Proactively providing independent assessments for approvals while increasing vigilance on certain high risk sectors.
- **Post-credit monitoring:** Strengthened the early warning signal system, enabling business units to foresee potential deteriorations in credit quality and be more proactive in collections and monitoring. Additional monitoring responsibilities have also been added to zonal teams with a view to improve credit quality.
- **Enhanced the continuous feedback loop:** Improved coordination and communication between the pre-credit sanctioning and post credit monitoring divisions.
- **SLFRS 9 Implementation:** Introduced mechanisms to strengthen the impairment assessment methodology in line with the requirements of SLFRS 9. The migration to expected credit loss modelling from incurred loss model has contributed to a significant portion of the increase in impairment charge. The deterioration in credit quality has also contributed to the increase.
- **Training:** Employee training on credit appraisal, risk acceptance and overall awareness on credit risk.

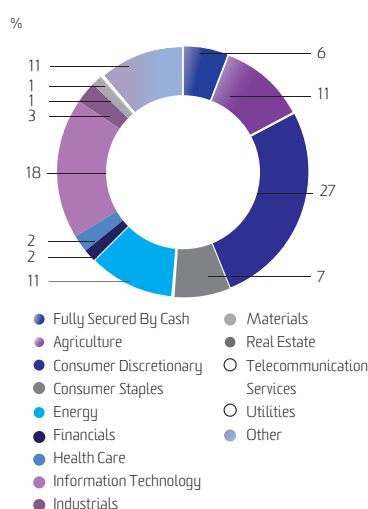
## Credit Risk Performance in 2018

**Operating Context:** The Bank sought regional diversification through corporate offshore banking with new customers, giving rise to credit risk although this is balanced by the Bank's partnership with strong funding partners and counter parties. Meanwhile, the weaker agriculture sector, sluggish economy and global developments affected the working capital and cash cycles of the trading sector, manufacturing and construction sectors leading to an increase in NPLs from the SME segment. The Bank realigned its loan portfolio towards segments with lower sensitivity to economic slowdown in order to better manage its credit risk.

Risk Rating Distribution



Sectoral Distribution of Loans



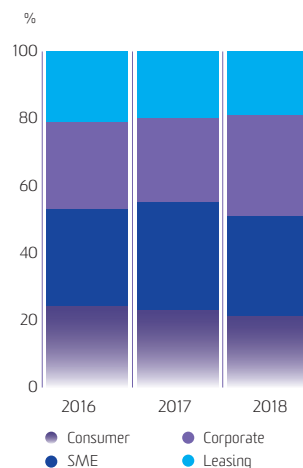
Further details on portfolio status and impairment reserves as at 31st December 2018 are available on Page 250.

## Concentration Risk

Concentration risk is measured through the Normalized Herfindahl-Hirschman Index (HHI) and is computed as part of the Bank's ICAAP process in which concentration related to industry sectors, individual customer segments and product maturity are monitored. Rapid growth in the corporate and SME books during the year in line with the Bank's overall

strategy, has enabled the Bank to reduce dependence on the consumer sector and achieve more balance in its portfolio.

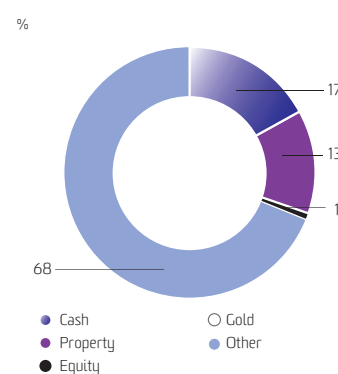
Loan Book Composition



## Large exposures

| Large exposures | % of total portfolio (Cumulative) |
|-----------------|-----------------------------------|
| Top 5           | 5.03%                             |
| Top 10          | 8.03%                             |
| Top 20          | 12.45%                            |
| Other           | 87.55%                            |

Collateral Breakdown



Further details of exposures subject to credit risk by major types, geographical areas, sectors and residual maturity are available in notes, 16, 47 and 49 to financial statements.

## Market Risk Management

Market Risk is the potential loss arising from changes in the fair value or future cash flows of financial instruments due to fluctuations in market variables, the correlations among them and their levels of volatility. The key market risks the Bank is exposed to interest rate risk, foreign exchange risk and liquidity risk.

Market risk exposure originates mainly from:

**Trading market risk:** arises primarily through the market-making and trading activities in the various government securities and derivative markets.

**Non-trading market risk:** arises from assets and liabilities that are typically on our books for a longer period of time (deposit taking and lending).

Pls refer Page 251.

The Asset Liability Management Committee (ALCO) holds executive responsibility for overseeing the Bank's market risk exposures. On the other hand, the Investment Committee is responsible for overseeing investment and reinvestment of the Bank's funds and evaluating investment performance. The evaluation will take into account compliance with investment policies and guidelines and risk tolerance levels. In addition, the IRMD is responsible for the implementation and review of market risk management policies, tools and techniques. As treasury operations can give rise to significant market risks, the Treasury Middle Office (which operates independently from the Treasury Department) monitors treasury related market risks such as Foreign Currency Net Open Position (NOP) limits and counterparty limits on a daily basis.

## Robust Market Risk Policies

A comprehensive framework of policies is in place to govern all aspects of market risk management. These include the asset and liability management policy, liquidity risk management policy, FOREX risk management policy and policy on stress testing, which provide guidance on the systems, procedures, tools and techniques for the identification, assessment, mitigation, monitoring and reporting on all market related risks. The policies are reviewed and updated regularly in view of emerging market risks.

## Risk Limits and Trigger Points

The Board of Directors have defined a range of limits for investment and treasury related activities including foreign currency net open position limits, counterparty limits, stop loss limits, minimum liquidity stock ratios and other market risk related limits. Actual performance against these limits are monitored by the Middle Office and the IRMD and brought to the attention of the ALCO & BIRMC on a regular basis. Meanwhile thresholds that trigger specific management action is specified to ensure proactive management of market risks.

## Areas of Focus in 2018

### Revision of Policies and procedures

Detailed operational guidelines have been issued to facilitate implementation of the control environment relating to treasury activities.

### Implementation of Stochastic ALM Module:

Stochastic ALM Module uses stochastically generated market rate movements to calculate a distribution of possible profits and market values. From these distributions, it is possible to make conclusions, up to a specified level of confidence (e.g. 95%), that a certain outcome will (or will not) be exceeded.

The important advantage of the stochastic approach is that it facilitates the verification of risk strategy not only in a deterministic but also in a stochastic way.

## Foreign Exchange Risk

Foreign Exchange (FOREX) risk is the potential loss arising from fluctuations of value in a financial instrument due to changes in foreign exchange rates. The Bank is exposed to foreign exchange risk through its holding of assets denominated in foreign currency. Executive responsibility for managing the Bank's forex risks lie with the Treasury department with a clear segregation of duties between the front, middle and back offices to ensure the adequacy of internal controls. FOREX risks are managed through limits on exposure to currencies on an individual and aggregate basis, as well as dealer and counter-party limits, overnight and intra-day

limits and stop loss limits. These limits are independently monitored on a daily basis by the Treasury Middle Office, ensuring Market Risk exposures are within the board approved limits. These transactions are also governed by the CBSL which has in place a stringent regulatory framework which includes an approval mechanism and exposure limits.

Pls refer Page 252.

## Liquidity Risk

Liquidity risk is the risk arising from the Bank's potential inability to meet all payment obligations when they come due or only being able to meet these obligations at excessive costs.

Oversight responsibility for managing the Bank's liquidity risks is with the ALCO, which ensures that a sufficient liquidity buffer is maintained to meet the Bank's financial obligations. The ALCO regularly reviews the Bank's cash flow projections, funding capabilities, pricing decisions and liquidity levels to ensure compliance to internal targets as well as regulatory liquidity requirements. The Committee also works closely with the Treasury Department in the implementation of ALCO decisions on a day to day basis.

Despite the liquidity levels of the banking system being volatile, healthy level of liquidity buffers were maintained throughout the year. Liquidity indicators were maintained comfortably within regulatory minimums and the limits defined by the Risk Appetite statement. Maturity analysis of assets and liabilities also indicates a relatively healthy liquidity position. Page 253.

Listed below are the tools for measuring and managing Liquidity

- I. Maturity Mismatch:
- II. Concentration of Funding;
- III. Liquidity Coverage Ratio (LCR)
- IV. Net Stable Funding Ratio (NSFR)
- V. Liquidity Early Warning Signals
- VI. Intraday liquidity Management
- VII. Contingency Funding Plan
- VIII. Liquidity Transfer Pricing



# Risk Management

IX. Liquidity Simulations, Stress Testing and Scenario Analysis

X. Other Liquidity Stock Ratios

Pls refer Page 255.

## Market Risk Performance in 2018

### Interest Rate Risk

Interest Rate Risk arises from the possibility that fluctuations in interest rates will affect the future cash flows or fair values of financial instruments. Exposure to interest rate risks arise from its lending, trading securities and deposit liabilities. Sub types of interest rate risks are,

- Repricing risk arises from the inherent mismatch between the Bank's assets and liabilities which results in repricing timing differences.
- Basis risk arises from the impact of relative changes in interest rates for financial instruments that have similar tenors but are priced using different interest rate indices.
- Yield curve risk arises from shifts in the yield curve that have a negative impact on the Bank's earnings/asset values.

The Bank manages its interest rate risks primarily through asset liability repricing gap analyses, which distributes interest rate sensitive assets, liabilities and off-balance sheet positions into several maturity buckets. Board defined limits are in place for interest rate gaps and positions are monitored at least on a monthly basis to ensure compliance to the prescribed limits. In addition to the asset liability maturity mismatches, Pls refer Page 254. The ALCO regularly monitors trends in market interest rates, as well as results of interest rate stress testing analyses.

### Interest Rate Risk in Banking Book

Interest Rate Risk in Banking Book (IRRBB) refers to the current or prospective risk to the bank's capital and earnings arising from adverse movements in interest rates that affect the Bank's banking book positions.

When interest rates change, the present value and timing of future cash flows change. This, in turn changes the underlying value of a Bank's

assets, liabilities and off-balance sheet items and hence its Economic Value (EVE). Changes in interest rates also affect a bank's earnings by altering interest rate-sensitive income and expenses, affecting its Net Interest Income (NII). Excessive IRRBB can pose a significant threat to a bank's current capital base and/or future earnings if not managed appropriately.

Pls refer Page 254.

## Operational Risk Management

Oversight responsibility for operational risk management has been delegated to a dedicated Operational Risk Management Unit (ORMU). The Operational Risk Management Committee (ORMC) periodically met as the main interaction point between all operational functions of the bank encompassing end to end process coverage. The Committee is accountable to Executive Risk Management Committee (ERMC) on matters related to operational risk management and to foster a culture within Nations Trust Bank that emphasizes and demonstrates the benefits of a risk based approach to internal control and management of operational risks of the bank. Meanwhile, the ORMU which functions within the purview of IRMD provides independent verification on the Bank's operational risk exposures.

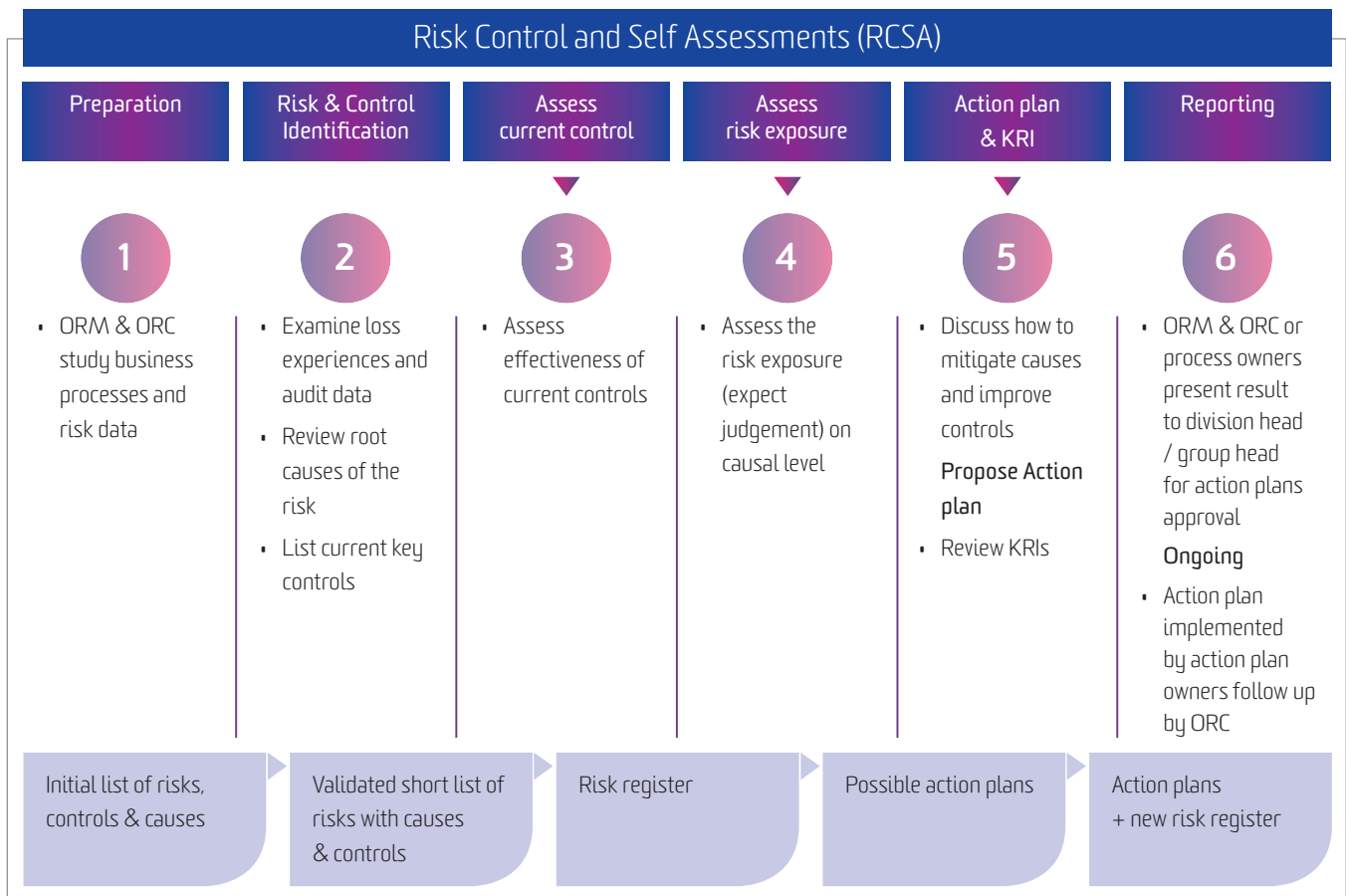
The operational risk management framework is underpinned by the following;

### • Identification and assessment

The Bank uses Risk and Control Self Assessments (RCSA) which are administered to all key business and operational units to evaluate the exposure to defined operational risk parameters. It is a structured mechanism for a Business Line, Supporting Unit, Product Line or Process to identify and assess its own risks and introduce measures aimed at improving risk control. In addition, the ownership of key risks and measures introduced to mitigate unacceptable risk exposure is clearly defined. RCSA process ranks the risks based on its likelihood of occurrence and its impact / severity if that risk materializes. It also critically tests the current controls available to

address such risks in terms of its control design and control performance of risks in designing/ reviewing suitable action. Stemming from individual departmental risk grids, a bank-wide risk grid is prepared highlighting key risks impacting the bank. This overall bank risk grid is updated every other month and presented to the Board Integrated Risk Management Committee as a "Risk Assessment Report" which details the prevailing or emerging risks and its management.

The Key Risk Indicators (KRIs) being implemented will ensure that early indicators of risks are given due recognition and appropriate action is taken to reduce possible losses arising from such risks.



#### • Limits and tolerance levels

The Board of Directors have defined specific limits and tolerance levels for operational risk indicators including the number of internal and external loss events and the total value of operational losses monitored. Regular reporting to the BIRMC and Board of Directors ensure that parameters are maintained within the defined limits and corrective action is initiated if required.

#### • Risk reporting

The Bank maintains a well-structured Operational Risk Loss Data Base which is aligned to the BASEL requirements. Streamlined processes are in place to capture all operational loss events including near misses, which are then categorized as specified in a BASEL document in order to use them for future modeling activities. The loss events are linked to the RCSA & KRI Program to ensure that repeat errors are minimized.

#### • Outsourced services

The Bank outsources some of its non-critical activities including cash management, labor supply, embossing of cards, document management and archiving. To mitigate the operational risks, business units submit due diligence test grid along with the relevant documents to outsourcing services unit. Outsourcing services unit participates for the Business Continuity Plan rehearsals of service providers as well as carry out periodical visits along with the business unit, AVP - Information Security and Manager Operational Risk Control. These activities provide an assurance on the ability of service provider to maintain required levels of service at all times.

#### Areas of Focus in 2018

- **Strengthened the RCSA mechanism & KRI:** Strengthened RCSA mechanism with the introduction of several new risk assessment grids for business and support units. Currently the Bank maintains 36 operational risk grids for several units, which is a qualitative analysis of the Operational Risk tools.  
  
KRI's were designed for several Business Units and has been rolled out with the assistance of the Risk Coordinators along with defined thresholds to monitor.
- **Maintained performance against operational risk appetite:** Operational losses to operating expenses ratio at 0.19% in 2018
- **Increased employee engagement and awareness on "Operational Risks":** Information related to operational risk continued to be shared through operational risk updates for all employees. This has

## Risk Management

enabled the prompt sharing of knowledge, notifications of operational risk incidents and nurturing a risk culture across the Bank. Operational risk training programs were conducted for all risk coordinators of the bank.

- **Increased vibrancy and proactiveness of ORMU:** During the year, the ORMU conducted regular meetings and identified risks were escalated to the relevant personnel for immediate action.

### Operational Risk Performance in 2018

All operational risk indicators were maintained within the defined parameters while there were no material loss events during the year. The value of the total operational loss events remained well within risk appetite as at end of 2018.

| BASEL II LOSS EVENT TYPE CATEGORY | Value in Mn                               |       | %    |
|-----------------------------------|---|-------|------|
|                                   | Internal Fraud                            | -     | -    |
|                                   | External Fraud                            | 11.79 | 58%  |
|                                   | Employment Practices and Workplace Safety | -     | -    |
|                                   | Clients Products and Business Practices   | 1.71  | 9%   |
|                                   | Damage to Physical Assets                 | -     | -    |
|                                   | Business Disruption and System Failure    | 4.51  | 22%  |
|                                   | Execution Delivery & Process Management   | 2.27  | 11%  |
|                                   | Total Operating Losses                    | 20.28 | 100% |

### Information Security (IS) and Governance function.

The continuous investments and efforts of digitalisation entails newer technology risks and remains one of the main risk areas. The challenges are due to increasing

complexity of cyber security threats such as phishing attacks, ransomware, denial of service attacks etc. The bank is cognizant of such complexities and security initiatives such as Data Governance Framework and Data Leakage Prevention Solutions (DLP) are being implemented on top of other security infrastructure to safeguard customer and other confidential data.

The Information Security (IS) practices of the bank is supported by information security unit as the first level of defense for monitoring and responding whereas an independent IS and Governance function under the CRO has also been established during the year which proactively monitors IT operational risks and cyber risks via leading/lagging Key Risk Indicators (KRIs) and dashboards. Such indicators are frequently monitored and relevant stakeholders will be informed to take necessary measures as and when thresholds are likely to be breached. Further, project based independent technology risk assessments will be carried out by this unit.

### Strategic and Reputational Risk

Strategic risks are the potential losses arising from the possibility of the Bank's future business plans and strategies being inadequate. Strategic risks arise from external and/or internal factors and inability to respond to emerging risks and opportunities in the operating landscape.

Reputational risks are those that impact the Bank's current or prospective earnings capacity and organisational value arising from the loss of confidence, breakdown in relationships and negative perceptions of transactional stakeholders.

Strategic and reputational risks are measured using a scorecard based approach which takes into consideration a range of factors including the Bank's size, complexity and sophistication of operations, trends in the operating landscape as well as customer profiling. Effective management of the Bank's strategic and reputational risks is periodically reviewed.

### CAPITAL MANAGEMENT

The level of the capital that the Bank is required to maintain is aligned to the Risk Appetite and risk profile to commensurate with the Bank's strategic plan. An overview of the capital planning and assessment process is explained below.

### Establishment of Risk Exposures and Capital Requirement

The capital planning process is integrated with the strategic planning process where the Bank determines the risk appetite and the risk profile based on key customer segments, products it desire to serve and it's business model.

Credit risk, market risk, liquidity risk and operational risk exposure limits are established which are primarily linked to the capital based on the risk appetite envisaged at this planning level.

The Bank calculates the risk exposures and risk weighted assets for capital adequacy purposes based on following Basel III guidelines issued by the Central Bank of Sri Lanka:

#### Pillar 1 risk exposures

- Credit risk - Standardized Approach
- Market risk - Standardized Approach
- Operational risk - Basic Indicator Approach

#### Pillar 2 risk exposures

Risks such as Residual credit risk, credit concentration risk, interest rate risk of the banking book and strategic risk are assessed based on the Internal Capital Adequacy Assessment Process (ICAAP). This process also includes assessment of adequate capital buffers to ensure maintenance of minimum capital ratios as per regulations under unexpected, stressed economic conditions.

| Component of Capital   | 01.01.2018 | 01.01.2019 |
|--|------------|------------|
| <b>Bank Assets Less than LKR 500 billion</b>   |            |            |
| Common Equity Tier 1 including Capital Conservation Buffer   | 6.38%      | 7.00%      |
| Total Tier 1 including Capital Conservation Buffer   | 7.88%      | 8.50%      |
| Total Capital Ratio including Capital Conservation Buffer  | 11.88%     | 12.50%     |
| <b>Bank with Assets LKR 500 billion and above</b>  |            |            |
| Common Equity Tier 1 including Capital Conservation Buffer and Capital Surcharge on Domestic Systemically important bank | 7.37%      | 8.50%      |
| Total Tier 1 including Capital Conservation Buffer and Capital Surcharge on Domestic Systemically important bank         | 8.88%      | 10.00%     |
| Total Capital Ratio including Capital Conservation Buffer and Capital Surcharge on Domestic Systemically important bank  | 12.87%     | 14.00%     |

Appropriate capital buffers are also estimated to maintain the financial covenants set by the medium term funding agencies and to secure better entity credit rating.

The bank also assess the capital expenditure and investment requirement to support the growth and business strategy at strategic plan level and during annual budgeting cycle.

### Sources of Capital

The primary source of capital is through the internally generated capital. The business plans and financial plans are prepared ensuring adequate profit generation by setting appropriate targets for return on assets and capital.

The capital augmentation plan identifies the level of tier 1 and tier 2 capital requirement in addition, liquidity risk is also considered during the planning stage through liquidity stock and cash flow approaches for the next 3-4 years. The amount of dividend distributions and mode of payment through cash and scrip dividend are decided based on this future capital requirement of the bank.

### Capital Allocation

Capital is allocated to business lines based on Risk Adjusted Return on Capital (RAROC) targets in order to optimize risk adjusted returns. Excess capital in subsidiary companies is also re-allocated based on this model. Capital allocation drives down further to key products and customer portfolios depending on the availability of data and management objectives.

This process ensures the efficient allocation of capital in times of divergences and unexpected events when additional capital is required.

The CRO is entrusted with identifying and assessing the risk exposures of the bank while CFO ensures the development of the capital augmentation plan to maintain the appropriate level of capital for business growth and to meet minimum regulatory standards.

The capital augmentation plan constructed at the strategic planning cycle, generally covers 3-4 year period which is updated during the annual budgeting cycle and approved by the Board of Directors.

### Key highlights for the year:

Total Group capital ratio under Basel III Pillar I risks is 15.59% as at 31.12.2018 (13.89% 31.12.2017). The total capital ratio including Pillar II risks is currently being assessed.

The Bank raised LKR 3.2 billion new equity capital in February 2018. The Bank also raised LKR 3.5 billion Basel III complaint tier 2 capital in April 2018.

### Risk Regulation

#### BASEL III Framework

Following the introduction of BASEL III, Banks are required to enhance their capital requirements with the objective of improving the quality, quantity, consistency and transparency of the capital base. Meanwhile the Liquidity Coverage Ratio (LCR) is one of the Basel Committee's key recommendations to strengthen global liquidity regulations to nurture a more resilient banking sector.

In light of changes that took place in global economic conditions and risk landscape, CBSL has shifted the risk management in banking industry to the next level. BASEL III continued to follow 3-pillar approach with considerable changes in minimum capital and capital buffer requirements, further improvements in supervisory review process and additional disclosure requirements under market discipline.

# Risk Management

Market Disclosures based on BASEL III is annexed below.

| Area   | No | Disclosure requirement   |  | Page No |
|--|----|--|--|---------|
| Regulatory requirements on capital and liquidity               | 1  | Key Regulatory Ratios - Capital and Liquidity  | Table 1  | 256     |
|  | 2  | Basel III Computation of Capital Ratios  | Table 2  | 257     |
|  | 3  | Basel III Computation of Leverage Ratio  | Disclosure requirements will commence from 2019 onwards                  | -       |
|  | 4  | Basel III Computation of Liquidity Coverage Ratio  | Table 3  | 258     |
|  | 5  | Main Features of Regulatory Capital Instruments  | Table 4  | 259     |
| Risk Weighted Assets   | 6  | Summary discussion on adequacy/meeting current and future capital requirements   | Capital Management Section of this review                                | 80 - 81 |
|  | 7  | Credit Risk under Standardised Approach: Credit Risk Exposures and Credit Risk Mitigation (CRM) Effects  | Table 5  | 260     |
|  | 8  | Credit Risk under Standardised Approach: Exposures by Asset Classes and Risk Weights   | Table 6  | 262     |
|  | 9  | Market Risk under Standardised Measurement Method  | Table 7  | 264     |
|  | 10 | Operational Risk under Basic Indicator Approach/The Standardised Approach/The Alternative Standardised Approach                                | Table 8  | 264     |
| Linkages between Financial statements and regulatory exposures | 11 | Differences Between Accounting and Regulatory Scopes and Mapping of Financial Statement Categories with Regulatory Risk Categories – Bank Only | Table 9  | 266     |
|  | 12 | Explanations of differences between accounting and regulatory exposure amounts   | Table 9  | 266     |
| Risk Management  | 13 | Bank Risk Management Approach  | Risk Management review is outlined in Sections (a) to (h) in this Review | 68 - 82 |
|  | 14 | Risk Management related to key risk exposures  |  |         |



# Board Integrated Risk Management Committee Report

## COMPOSITION

The members of the Integrated Risk Management Committee (IRMC) are appointed by the Board of Directors and the Committee's composition during the period ended 31st December 2018 was as follows;

Mr. Suran Wijesinghe - Chairman  
(Non-Executive Director)<sup>1</sup>

Mr. Gihan Cooray (Non-Executive Director)<sup>2</sup>

Dr. Kemal De Soysa  
(Independent Non-Executive Director)<sup>3</sup>

Ms. Rachini Rajapaksa  
(Independent Non-Executive Director)<sup>4</sup>

Mr. Kumar Jayasuriya  
(Non-Executive Director)<sup>5</sup>

Ms. Sherin Cader (Non-Executive Director)<sup>6</sup>

<sup>1</sup> Appointed as the Chairman with effect from 1st December 2018

<sup>2</sup> Ceased to be the Chairman and a member with effect from 30th November 2018

<sup>3</sup> Ceased to be a member with effect from 31st March 2018

<sup>4</sup> Appointed as a member with effect from 1st April 2018

<sup>5</sup> Appointed as a member with effect from 01st December 2018 and ceased to be a member with effect from 31st December 2018

<sup>6</sup> Appointed as a member with effect from 17th December 2018

The Chief Risk Officer, Mr. Chamila Sumathiratne functions as the Secretary to the IRMC. Chief Executive Officer, Ms. Renuka Fernando and the following Key Management Personnel attended meetings of the Integrated Risk Management Committee as required under Rule No. 3(6)(v)(a) on Rules of Corporate Governance for Licensed Commercial Banks in Sri Lanka.

Mr. Ajith Akmeemana - Chief Financial Officer

Mr. Thilak Piyadigama - Chief Operating Officer

Mr. Indrajith Boyagoda - EVP -Treasury & Investment Banking

Mr. Theja Silva - Group Company Secretary / General Counsel

Mr. Nanda Bandara - EVP -Internal Audit

Mr. Gayan Ranaweera - Chief Credit Officer

Mr. Nisala Kodippili - Chief Information Officer

Mr. Mevan Balalle - Chief Compliance Officer

In addition to the above, senior management of the Integrated Risk Management Division & other business units, when required, attended meetings of the Integrated Risk Management Committee by invitation.

## TERMS OF REFERENCE

Integrated Risk Management Committee's mandate includes the following:

- Ensuring that the Bank has a comprehensive risk management framework in place relative to the Bank's activities and risk profile,
- Assessing the effectiveness of the Bank's risk management system and monitoring the impact to the Bank from risk types such as credit, market, liquidity, operational and strategic through appropriate risk indicators and management information,
- Ensuring that a compliance function is in place to assess the Bank's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies relating to all areas of Bank operations,
- Ensuring that the Board of Directors is kept updated of the Group's risk exposure in relation to the approved risk appetite.

## ROLE AND RESPONSIBILITIES

In order to ensure that timely risk mitigation measures are initiated based on the robust risk management structure in place, the IRMC reviewed and monitored the following during the year:

1. Setting up of risk appetite limits and periodic monitoring of risk reports
2. Reviewing the overall stress testing framework and monitoring the results of such tests
3. Reviewing the Bank risk grid taking into consideration material changes in the Bank's risk profile or the external environment and providing necessary guidance and recommendations
4. Reviewing risk management policies and terms of reference of committees dealing with risk management such as Executive Risk Management Committee, Operational Risk Management Committee and ALCO

5. Monitoring the effectiveness of Management committees overseeing broad areas of risk management
6. Periodically reviewing the Internal Capital Adequacy Assessment Process (ICAAP) and the resultant report
7. Approving annual compliance plan and reviewing periodic compliance reports

The process through which the IRMC discharges its responsibilities is further detailed in the Risk Management section of this annual report. During the year, the IRMC continued to place special emphasis on ensuring that a risk awareness culture is maintained in the Bank through initiatives such as developing and monitoring of divisional risk grids, management meetings which discuss and assess risks, training and knowledge sharing sessions. These initiatives cascaded the risk awareness culture to the lower levels of staff and enabled the staff to understand and voice their opinions on risks and risk management practices of the Bank in an open and transparent manner. Greater emphasis was placed on information security aspects due to its increasing significance as a source of risk.

## MEETINGS

The IRMC held six (06) meetings during the year under review and the Directors' attendance at such meetings is given on Page 62 of this Annual Report. Minutes of the Meetings were forwarded to the Board. The IRMC also approved a Risk Assessment Report to be submitted to the Board within a week of every meeting. The IRMC reviewed risk policy frameworks, risk management strategies and key risk indicators at the meetings and was satisfied that the risk exposures of the Bank are being appropriately managed.



Suran Wijesinghe  
Chairman  
Integrated Risk Management Committee

27th February 2019  
Colombo

# Board Credit Committee Report

The members of the Board Credit Committee (BCC) are appointed by the Board of Directors and the Committee's composition during the period ended 31st December, 2018 was as follows;

Mr. Gihan Cooray - Chairman  
(Non-Executive Director)<sup>1</sup>

Mr. Krishan Balendra - Former Chairman  
(Non-Executive Director)<sup>2</sup>

Mr. Prasanna De Silva  
(Non-Executive Director)

Mr. Russell De Mel  
(Independent Non-Executive Director)

Mr. Chanaka Wickramasuriya  
(Independent Non-Executive Director)<sup>3</sup>

<sup>1</sup> Appointed as the Chairman and as a member with effect from 01st December 2018

<sup>2</sup> Ceased to be the Chairman and a member with effect from 01st December 2018

<sup>3</sup> Appointed as a member with effect from 17th December 2018

The Committee held twelve meetings during the year under review and the Directors' attendance at such meetings is given on Page 62 of this Annual Report. The Committee also approves credit proposals by circulation.

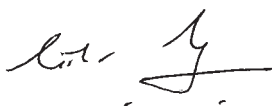
The mandate of the Board Credit Committee includes the following;

1. Approve/Decline all credit facilities above the level of authority granted to "Head Office Credit Committee" by the Board of Directors. BCC will constitute the final credit approval authority of the bank having been vested with the full powers to approve /decline credit by the Board of Directors.
2. Approve/Decline Interest Waivers and Principal Write-offs in order to facilitate settlement of bad debts or to rehabilitate/restructure bad debts.
3. Review the quality of the credit portfolio of the bank including Top 20 Exposures, Watch-listed Customers etc.

4. Review, provide input and make recommendations on credit origination, appraisal, approval and administration processes/procedures.
5. Any other matter referred by the Board of Directors.

The Chief Credit Officer functions as the Secretary to the Board Credit Committee and the minutes of the meetings were made available to the Board of Directors on a regular basis. The Chief Executive Officer of the Bank is invited to be present at the meetings of the Committee. Other members of the Senior Management of the Bank are invited to participate at the meetings as and when required.

The Committee which derives its scope and authority from the Board of Directors was established to provide guidance to the Management to ensure a balance between risk and growth in the Bank's expansion strategies.



Gihan Cooray  
Chairman  
Board Credit Committee

27th February 2019  
Colombo

# Board Supervisory Committee Report

The members of the Board Supervisory Committee (BSC) are appointed by the Board of Directors and the Committee's composition during the period ended 31st December, 2018 was as follows;

Mr. Suran Wijesinghe - Chairman  
(Non Executive Director)

Mr. Murtaza Jafferjee  
(Independent Non Executive Director)

Mr. Prasanna De Silva (Non Executive Director)

Mr. Savanth Sebastian  
(Independent Non Executive Director)<sup>1</sup>

Ms. Sherin Cader (Non Executive Director)<sup>2</sup>

Mr. Gihan Cooray (Non Executive Director)<sup>3</sup>

<sup>1</sup> Appointed as a member with effect from 17th December, 2018

<sup>2</sup> Appointed as a member with effect from 17th December, 2018

<sup>3</sup> Ceased to be a member with effect from 30th November 2018

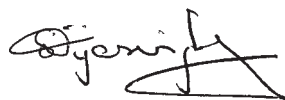
The Committee meets monthly in advance of the Board meeting and minutes are submitted to the Board of Directors for review. The Corporate Management Team along with the Director/CEO attends all meetings by invitation. The BSC is not a committee mandated under the Corporate Governance Directions issued by the Central Bank of Sri Lanka.

The Committee held thirteen meetings during the year under review and the Directors' attendance at such meetings is given on Page 62 of this Annual Report.

## TERMS OF REFERENCE

The mandate of the BSC includes the following;

1. Review the performance of the Bank and its business units to ensure that the Management and staff are focused towards achievement of plans approved and objectives set by the Board. The review also covers the support functions of the Bank and ensure that cost efficiencies and productivity is achieved across the Bank.
2. Approving expenditure within limits delegated by the Board of Directors.
3. Providing input and guidance to CEO and Corporate Management on various initiatives including IT systems, products, distribution channels etc prior to being presented to the Board of Directors for approval.
4. Review, provide input and make recommendations on policy papers, business plans and other such proposals impacting the operations of the Bank prior to such papers, plans and proposals being presented to the Board of Directors for approval.
5. Ensure that adequate policies, procedures and processes are in place to carry out the operations of the Bank and that these are reviewed periodically.



Suran Wijesinghe  
Chairman  
Board Supervisory Committee

27th February 2019  
Colombo

# Board Nomination Committee Report

The members of the Nomination Committee are appointed by the Board of Directors and the Committee's composition during the period ended 31st December, 2018 was as follows;

Mr. Murtaza Jafferjee - Chairman  
(Independent Non-Executive Director)

Mr. Gihan Cooray (Non-Executive Director)<sup>1</sup>

Mr. Kumar Jayasuriya  
(Non-Executive Director)<sup>2</sup>

Mr. Prasanna De Silva  
(Non-Executive Director)<sup>3</sup>

Dr. Kemal De Soysa  
(Independent Non-Executive Director)<sup>4</sup>

Mr. Krishan Balendra  
(Non-Executive Director)<sup>5</sup>

<sup>1</sup> Appointed as a member with effect from 1st April, 2018

<sup>2</sup> Appointed as a member with effect from 1st April, 2018 and ceased to be a member with effect from 31st December, 2018

<sup>3</sup> Ceased to be a member with effect from 31st March, 2018

<sup>4</sup> Ceased to be a member with effect from 31st March, 2018

<sup>5</sup> Ceased to be a member with effect from 1st December, 2018

The Committee held five meetings during the year under review and the Directors' attendance at such meetings is given on Page 62 of this Annual Report.

The proceedings of the meetings were reported to the Board.

The Committee's main responsibilities include the following:

1. Selecting and appointing new Directors, considering and recommending from time to time the requirements of additional/new expertise on the Board and recommending after due consideration the re-election of current Directors.
2. Implementing a procedure to select and appoint the Chief Executive Officer and Key Management Personnel of the Bank and setting up criteria for their appointment or promotion.

3. Ensuring that the Directors and the Key Management Personnel are fit and proper persons to hold office conforming to the criteria prescribed by the Central Bank of Sri Lanka.

4. Ensuring compliance with the provisions of the Articles of Association, written law, the Rules of the Colombo Stock Exchange and Directions of the Monetary Board of the Central Bank of Sri Lanka as may be applicable to the appointment of Directors, the Chief Executive Officer and Key Management Personnel.

The Committee works closely with the Board in evaluating and reviewing the skills required for the Bank and the Board. When recommending the appointment of new Directors, the Committee considers for each appointment, the particular skills, knowledge and experience that would benefit the Board most significantly. The Committee is satisfied that the representation of skills on the Board is appropriate for the Bank's current needs at Board level.

The Committee also works closely with the Board in ensuring that the Key Management Personnel comprise of persons of required skill and expertise and that their responsibilities and areas of authority are aligned with the Board approved strategy. Committee also considers and determines that the Directors and the Key Management Personnel are fit and proper persons to hold their respective offices.

During the year under review the Committee successfully concluded the selection of five new Directors in place of 5 retiring / resigning Directors. After carefully reviewing and identifying the skills requirements the committee sought nominations from the Board members for the new appointments. Thereafter the Committee carried out a comprehensive evaluation and made recommendations to the Board which recommendations were accepted by the Board. Four out of the said five appointments were made in the year 2018 and the formal appointment of the fifth Director was done on 18th January 2019.

Committee also spearheaded the process to put in place a succession arrangement for the position of CEO of the Bank and after a series of meetings a Deputy CEO was recommended to the Board by the Committee. Acting on such recommendations Board appointed Mr. Priyantha Talwatte as the Deputy CEO of the Bank with effect from 01st January 2019 with a view to take over from the current CEO when her term ends.



**Murtaza Jafferjee**  
Chairman  
Nomination Committee

27th February 2019  
Colombo

# Human Resources and Remuneration Committee Report

The members of the Human Resources and Remuneration Committee (HRRC) are appointed by the Board of Directors and the Committee's composition during the period ended 31st December, 2018 was as follows;

Mr. Gihan Cooray - Chairman  
(Non-Executive Director)<sup>1</sup>

Mr. Krishan Balendra  
(Non Executive Director)<sup>2</sup>

Mr. Murtaza Jafferjee  
(Independent Non Executive Director)<sup>3</sup>

Dr. Kemal de Soysa  
(Independent Non Executive Director)<sup>4</sup>

Mr. Kumar Jayasuriya  
(Non Executive Director)<sup>5</sup>

Mr. Suran Wijesinghe (Non Executive Director)

<sup>1</sup> Appointed as the Chairman and a member with effect from 01st December 2018

<sup>2</sup> Ceased to be the Chairman and a member with effect from 01st December 2018

<sup>3</sup> Appointed as a member with effect from 01st April 2018

<sup>4</sup> Ceased to be a member with effect from 31st March 2018

<sup>5</sup> Ceased to be a member with effect from 31st December 2018

During the year under review, one HRRC meeting was held and the Directors' attendance at this meeting is given on Page 62 of this Annual Report. The Chief Executive Officer was present at the meeting as an invitee except when matters relating to the Chief Executive Officer were being discussed. The minutes of the meeting was forwarded to the Board.

The mandate of the Committee is governed by the Human Resources and Remuneration Committee Charter, the objectives of which are:

1. To assist the Board of Directors in the establishment of remuneration policies and practices.
2. To review, and recommend to the Board, remuneration policies and packages for the Chief Executive Officer (CEO) and other Key Management Personnel of the Bank.

3. To set objectives and targets for the CEO and other Key Management Personnel.
4. To evaluate the performance of the CEO and other Key Management Personnel against the set objectives and targets.

In performing this role, the Committee ensures that:

1. Shareholder and employee interests are aligned.
2. The Bank is able to attract, motivate and retain employees, particularly at management level.
3. The integrity of the Bank's compensation and reward programme is maintained.

In keeping with the objectives of the Charter, the Committee during 2018, placed great emphasis in ensuring that the Compensation & Benefits policies of the Bank and the job grade structure are appropriate in attracting and retaining the skills required as well as ensuring succession plans are in place for top management roles in pursuing the short term, medium term and long term strategic objectives of the Bank.

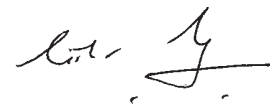
A review of the Bank's Compensation and Benefits structure was presented to the Committee along with a comparison with the industry and the recommended changes were approved by the Committee.

The Bank also implemented a new job grade structure effective January 01, 2018, subsequent to commissioning a multinational HR consultancy firm to review and recommend a new structure to align same to the current business context and to enable more career progression opportunities for the staff.

In creating a performance driven culture, the Bank administers a variable bonus scheme linked to the Bank's performance for the year vis-à-vis the annual budget and the performance of a peer group of Banks. Individuals are rewarded based on their individual performance and responsibility levels.

During the latter half of 2017, the Bank participated in a remuneration survey carried out by an external consulting firm with a view to ensuring that the Bank's compensation & benefits structure is market competitive. The findings of the survey were used as a basis for formulating the remuneration levels for the year 2018. The Bank also identified critical skills & critical roles in areas such as technology, digitization, data analytics which are crucial to meet the future strategic objectives of the Bank and needs close monitoring from a compensation and benefits perspective.

During 2018, the Committee also evaluated the 2017 performance of the CEO and other Key Management Personnel of the Bank against their pre-agreed objectives and targets and approved the objectives and targets of the CEO and other Key Management Personnel for the year 2018.



Gihan Cooray  
Chairman

Human Resources and Remuneration  
Committee

27th February 2019  
Colombo

# Related Party Transactions Review Committee Report

The members of the Related Party Transactions Review Committee (RPTRC) are appointed by the Board of Directors and the Committee's composition during the period ended 31st December, 2018 was as follows;

Mr. Russell De Mel - Chairman (Independent Non Executive Director)<sup>1</sup>

Mr. Murtaza Jafferjee (Independent Non Executive Director)

Ms. Renuka Fernando (Executive Director)

Dr. Kemal De Soysa (Independent Non Executive Director)<sup>2</sup>

<sup>1</sup> Appointed as the Chairman and a member with effect from 01st April 2018

<sup>2</sup> Ceased to be the Chairman and a member with effect from 31st March 2018

The Committee meets quarterly and minutes are submitted to the Board of Directors for review. Relevant Corporate Management members attend meetings by invitation.

The Committee held four meetings during the year under review and the Directors' attendance at such meetings is given on Page 62 of this Annual Report.

The Committee's main responsibilities include the following:

1. Review of Related Party Transactions (RPTs) either prior to the transaction being entered into or, if the transaction is expressed to be conditional on such review, prior to the completion of the transaction in accordance with the Listing Rules of the Colombo Stock Exchange and other applicable rules in Sri Lanka.
2. Ensuring that a robust framework exists for approving, managing and reporting related party transactions in accordance with applicable rules.

3. Establish guidelines for the senior management to follow in its ongoing dealings with Related Parties. Thereafter, the Committee, on an annual basis, shall review and assess ongoing relationships with Related Parties to determine whether they are in compliance with the Committee's guidelines and that the RPT remains appropriate.

During the year under review in addition to reviewing specific related party transactions, the framework for managing related party transactions was further strengthened under the guidance of the Committee. These included establishing an improved monitoring mechanism for liability transactions, reviewing and increasing the number of reports submitted to the Committee by the Management, identifying and assigning responsibility to specific members of the Corporate Management of the Bank to submit confirmation and reports to the Committee and enhancing branch level awareness on implementation of the framework on managing related party transactions.



**Russell De Mel**

Chairman

Related Party Transactions Review Committee

27th February 2019  
Colombo



# Directors' Statement on Internal Control Over Financial Reporting

## RESPONSIBILITY

In line with the Banking Act Direction No. 11 of 2007, section 3 (8) (ii) (b), the Board of Directors present this report on Internal Control over Financial Reporting.

The Board of Directors ("Board") is responsible for the adequacy and effectiveness of the internal control over Financial Reporting mechanism in place at Nations Trust Bank PLC, ("the Bank"). In considering such adequacy and effectiveness, the Board recognises that the business of banking requires reward to be balanced with risk on a managed basis and as such the internal control over Financial Reporting 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 over Financial Reporting can only provide reasonable, but not absolute assurance, against material misstatement of financial information and records or against financial losses or fraud.

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

- Board and Management sub committees are established by the Board to assist the Board in ensuring the effectiveness of Bank's daily

operations and that the Bank's operations are in accordance with the corporate objectives, strategies and the annual budget as well as the policies and business directions that have been approved.

- Policies / Charters are developed covering all functional areas of the Bank and these are approved by the Board or Board approved sub committees. Such policies and Charters are reviewed and approved periodically.
- The Internal Audit Department of the Bank check for compliance with policies and procedures and the effectiveness of internal control systems on an ongoing basis using samples and rotational procedures and highlight significant findings in respect of any non-compliance. Audits are carried out on all units and branches, the frequency of which is determined by the level of risk assessed, to provide an independent and objective report. The annual audit plan is reviewed and approved by the Board Audit Review Committee. Findings of the Internal audit Department are submitted to the Board Audit Review Committee for review at their periodic meetings.
- The Board Audit Review Committee of the Bank reviews internal control over Financial Reporting issues identified by the Internal Audit Department, external audit, regulatory authorities and management, and evaluate the adequacy and effectiveness of the risk management and internal control systems. They also review the internal audit functions with particular emphasis on the scope of audits and quality of internal audits. The minutes of the Board Audit Review Committee meetings are forwarded to the Board 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 Audit Committee Report on page 91.
- 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 operating effectiveness on an ongoing basis. In adopting Sri Lanka Accounting Standards comprising LKAS and SLFRS, progressive improvements on processes to comply with requirements of recognition, measurement, classification and disclosure were made whilst further strengthening of processes namely review of disclosures with regard to financial risk management, fair value and management Information are being done. The assessment did not include subsidiaries of the Bank.
- The Bank adopted SLFRS 9 – Financial Instruments w.e.f 01 January 2018. SLFRS 9 poses a significant impact on impairment assessment as it shifts the accounting for impairment of financial assets on the basis of expected credit loss from an incurred credit loss model in LKAS 39. Further complexities of SLFRS 9 relate to the Bank having to comply with the 'business model' assessment to determine the classification of

financial instruments. The Bank commenced its impact assessment of adopting SLFRS 9 in the year 2016 and has been progressively improving the required policies, procedures, financial models and underlying data used in its impairment calculations. Required training and awareness sessions were conducted to all stakeholders including the board of directors and senior management.

The Board will continuously take steps to strengthen the processes and controls around management information systems and reports required for validation and compliance in line with SLFRS 9.

- The Board has taken in to consideration the requirements of LKAS 16 - Leases which is effective from 1st January 2019. A preliminary assessment of impact was made during the year.

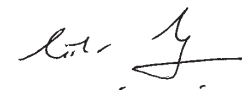
## CONFIRMATION

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

## REVIEW OF THE STATEMENT BY EXTERNAL AUDITORS

The external auditors have reviewed the above Directors Statement on Internal Control over financial reporting included in the annual report of the Bank for the year ended 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. External Auditors report on statement of internal controls over Financial Reporting is given on page 90 to this Annual Report.

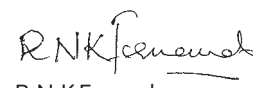
By order of the Board



Gihan Cooray  
Chairman



Rachini Rajapaksa  
Chairperson  
Board Audit Review Committee



R. N. K Fernando  
Director / Chief Executive Officer

27th February 2019  
Colombo

# Auditors' Report on Internal Control over Financial Reporting



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 ASSURANCE REPORT TO THE BOARD OF DIRECTORS OF NATIONS TRUST BANK PLC

### REPORT ON THE DIRECTOR'S STATEMENT ON INTERNAL CONTROL

We were engaged by the Board of Directors of Nations Trust 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 behavior.

The firm applies Sri Lanka Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

## OUR RESPONSIBILITIES AND COMPLIANCE WITH SLSAE 3050 (REVISED)

Our responsibility is to assess whether the Statement is both supported by the documentation prepared by or for directors and appropriately reflects the process the directors have adopted in reviewing the design and effectiveness of the internal control of the Bank.

We conducted our engagement in accordance with Sri Lanka Standard on Assurance Engagements (SLSAE) 3050 (Revised), Assurance Report for Banks on Directors' Statement on Internal Control, issued by the Institute of Chartered Accountants of Sri Lanka.

This Standard required that we plan and perform procedures to obtain limited assurance about whether Management has prepared, in all material respects, the Statement on Internal Control over Financial Reporting.

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.

27th 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

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# Board Audit Review Committee Report

## COMPOSITION OF THE BARC

The members of the Board Audit Review Committee (the "BARC") are appointed by the Board of Directors and the Committee's composition during the period ended 31<sup>st</sup> December 2018 was as follows;

Ms. Rachini Rajapaksa - Chairperson  
(Independent Non-Executive Director)<sup>1</sup>

Ms. N. Shalini Panditaratne  
(Independent Non-Executive Director)<sup>2</sup>

Mr. Kumar Jayasuriya  
(Non-Executive Director)<sup>3</sup>

Mr. Suran Wijesinghe (Non-Executive Director)

Mr. Savanth Sebastian  
(Independent Non-Executive Director)<sup>4</sup>

Ms. Sherin Cader (Non-Executive Director)<sup>5</sup>

<sup>1</sup> Appointed as the Chairperson with effect from 17th December 2018

<sup>2</sup> Ceased to be the Chairperson and a member with effect from 16th December 2018

<sup>3</sup> Ceased to be a member with effect from 31st December 2018

<sup>4</sup> Appointed as a member with effect from 17th December 2018

<sup>5</sup> Appointed as a member with effect from 17th December 2018

Brief profiles of the BARC members are given on pages 14 to 17 of the Annual Report.

Mr. Nanda Bandara, the Executive Vice President - Internal Audit functions as the secretary to the BARC and he reports directly to the Chairperson of the BARC, a practice that strengthens the independence of the position.

## MEETINGS

The BARC met on 16 occasions during the year under review and the Directors' attendance at such meetings is given on Page 62 of this Annual Report.

The minutes of BARC meetings have been regularly tabled at Board meetings enabling all Board members to have access to them.

Chief Executive Officer and Corporate Management/Senior Management members including the Chief Financial Officer and External Auditors attended these meetings on invitation. Four of these meetings were held

to consider and recommend to the Board of Directors the Bank's quarterly and Annual Financial statements.

## TERMS OF REFERENCE

The Charter of the BARC clearly defines the Terms of Reference of the committee. The BARC Charter was last reviewed and approved on 29<sup>th</sup> August 2018 by the Board of Directors.

The roles and functions of the BARC are regulated by the Banking Act Direction No. 11 of 2007 on "Corporate Governance for Licensed Commercial Banks in Sri Lanka" and its subsequent amendments, "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 and the Securities and Exchange Commission of Sri Lanka. The BARC 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.

## ROLE AND RESPONSIBILITIES

The Committee is mainly responsible for;

1. Reviewing financial information of the Bank in order to monitor the integrity of the Bank's financial statements prepared for disclosure, prior to submission to the Board of Directors.
2. Overseeing the appointment, resignation and dismissal of the External Auditor including review of the external audit function, its cost and effectiveness, monitoring of the External Auditor's independence, service period of the engagement/re-engagement of the audit partner and review non-audit services provided by the external auditors.
3. Making recommendations on matters in connection with appointed auditors providing audit services in compliance with the relevant statutes and implements the guidelines issued to auditors from time to time.

4. Reviewing the effectiveness of the Bank's system of internal controls and information security
5. Assessing the independence and monitoring the performance and functions of Internal Audit.
6. Reviewing internal audit reports and liaising with Corporate Management of the Bank in taking precautionary measures to minimise and control weaknesses, procedure violations, frauds and errors
7. Reviewing Audit Completion Letter (External Audit Management Letter) and Statutory Inspection Reports and follow up on their findings and recommendations.

## FINANCIAL REPORTING

The BARC, as part of its responsibility to oversee the Bank's financial reporting process on behalf of the Board of Directors, has reviewed and discussed with the management, the annual audited and the quarterly non-audited financial statements prior to their release. In reviewing the bank's annual and quarterly financial statements, the BARC focused particularly on;

1. The underlying assumptions for estimates and judgments
2. Any changes in accounting policies and practices
3. Significant adjustments arising from the annual audit
4. Disclosures made under financial reporting
5. Compliance with Sri Lanka accounting standards (SLFRS / LKAS) and other regulatory provisions
6. Material variances in income and expenditure and assets and liabilities, between the current and previous financial periods in order to better understand the reasons for such variances and their validity

To facilitate the review, the BARC considered reports from Chief Financial Officer, Chief Risk Officer, Internal audit and Audit Completion Letter issued by the External Auditor in making an overall assessment on the integrity of the Financial Reporting system.

# Board Audit Review Committee Report

The Institute of Chartered Accountants of Sri Lanka has issued the Sri Lanka Accounting Standard – SLFRS 9 (Financial Instruments) which became effective from 01 January 2018. The Committee regularly reviewed the progress of the implementation of SLFRS 9 during 2018.

## INTERNAL AUDIT

The audit plan for 2018 was approved by the BARC covering all significant operational areas which included branches, departments and special reviews. The committee periodically reviewed the progress of the Internal Audit plan.

The BARC provides a forum for the review of Internal Audit Reports including the evaluations of the Bank's Internal Control Systems and consideration of findings, recommendations and corrective action taken by the Management to mitigate recurrence of issues identified, with a view to managing significant business risks and improving controls. The department/unit heads attended the meetings when their audit reports were discussed.

The BARC reviewed the significant findings of internal investigations carried out during the year.

The BARC also reviewed the independence, objectivity and performance of the Internal Audit function and the adequacy of its resources. The performance of the Executive Vice President – Internal Audit was reviewed by the BARC and the performance appraisals of the senior officers of the Internal Audit Division reviewed by the EVP - IA was presented to the BARC for their concurrence.

## RISKS AND INTERNAL CONTROLS

Internal Audit Department uses an Audit Risk Assessment Framework approved by the BARC to determine the risk levels of auditable units based on the audits conducted as per the approved Audit Plan.

All key controls of the Bank have been documented by the relevant process owners and the Internal audit has introduced required audit procedures to relevant audit programmes to test the adequacy and effectiveness of internal controls. The BARC sought and

obtained the required assurance from the Head of the unit on the remedial action taken in order to maintain the effectiveness of internal controls. Any significant non-compliance is followed-up by the BARC and where necessary instructions were given to the management to enhance and strengthen the internal controls.

## REGULATORY COMPLIANCE

The Internal Audit performed verifications covering applicable regulatory requirements during their process audits ensuring that systems and procedures are in place to ensure compliance with such requirements.

## EXTERNAL AUDIT

The BARC assists the Board of Directors to implement a transparent process;

1. In the engagement and remuneration of the External Auditor for audit services with the approval of the shareholders
2. In reviewing the non-audit services to ensure that they do not lead to impairment of the independence of the External Auditor
3. In assisting the External Auditor to complete the audit programme within the agreed time frame in compliance with relevant guidelines issued by the Central Bank of Sri Lanka

In order to discharge its responsibilities, the BARC met with the External Auditor on fourteen occasions including two occasions where they met with BARC without the presence of the management. During these meetings with the External Auditor, the BARC;

1. Discussed their audit approach and procedures including matters relating to the scope of the audit and Auditor's independence.
2. Reviewed the audited financial statements with the External Auditor who is responsible for expressing an opinion on its conformity with the Sri Lanka Accounting Standards.
3. Reviewed the Audit Completion Letter issued by the External Auditor together with management responses thereto.
4. Discussed the further strengthening of the internal controls where applicable and adequacy of impairment provisions.

5. discussed and sought clarification on the new format for the audit report to be in force from 2018 financials onwards
6. Discussed the new developments in regulatory requirements, changes in Accounting standards relating to the Banking industry.

## WHISTLE BLOWING POLICY

The Whistle Blowing Policy was reviewed by the BARC and was approved by the Board of Directors on 27 September 2017 with a view to further strengthen the process by which employees could raise in confidence about suspected fraud, possible improprieties in financial reporting, internal controls or other matters. Concerns raised are investigated and the identity of the person raising the concern is kept confidential. A process has been established to track such whistle blowing and take necessary action as required.

The BARC is of the view that adequate internal controls and procedures are in place at the Bank and its subsidiaries to provide reasonable assurance that its assets are safeguarded and financial stability is maintained.

## REAPPOINTMENT OF EXTERNAL AUDITORS

The BARC has recommended to the Board of Directors that Messrs. Ernst & Young be reappointed as External Auditors of the Bank for the financial year ending 31 December 2019 subject to the approval of the shareholders at the next Annual General Meeting.



**Rachini Rajapaksa**  
Chairperson  
Board Audit Review Committee

27th February 2019  
Colombo

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# Expanding Value

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Our success is rooted in our passion for innovation and precision. Over the years we have developed the strengths that guarantee sustainable returns into the years ahead.



# Directors' Responsibility for Financial Reporting

The responsibility of the Directors, in relation to the Financial Statements, is set out in the following statement. The responsibility of the Auditors, in relation to the Financial Statements, is set out in the Report of the Auditors on page 95 of the Report.

The Companies Act No. 07 of 2007, requires that the Directors prepare for each financial year and place before a General Meeting, Financial Statements comprising an Income Statement, which presents a true and fair view of the profit or loss of the Bank and its subsidiaries for the financial year and a Balance Sheet, which presents a true and fair view of the state of affairs of the Bank and its subsidiaries as at the end of the financial year.

The Directors are of the view that, in preparing these Financial Statements:

- i. the appropriate Accounting Policies have been selected and have been applied consistently. Material departures, if any, have been disclosed and explained;
- ii. all applicable Accounting Standards have been followed;
- iii. judgments and estimates have been made which are reasonable and prudent.

The Directors are also of the view that the Bank and its subsidiaries have adequate resources to continue in operation and have applied the going-concern basis in preparing these Financial Statements.

The Directors are responsible for ensuring that the Bank and its subsidiaries maintain sufficient accounting records to be able to disclose, with reasonable accuracy, the financial position of the entities and to be able to ensure that the Financial Statements of the Bank and its subsidiaries meet with the requirements of the Companies Act, the Banking Act and the Listing Rules of the Colombo Stock Exchange.

The Directors are also responsible for taking reasonable steps to safeguard the assets of the Bank and its subsidiaries and, in this regard, to

give proper consideration to the establishment of appropriate internal control systems, with a view to preventing and for the detection of fraud and other irregularities.

The Directors are required to prepare Financial Statements and to provide the Auditors with every opportunity to take whatever steps and undertake whatever inspections they consider to be appropriate, for the purpose of enabling them to give their audit report.

The Directors are of the view that they have discharged their responsibilities as set out in this statement.

By Order of the Board



**Theja Silva**  
Company Secretary

27th February, 2019



# 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 AUDITORS' REPORT TO THE SHAREHOLDERS OF NATIONS TRUST BANK PLC REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS OPINION

We have audited the financial statements of Nations Trust 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 judgement, 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   |
|--|--|
| <p><b>Allowance for impairment Losses for Loans and Advances and the Group's transition to SLFRS 9:</b></p> <p>We considered the estimation of the Allowance for impairment Losses for Loans and Advances (including the accompanying disclosures required in the year of transition) as a Key Audit Matter due to the use of a model that involves complex manual calculations, significant judgements &amp; assumptions of the management.</p> <p>As at 31 December 2018, Loans and Advances, net of Allowance for impairment Losses amounted to LKR 221,506 Mn, which represents 68% of the Group's total assets.</p> <p>As more fully described in Note 53, on 1 January 2018 the Group transitioned to Sri Lanka Financial Reporting Standard 9: Financial Instruments ("SLFRS 9").</p> <p>Note 29 (iii), 29 (iv), 16 and 38 to the financial statements provides a fuller description of the allowance for impairment losses for loans and advances, basis of its calculation including key judgements &amp; assumptions used in its estimation.</p> | <p>Our audit effort included the following procedures:</p> <ul style="list-style-type: none"> <li>We evaluated the design and operating effectiveness of financial controls over the estimation of Allowance for impairment Losses for Loans and Advances;</li> <li>We checked the accuracy of the underlying calculations on a sample basis; We also tested the appropriateness of the data used in such calculations on a sample basis;</li> <li>The following key focused procedures were also performed:</li> </ul> <p>A. For a sample of loans &amp; advances individually assessed for impairment:</p> <ul style="list-style-type: none"> <li>Where impairment indicators existed, we evaluated the reasonableness of management's estimate of future recoveries; this included assessing rates used to discount expected future cash flows for reasonableness and checking the valuation of collateral held on a sample basis;</li> <li>For loans &amp; advances granted to customers in industries with higher risk of credit loss, we assessed the main criteria used by the management in its assessment of expected credit losses and reasonableness of impairment losses made thereof;</li> </ul> <p>B. For loans and advances collectively assessed for impairment:</p> <ul style="list-style-type: none"> <li>We tested for a sample, the completeness and accuracy of the underlying information in loans and advances used in the calculations for Allowances for impairment Losses by agreeing details to the Group's source documents and information in IT systems;</li> <li>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;</li> </ul> <ul style="list-style-type: none"> <li>We assessed the adequacy of the related financial statement disclosures as set out in note(s) 29 (iii), 29 (iv), 16 and 38.</li> <li>We also assessed the adequacy of the Group's disclosure on the impact of the initial adoption of SLFRS 9 as set out in note 53 to the financial statements.</li> </ul> |

# Independent Auditors' Report

| Key audit matter   | How our audit addressed the key audit matter   |
|--|--|
| <p><b>Preparation of Financial Statements inclusive of Significant disclosures</b></p> <p>As the Bank uses multiple and complex IT systems in its operations, the preparation and presentation of financial statements inclusive of significant disclosures are heavily dependent on information derived from such systems. The process of preparing key disclosures involves generating and collating of information from multiple system reports.</p> <p>Accordingly, we considered the preparation and presentation of financial statements of the Group inclusive of significant disclosures together with manual, automated and IT dependent manual controls over the said process as an area of significant audit attention.</p> | <p>Our audit procedures included the following, amongst others:</p> <ul style="list-style-type: none"> <li>Understanding and evaluating the of design and operating effectiveness of key automated, IT dependent or manual controls implemented by management over generation of multiple system reports and collation of required information underpinning the significant financial statement disclosures.</li> <li>Test-checking;             <ul style="list-style-type: none"> <li>&gt; the reports used to generate significant disclosures for accuracy and completeness;</li> <li>&gt; source data with those of the related IT systems;</li> <li>&gt; calculations made by management and</li> <li>&gt; reasonableness of categorizations made by management;</li> </ul> </li> <li>Where we considered necessary, performing additional audit procedures to assess management's assertion of integrity of systems.</li> </ul> |

## 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 Bank's and 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 judgement and maintain professional skepticism throughout the audit. We also:

1. 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.
2. 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.

3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. 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.
5. 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.
6. 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 2471.



27 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

A member firm of Ernst & Young Global Limited

# Statement of Financial Position

| As at 31st December   | Notes | Bank            |                 | Group           |                 |
|---|-------|-----------------|-----------------|-----------------|-----------------|
|   |       | 2018<br>LKR'000 | 2017<br>LKR'000 | 2018<br>LKR'000 | 2017<br>LKR'000 |
| Assets  |       |                 |                 |                 |                 |
| Cash and Cash Equivalents   | 6     | 6,437,519       | 6,847,210       | 6,437,573       | 6,849,683       |
| Balances with Central Bank of Sri Lanka                           | 7     | 12,762,122      | 11,213,278      | 12,762,122      | 11,213,278      |
| Reverse Repurchase Agreements                                     | 8.1   | 180,593         | 10,798          | 180,593         | 10,798          |
| Derivative Financial Instruments                                  | 9.1   | 2,403,787       | 230,217         | 2,403,787       | 230,217         |
| Financial Assets - Recognised through Profit or Loss              | 10    | 668,812         | 521,389         | 668,812         | 521,389         |
| Financial Assets - Available for Sale                             | 11    | -               | 38,852,046      | -               | 38,852,046      |
| Financial Assets at Fair Value through Other Comprehensive Income | 12    | 57,463,831      | -               | 57,463,831      | -               |
| Financial Assets - Held to Maturity                               | 13    | -               | 9,879,390       | -               | 9,950,433       |
| Other Financial Assets  | 14    | -               | 6,797,607       | -               | 6,797,607       |
| Financial Assets at Amortised Cost - Debt Instruments             | 15    | 15,941,247      | -               | 15,941,247      | -               |
| Financial Assets at Amortised Cost – Loans and Advances           | 16    | 221,500,656     | 186,536,712     | 221,505,692     | 186,745,711     |
| Other Assets  | 17    | 2,626,586       | 1,893,474       | 2,680,894       | 1,940,988       |
| Investments in Subsidiaries                                       | 18    | 678,710         | 678,710         | -               | -               |
| Property, Plant and Equipment                                     | 19    | 2,867,825       | 2,584,301       | 3,668,502       | 3,363,792       |
| Intangible Assets   | 20    | 1,301,248       | 1,148,646       | 1,302,940       | 1,153,552       |
| Total Assets  |       | 324,832,936     | 267,193,778     | 325,015,993     | 267,629,494     |
| Liabilities   |       |                 |                 |                 |                 |
| Due to Banks  | 21    | 18,474,545      | 12,314,853      | 18,474,545      | 12,314,853      |
| Derivative Financial Instruments                                  | 9.2   | 484,373         | 495,517         | 484,373         | 495,517         |
| Financial Liabilities at Amortised Cost                           |       |                 |                 |                 |                 |
| Due to Depositors   | 22    | 231,936,769     | 194,296,718     | 231,462,599     | 194,268,995     |
| Repurchase Agreements   | 22    | 7,784,017       | 10,718,199      | 7,681,669       | 10,339,794      |
| Due to Other Borrowers  | 22    | 20,248,816      | 11,662,223      | 20,248,816      | 11,662,223      |
| Debt Securities Issued  | 23    | 8,745,611       | 8,075,351       | 8,745,611       | 8,075,351       |
| Retirement Benefit Obligations                                    | 24    | 505,031         | 486,897         | 511,602         | 493,044         |
| Current Tax Liabilities   | 25    | 1,547,833       | 803,249         | 1,574,972       | 847,501         |
| Other Liabilities   | 26    | 7,683,056       | 5,795,524       | 7,722,738       | 5,834,246       |
| Deferred Tax Liabilities  | 27.2  | 960,783         | 1,737,512       | 1,050,358       | 1,827,929       |
| Total Liabilities   |       | 298,370,834     | 246,386,043     | 297,957,283     | 246,159,453     |
| Equity Attributable to Equity Holders of the Parent               |       |                 |                 |                 |                 |
| Stated Capital  | 28    | 8,865,523       | 5,101,369       | 8,865,523       | 5,101,369       |
| Statutory Reserve Fund  | 29    | 1,199,130       | 1,010,732       | 1,199,130       | 1,010,732       |
| Retained Earnings   | 30    | 15,820,900      | 13,813,403      | 16,179,448      | 14,237,649      |
| OCI Reserve   | 31.1  | (98,082)        | 207,600         | (98,082)        | 207,600         |
| Revaluation Reserve   | 31.2  | 674,631         | 674,631         | 912,691         | 912,691         |
| Total Equity  |       | 26,462,102      | 20,807,735      | 27,058,710      | 21,470,041      |
| Total Liabilities and Equity                                      |       | 324,832,936     | 267,193,778     | 325,015,993     | 267,629,494     |
| Contingent Liabilities and Commitments                            | 49.3  | 190,599,308     | 173,130,996     | 190,602,464     | 171,587,167     |
| Net Assets Value Per Ordinary Share (LKR)                         | 51.2  | 95.27           | 90.23           | 97.42           | 93.10           |
| Memorandum Information  |       |                 |                 |                 |                 |
| Number of Employees   |       | 3,105           | 2,921           | 3,128           | 2,943           |
| Number of Branches  |       | 94              | 93              | 94              | 93              |
| Number of Off-site ATMs & CRMs                                    |       | 45              | 42              | 45              | 42              |

Note: Amounts stated are net of impairment and depreciation.

Certification

I certify that these Financial Statements comply with the requirements of the Companies Act No. 7 of 2007.



**Ajith Akmeemana**  
Chief Financial Officer

The Notes to the Financial Statements from pages 103 to 220 form an integral part of, and should be read in conjunction with, these Financial Statements.

The Board of Directors is responsible for the preparation and presentation of these Financial Statements.

Signed for and on behalf of the Board of Directors by :



**Gihan Cooray**  
Chairman



**Rachini Rajapaksa**  
Director



**Renuka Fernando**  
Director / CEO

Colombo  
27th February 2019

# Statement of Profit or Loss

| For the Year Ended 31 December  | Notes | Bank                |                    | Group               |                    |
|---|-------|---------------------|--------------------|---------------------|--------------------|
|   |       | 2018<br>LKR'000     | 2017<br>LKR'000    | 2018<br>LKR'000     | 2017<br>LKR'000    |
| Gross Income  |       | 43,220,119          | 36,097,195         | 43,237,247          | 35,332,973         |
| Interest Income   | 32    | 37,034,354          | 29,882,480         | 37,050,409          | 30,005,170         |
| Interest Expense  | 33    | (21,924,562)        | (18,152,375)       | (21,886,502)        | (18,096,662)       |
| <b>Net Interest Income</b>  |       | <b>15,109,792</b>   | <b>11,730,105</b>  | <b>15,163,907</b>   | <b>11,908,508</b>  |
| Fee and Commission Income   | 34.1  | 5,791,962           | 5,133,765          | 6,082,044           | 5,358,853          |
| Fee and Commission Expense  | 34.2  | (272,277)           | (322,737)          | (272,277)           | (322,743)          |
| <b>Net Fee and Commission Income</b>  |       | <b>5,519,685</b>    | <b>4,811,028</b>   | <b>5,809,767</b>    | <b>5,036,110</b>   |
| Net Gain/(Loss) from Trading  | 35    | 2,778,248           | 571,461            | 2,778,420           | 571,461            |
| Net Fair Value Gains/(Losses) From Financial Instruments at Fair Value Through Profit or Loss | 36    | (3,758)             | 18,326             | (3,758)             | 18,326             |
| Net Other Operating Income/(Loss)   | 37    | (2,380,687)         | 491,163            | (2,669,868)         | (620,837)          |
| <b>Total Operating Income</b>   |       | <b>21,023,280</b>   | <b>17,622,083</b>  | <b>21,078,468</b>   | <b>16,913,568</b>  |
| Impairment Charges  | 38    | (3,272,708)         | (1,088,404)        | (3,274,036)         | (1,088,825)        |
| <b>Net Operating Income</b>   |       | <b>17,750,572</b>   | <b>16,533,679</b>  | <b>17,804,432</b>   | <b>15,824,743</b>  |
| Personnel Expenses  | 39    | (4,143,993)         | (3,825,570)        | (4,173,771)         | (3,856,988)        |
| Depreciation of Property, Plant and Equipment   | 19    | (367,437)           | (352,319)          | (395,736)           | (366,855)          |
| Amortization of Intangible Assets   | 20    | (302,733)           | (272,581)          | (305,948)           | (275,817)          |
| Other Operating Expenses  | 40    | (5,249,595)         | (4,276,602)        | (5,202,937)         | (4,273,394)        |
| <b>Total Operating Expenses</b>   |       | <b>(10,063,758)</b> | <b>(8,727,072)</b> | <b>(10,078,392)</b> | <b>(8,773,054)</b> |
| <b>Operating Profit before Taxes and Levies on Financial Services</b>                         |       | <b>7,686,814</b>    | <b>7,806,607</b>   | <b>7,726,040</b>    | <b>7,051,689</b>   |
| Taxes and Levies on Financial Services  | 41    | (1,863,948)         | (1,636,093)        | (1,866,739)         | (1,658,207)        |
| <b>Profit before Income Tax</b>   |       | <b>5,822,866</b>    | <b>6,170,514</b>   | <b>5,859,301</b>    | <b>5,393,482</b>   |
| Income Tax Expense  | 42    | (2,054,898)         | (1,883,873)        | (2,157,418)         | (2,021,993)        |
| <b>Profit for the Year</b>  |       | <b>3,767,968</b>    | <b>4,286,641</b>   | <b>3,701,883</b>    | <b>3,371,489</b>   |
| Attributable to:  |       |                     |                    |                     |                    |
| <b>Equity Holders of the Parent</b>   |       | <b>3,767,968</b>    | <b>4,286,641</b>   | <b>3,701,883</b>    | <b>3,371,489</b>   |
| <b>Earnings Per Share</b>   |       |                     |                    |                     |                    |
| Basic / Diluted Earnings Per Share - LKR  | 43    | 13.33               | 17.50              | 13.10               | 13.76              |
| Dividend Per Share - LKR  | 44    | 2.10                | 2.10               | 2.10                | 2.10               |

The Notes to the Financial Statements from pages 103 to 220 form an integral part of, and should be read in conjunction with, these Financial Statements.

# Statement of Comprehensive Income

| For the Year Ended 31 December   | Notes       | Bank             |                  | Group            |                  |
|--|-------------|------------------|------------------|------------------|------------------|
|  |             | 2018<br>LKR'000  | 2017<br>LKR'000  | 2018<br>LKR'000  | 2017<br>LKR'000  |
| Profit for the Year  |             | 3,767,968        | 4,286,641        | 3,701,883        | 3,371,489        |
| <b>Other Comprehensive Income / (Expense) that will be reclassified to profit or loss in subsequent periods:</b>     |             |                  |                  |                  |                  |
| <b>Available for Sale Financial Assets</b>   |             |                  |                  |                  |                  |
| Net Change in Fair Value during the year   | 31.1        | -                | 535,663          | -                | 535,663          |
| Income Tax related to the above  | 31.1 & 27.2 | -                | (149,986)        | -                | (149,986)        |
| Net gains/(losses) on Available-for-Sale financial assets  |             | -                | 385,677          | -                | 385,677          |
| <b>Debt Instruments at Fair Value through Other Comprehensive Income</b>   |             |                  |                  |                  |                  |
| Net Change in Fair Value during the year   | 31.1        | (424,559)        | -                | (424,559)        | -                |
| Income Tax related to the above  | 31.1 & 27.2 | 118,877          | -                | 118,877          | -                |
| Net gains/(losses) on financial instruments at Fair Value through Other Comprehensive Income                         |             | (305,682)        | -                | (305,682)        | -                |
| Total items that will be reclassified to the Statement of Profit or Loss   |             | (305,682)        | 385,677          | (305,682)        | 385,677          |
| <b>Other Comprehensive Income / (Expense) that will not be reclassified to profit or loss in subsequent periods:</b> |             |                  |                  |                  |                  |
| Actuarial gain / (loss) on defined benefit plan  | 24.2        | 24,551           | (50,049)         | 25,125           | (50,201)         |
| Income Tax related to the above  | 27.2        | (6,874)          | 14,014           | (7,061)          | 14,056           |
| Net gains / (losses) actuarial valuation of defined benefit plan   |             | 17,677           | (36,035)         | 18,064           | (36,145)         |
| Gain on Revaluation of Land & Building   | 31.2        | -                | 936,988          | -                | 1,267,627        |
| Income Tax related to the above  | 31.2 & 27.2 | -                | (262,357)        | -                | (354,936)        |
|  |             | -                | 674,631          | -                | 912,691          |
| Total items that will not be reclassified to the Statement of Profit or Loss   |             | 17,677           | 638,596          | 18,064           | 876,546          |
| <b>Other Comprehensive Income for the year, Net of Tax</b>   |             | <b>(288,005)</b> | <b>1,024,273</b> | <b>(287,618)</b> | <b>1,262,223</b> |
| <b>Total Comprehensive Income for the Year, Net of Tax</b>   |             | <b>3,479,963</b> | <b>5,310,914</b> | <b>3,414,265</b> | <b>4,633,712</b> |
| <b>Attributable to:</b>  |             |                  |                  |                  |                  |
| Equity Holders of the Parent   |             | 3,479,963        | 5,310,914        | 3,414,265        | 4,633,712        |

The Notes to the Financial Statements from pages 103 to 220 form an integral part of, and should be read in conjunction with, these Financial Statements.



# Statement of Changes in Equity

| Bank   | Notes   | Stated Capital |                    | Retained Earnings | Revaluation Reserve | OCI Reserve | Statutory Reserve Fund | Total       |
|--|---------|----------------|--------------------|-------------------|---------------------|-------------|------------------------|-------------|
|  |         | Voting LKR'000 | Non-Voting LKR'000 | LKR'000           | LKR'000             | LKR'000     | LKR'000                | LKR'000     |
| <b>As at 01 January 2017</b>                     |         | 5,101,369      | -                  | 10,261,404        | -                   | (178,077)   | 796,400                | 15,981,096  |
| Profit for the year                              |         | -              | -                  | 4,286,641         | -                   | -           | -                      | 4,286,641   |
| Other Comprehensive Income                       |         | -              | -                  | (36,035)          | 674,631             | 385,677     | -                      | 1,024,273   |
| Total Comprehensive Income                       |         | -              | -                  | 4,250,606         | 674,631             | 385,677     | -                      | 5,310,914   |
| Dividend paid for 2016                           | 30      | -              | -                  | (484,275)         | -                   | -           | -                      | (484,275)   |
| Transfers to the Statutory Reserve Fund          | 29.2    | -              | -                  | (214,332)         | -                   | -           | 214,332                | -           |
| <b>As at 31 December 2017</b>                    |         | 5,101,369      | -                  | 13,813,403        | 674,631             | 207,600     | 1,010,732              | 20,807,735  |
| Impact of adopting SLFRS 9                       | 53      | -              | -                  | (1,021,253)       | -                   | -           | -                      | (1,021,253) |
| <b>Restated opening balance under SLFRS 9</b>    |         | 5,101,369      | -                  | 12,792,150        | 674,631             | 207,600     | 1,010,732              | 19,786,482  |
| Profit for the year                              |         | -              | -                  | 3,767,968         | -                   | -           | -                      | 3,767,968   |
| Other Comprehensive Income                       |         | -              | -                  | 17,677            | -                   | (305,682)   | -                      | (288,005)   |
| Total Comprehensive Income                       |         | -              | -                  | 3,785,645         | -                   | (305,682)   | -                      | 3,479,963   |
| Rights Issue                                     | 28      | -              | 3,208,449          | -                 | -                   | -           | -                      | 3,208,449   |
| Scrip Dividend for 2017                          | 28 & 30 | 473,347        | 82,358             | (568,497)         | -                   | -           | -                      | (12,792)    |
| Conversion of Non-Voting Shares to Voting Shares | 28      | 165,200        | (165,200)          | -                 | -                   | -           | -                      | -           |
| Transfers to the Statutory Reserve Fund          | 29.2    | -              | -                  | (188,398)         | -                   | -           | 188,398                | -           |
| <b>As at 31 December 2018</b>                    |         | 5,739,916      | 3,125,607          | 15,820,900        | 674,631             | (98,082)    | 1,199,130              | 26,462,102  |

| Group  | Notes   | Stated Capital |                    | Retained Earnings | Revaluation Reserve | OCI Reserve | Statutory Reserve Fund | Total       |
|--|---------|----------------|--------------------|-------------------|---------------------|-------------|------------------------|-------------|
|  |         | Voting LKR'000 | Non-Voting LKR'000 | LKR'000           | LKR'000             | LKR'000     | LKR'000                | LKR'000     |
| <b>As at 01 January 2017</b>                     |         | 5,101,369      | -                  | 11,600,912        | -                   | (178,077)   | 796,400                | 17,320,604  |
| Profit for the year                              |         | -              | -                  | 3,371,489         | -                   | -           | -                      | 3,371,489   |
| Other Comprehensive Income                       |         | -              | -                  | (36,145)          | 912,691             | 385,677     | -                      | 1,262,223   |
| Total Comprehensive Income                       |         | -              | -                  | 3,335,344         | 912,691             | 385,677     | -                      | 4,633,712   |
| Dividend paid for 2016                           | 30      | -              | -                  | (484,275)         | -                   | -           | -                      | (484,275)   |
| Transfers to the Statutory Reserve Fund          | 29.2    | -              | -                  | (214,332)         | -                   | -           | 214,332                | -           |
| <b>As at 31 December 2017</b>                    |         | 5,101,369      | -                  | 14,237,649        | 912,691             | 207,600     | 1,010,732              | 21,470,041  |
| Impact of adopting SLFRS 9                       | 53      | -              | -                  | (1,021,253)       | -                   | -           | -                      | (1,021,253) |
| <b>Restated opening balance under SLFRS 9</b>    |         | 5,101,369      | -                  | 13,216,396        | 912,691             | 207,600     | 1,010,732              | 20,448,788  |
| Profit for the year                              |         | -              | -                  | 3,701,883         | -                   | -           | -                      | 3,701,883   |
| Other Comprehensive Income                       |         | -              | -                  | 18,064            | -                   | (305,682)   | -                      | (287,618)   |
| Total Comprehensive Income                       |         | -              | -                  | 3,719,947         | -                   | (305,682)   | -                      | 3,414,265   |
| Rights Issue                                     | 28      | -              | 3,208,449          | -                 | -                   | -           | -                      | 3,208,449   |
| Scrip Dividend for 2017                          | 28 & 30 | 473,347        | 82,358             | (568,497)         | -                   | -           | -                      | (12,792)    |
| Conversion of Non-Voting Shares to Voting Shares | 28      | 165,200        | (165,200)          | -                 | -                   | -           | -                      | -           |
| Transfers to the Statutory Reserve Fund          | 29.2    | -              | -                  | (188,398)         | -                   | -           | 188,398                | -           |
| <b>As at 31 December 2018</b>                    |         | 5,739,916      | 3,125,607          | 16,179,448        | 912,691             | (98,082)    | 1,199,130              | 27,058,710  |

The Notes to the Financial Statements from pages 103 to 220 form an integral part of, and should be read in conjunction with, these Financial Statements.

# Statement of Cash Flows

| For the Period Ended 31 December   | Notes | Bank            |                 | Group           |                 |
|--|-------|-----------------|-----------------|-----------------|-----------------|
|  |       | 2018<br>LKR'000 | 2017<br>LKR'000 | 2018<br>LKR'000 | 2017<br>LKR'000 |
| Cash Flows from Operating Activities   |       |                 |                 |                 |                 |
| Receipts of Interest Income  |       | 36,742,998      | 29,783,292      | 36,754,782      | 29,905,982      |
| Receipts of Fees and Commission Income   |       | 6,071,711       | 4,752,679       | 6,351,140       | 4,977,767       |
| Payments of Interest Expense   |       | (19,188,583)    | (15,894,217)    | (19,149,770)    | (15,835,132)    |
| Payments of Fees and Commission Expense  |       | (267,935)       | (322,737)       | (267,935)       | (322,743)       |
| Net Trading Income   |       | 593,535         | (351,031)       | 593,706         | (351,031)       |
| Receipts from Other Operating Income   |       | (2,371,078)     | 1,638,709       | (2,661,607)     | 526,708         |
| Gratuity Payments Made   |       | (60,162)        | (64,828)        | (60,162)        | (64,828)        |
| Payments for Operating Expenses  |       | (9,047,695)     | (7,906,260)     | (9,025,292)     | (7,930,906)     |
| Payments for VAT & NBT on Financial Services                                       |       | (1,719,257)     | (1,606,641)     | (1,722,670)     | (1,625,135)     |
| Payments for Debt Repayment Levy (DRL)   |       | (125,625)       | -               | (125,625)       | -               |
| Net Cash Flow from Operating Activities before Income Tax (A)                      |       | 10,627,909      | 10,028,966      | 10,686,567      | 9,280,682       |
| Income Tax Paid  |       | (1,475,104)     | (765,268)       | (1,561,683)     | (898,794)       |
| Tax Paid on Dividends  |       | (12,792)        | -               | (45,074)        | -               |
| Operating Profit before Changes in Operating Assets and Liabilities                |       | 9,140,013       | 9,263,698       | 9,079,810       | 8,381,888       |
| (Increase)/Decrease in Operating Assets  | 45.1  | (58,562,145)    | (51,138,827)    | (58,297,244)    | (50,467,050)    |
| Increase/(Decrease) in Operating Liabilities                                       | 45.2  | 41,279,987      | 44,812,008      | 41,102,831      | 45,028,253      |
| Net Cash Flows from Operating Activities   |       | (8,142,145)     | 2,936,879       | (8,114,603)     | 2,943,091       |
| Cash Flows from Investing Activities   |       |                 |                 |                 |                 |
| Purchase of Property, Plant and Equipment  | 19    | (660,636)       | (373,311)       | (691,945)       | (377,094)       |
| Proceeds from Sale of Property, Plant and Equipment and Intangible Assets          |       | 23,821          | 694             | 25,169          | 694             |
| Purchase of Intangible Assets  | 20    | (303,957)       | (135,853)       | (303,957)       | (135,853)       |
|  |       | (940,772)       | (508,470)       | (970,733)       | (512,253)       |
| Cash Flows from Financing Activities   |       |                 |                 |                 |                 |
| Net Change in Debt Issued and Other Borrowed Funds                                 |       | 8,223,977       | 4,519,075       | 8,223,977       | 4,519,075       |
| Proceeds from Rights Issue   | 28    | 3,208,449       | -               | 3,208,449       | -               |
| Interest Paid on Subordinated Debt   |       | (1,150,600)     | (1,153,275)     | (1,150,600)     | (1,153,275)     |
| Dividends Paid to Equity Holders of the Parent                                     | 30    | -               | (484,275)       | -               | (484,275)       |
|  |       | 10,281,826      | 2,881,525       | 10,281,826      | 2,881,525       |
| Net Increase in Cash and Cash Equivalents  |       | 1,198,909       | 5,309,934       | 1,196,490       | 5,312,363       |
| Cash and Cash Equivalents at the Beginning of the Period                           |       | 17,914,449      | 12,604,515      | 17,916,922      | 12,604,559      |
| Cash and Cash Equivalents at the End of the Period                                 |       | 19,113,358      | 17,914,449      | 19,113,412      | 17,916,922      |
| Reconciliation of Cash and Cash Equivalents  |       |                 |                 |                 |                 |
| Cash in Hand   | 6     | 5,419,519       | 5,589,806       | 5,419,542       | 5,589,829       |
| Balances with Central Bank of Sri Lanka*   | 7     | 12,762,122      | 11,213,278      | 12,762,122      | 11,213,278      |
| Balances with Banks  | 6     | 1,018,271       | 1,257,404       | 1,018,302       | 1,259,854       |
| Deposits from Other Banks  | 21    | (86,554)        | (146,039)       | (86,554)        | (146,039)       |
|  |       | 19,113,358      | 17,914,449      | 19,113,412      | 17,916,922      |
| A. Reconciliation of Operating Profit  |       |                 |                 |                 |                 |
| Profit before Income Tax   |       | 5,822,866       | 6,170,514       | 5,859,301       | 5,393,482       |
| (Profit) / Loss on Disposal of Property, Plant and Equipment and Intangible Assets |       | 9,609           | (694)           | 8,261           | (694)           |
| Impairment Charge / (Reversal) for Loans and Receivables                           |       | 3,272,708       | 1,088,404       | 3,274,036       | 1,088,825       |
| Provision for Gratuity   | 39    | 110,127         | 109,772         | 111,348         | 111,031         |
| (Increase) / Decrease in Interest Receivable                                       |       | 732,863         | 133,102         | 728,805         | 133,102         |
| Increase/ (Decrease) in Interest Payable   |       | 1,564,325       | 973,714         | 1,565,077       | 977,085         |
| Increase / (Decrease) in Financial Guarantee Liabilities & Deferred Income         |       | 318,844         | (1,317)         | 317,815         | (1,317)         |
| (Increase) / Decrease in Fees & Commission Receivable                              |       | (39,095)        | (8,951)         | (48,720)        | (8,951)         |
| Increase / (Decrease) in Fees & Commission and Operating Expenses Payable          |       | 259,174         | 29,452          | 262,854         | 35,377          |
| Other Non Cash Items   | 45.3  | (2,513,950)     | 446,523         | (2,482,648)     | 464,295         |
| Interest Paid on Subordinated Debt   |       | 1,150,600       | 1,153,275       | 1,150,600       | 1,153,275       |
| Gratuity Payments Made   |       | (60,162)        | (64,828)        | (60,162)        | (64,828)        |
|  |       | 10,627,909      | 10,028,966      | 10,686,567      | 9,280,682       |

\*As at 31 December 2018, LKR 12,570.47 Mn (2017 - LKR 11,206.29 Mn) was not available for use by the Bank due to mandatory deposit at Central Bank of Sri Lanka.

# Notes to the Financial Statements

## 1. REPORTING ENTITY

### 1.1 Corporate information

Nations Trust Bank PLC (the 'Bank') is a licensed commercial bank established under the Banking Act No. 30 of 1988. It is a public limited liability company, incorporated and domiciled in Sri Lanka and listed on the Colombo Stock Exchange. The registered office of the Bank is located at No. 242, Union Place, Colombo 2.

### 1.2 Consolidated Financial Statements

The Consolidated Financial Statements of Nations Trust Bank PLC for the year ended 31 December 2018 comprises the Bank and its subsidiaries: Waddock Mackenzie Limited, Allied Properties Limited and Nations Insurance Brokers Limited (together referred to as the 'Group').

Nations Trust Bank PLC does not have an identifiable parent of its own.

### 1.3 Principal Activities and Nature of Operations

#### Bank

The Bank provides a comprehensive range of financial services encompassing accepting deposits, corporate and retail banking, private banking, project financing, trade finance, leasing, factoring, pawning, treasury, dealing in government securities and investment services, resident and non-resident foreign currency operations, money remittance facilities, travel related services, issuing & acquiring of credit cards and debit cards, electronic banking services such as: telephone banking, internet banking, mobile banking etc.

#### Subsidiaries

The principal activities of the subsidiary companies are as follows:

| Company                           | Principal activity   |
|-----------------------------------|--|
| Waddock Mackenzie Limited         | Carrying out the business of an investment manager including margin trading, fixed income securities and fund & fee based activities |
| Allied Properties Limited         | Renting out premises   |
| Nations Insurance Brokers Limited | Insurance broking  |

During the year 2017, the management decided to cease margin trading business under Waddock Mackenzie Limited (WML) as a part of the group's decision to focus on its core products and services. However, WML's sole shareholder, Nations Trust Bank PLC will continue to support its operations and funding arrangement, whenever business revival and expansion is required in future.

## 2. BASIS OF PREPARATION

### 2.1 Statement of compliance

The Consolidated Financial Statements of the Group and the Separate Financial Statements of the Bank, which comprise the Statement of Financial Position, Statement of Profit or Loss, Statement of Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flows and Notes to the Financial Statements have been prepared and presented in accordance with Sri Lanka Accounting Standards (SLFRSs and LKASs) laid down by the Institute of Chartered Accountants of Sri Lanka.

The preparation and presentation of these Consolidated Financial Statements are in compliance with the requirements of the Companies Act No.07 of 2007. The presentation of these Financial Statements is also in compliance with the requirements of the Banking Act No: 30 of 1998.

### 2.2 Directors' Responsibility Statement

The Board of Directors of the Bank is responsible for the preparation and presentation of the Financial Statements of the Group and the Bank as per the provisions of the Companies Act No. 07 of 2007 and Sri Lanka Accounting Standards.

The Board of Directors acknowledges their responsibility for Financial Statements as set out in the "Statement of Directors' Responsibility" on page 94.

### 2.3 Approval of Financial Statements by Directors

The Consolidated Financial Statements of Nations Trust Bank PLC, for the year ended 31 December 2018 were authorized for issue in accordance with the resolution of the Board of Directors on 27 February 2019.

### 2.4 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 which have been measured at fair value:

- Financial assets at fair value through profit or loss
- Debt and equity instrument at fair value through other comprehensive income (On or after 01 January 2018) / Available for sale investments (On or before 31 December 2017)

# Notes to the Financial Statements

- Derivative financial instruments
- Land and buildings are measured at cost at the time of acquisition and subsequently measured at fair values on the date of revaluation
- Liability for defined benefit obligations is recognised at the present value of defined benefit obligation

## 2.5 Functional and Presentation Currency

The Financial Statements of the Group are presented in Sri Lankan Rupees (LKR), which is the currency of the primary economic environment in which the Group operates (Group's functional currency). Financial information presented in Sri Lankan Rupees has been rounded to the nearest thousand ('000) unless indicated otherwise.

There was no change in the Group's presentation and functional currency during the year under review.

## 2.6 Presentation of Financial Statements

The Bank/Group present its Statement of Financial Position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 47.

## 2.7 Materiality and aggregation

In compliance with Sri Lanka Accounting Standard - LKAS 01 - Presentation of Financial Statements, each material class of similar items is presented separately in the Financial Statements. Items of dissimilar nature or functions too are presented separately unless they are immaterial.

Financial assets and financial liabilities are offset and the net amount is reported in the Statement of Financial Position only when there

is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expenses are not offset in the statement of profit or loss unless required or permitted by an accounting standard or an interpretation, and as specifically disclosed in the accounting policies of the Group.

## 2.8 Changes in Accounting Policies

### 2.8.1 New and amended standards and interpretations

In these financial statements, the Bank has applied SLFRS 9 and changes to SLFRS 7, effective for annual periods beginning on or after 1 January 2018, for the first time. The Bank has not adopted early any other standard, interpretation or amendment that has been issued but is not yet effective.

As permitted by the transitional provisions of SLFRS 9, the Group elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and financial liabilities at the date of transition were recognized in the opening retained earnings and other reserves of the current period. The comparative period notes/disclosures repeat those disclosures made in the previous year.

However, certain prior year figures and phrases have been rearranged in order to be compatible with the presentation requirements of the Central Bank of Sri Lanka.

Except for below, the accounting policies adopted by the Bank are consistent with those of the previous financial year.

### 2.8.1 SLFRS 9 Financial Instruments

SLFRS 9 replaces LKAS 39 for annual periods on or after 1 January 2018. The Bank has not restated comparative

information for 2017 for 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 recognized directly in retained earnings as of 1 January 2018 and are disclosed in Note 53.

### A. 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 entity'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 loans & receivable (L&R) 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
- Equity instruments at FVOCI, with no recycling of gains or losses or profit or loss on derecognition
- Financial assets FVPL

The accounting for financial liabilities remains largely the same as it was under LKAS 39, except for the treatment of gains or losses arising from an entity's own credit risk relating to liabilities designated at FVPL. Such movements are presented in OCI with no subsequent reclassification to the Statement of Profit or Loss.

The Bank's classification of its financial assets and liabilities is explained in Notes 3.3.1 (iv) and 3.3.2. The quantitative impact of applying SLFRS 9 as at 1 January 2018 is disclosed in Note 53.

## **B. Changes to the impairment calculation**

The adoption of SLFRS 9 has fundamentally changed the Bank's accounting for loan loss impairments by replacing LKAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. SLFRS 9 requires the Bank to record an allowance for ECLs for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination. If the financial asset meets the definition of purchased or originated credit impaired (POCI), the allowance is based on the change in the ECLs over the life of the asset.

Details of the Bank's impairment method are disclosed in Note 16. The quantitative impact of applying SLFRS 9 as at 1 January 2018 is disclosed in Note 53.

### **28.1.2 Revisions to SLFRS 7**

To reflect the differences 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. Changes include transition disclosures as shown in Note 53, detailed qualitative and quantitative information about the ECL calculations such as the assumptions and inputs used are set out in Note 49.

Reconciliations from respective opening to closing ECL allowances are presented in Note 6, 16, 17 and 26.

### **28.1.3 SLFRS 15 - Revenue from Contracts with Customers**

SLFRS 15 supersedes LKAS 11- Construction Contracts, LKAS -18 Revenue and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with its customers. SLFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. SLFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers.

The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The impact analysis carried out with the assistance of an external consultant has revealed that material adjustments are not required to fee and commission income.

## **2.9 Significant Accounting Judgements, Estimates and Assumptions**

The preparation of the Bank's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities and the accompanying disclosures, as well as the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes

that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. In the process of applying the Bank's accounting policies, management has made the following judgements and assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Existing circumstances and assumptions about future developments may change due to circumstances beyond the Bank's control and are reflected in the assumptions if and when they occur. Items with the most significant effect on the amounts recognised in the consolidated financial statements with substantial management judgement and/or estimates are collated below with respect to judgements/estimates involved.

### **(i) Going Concern**

The Bank's management 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, management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the Financial Statements continue to be prepared on the going concern basis.

### **(ii) Fair Value of Financial Instruments**

The fair value of financial instruments is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e., an exit price) regardless of whether that price

## Notes to the Financial Statements

is directly observable or estimated using another valuation technique. When the fair values of financial assets and financial liabilities recorded in the Statement of Financial Position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimation is required in establishing fair values. Judgements and estimates include considerations of liquidity and model inputs related to items such as credit risk (both own and counterparty), funding value adjustments, correlation and volatility.

The valuation of financial instruments is described in more detail in Note 48.

### (iii) Impairment losses on financial assets (For periods on or after 01 January 2018)

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:

- 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 Life Time Expected Credit Loss (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.

It has been the Bank's policy to regularly review its models in the context of actual loss experience and adjust when necessary.

### (iv) Impairment Losses on Loans and Advances (For periods before 01 January 2018)

The Group reviews its individually significant loans and advances at each reporting date to assess whether an impairment loss should be recorded in Profit or Loss. In particular, management's judgement 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 allowance.

Loans and advances 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, 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. The collective assessment takes account

of data from the loan portfolio (such as levels of arrears, type of collateral etc.) and judgments on the effect of concentrations of risks and economic data (including levels of unemployment, inflation, GDP growth rate and the performance of different individual groups).

The impairment loss on loans and advances is disclosed in more detail in Note 16 and Note 38.

### (v) Impairment of Available-for-Sale Investments (For periods before 01 January 2018)

The Group reviews its debt and equity securities classified as Available-for-Sale Investments at each reporting date to assess whether they are impaired. This requires similar judgment as applied to the individual assessment of loans and advances.

### (vi) Fair Value of Land and Buildings

Freehold land and buildings of the Group are reflected at fair value at the date of revaluation less any accumulated depreciation and impairment losses.

The Group measures freehold land and buildings at fair value with changes in fair value being recognized in other comprehensive income. The Group engages independent valuation specialists to determine fair value of freehold lands and buildings in terms of Sri Lanka Accounting Standard SLFRS 13 - Fair Value Measurement. Lands were valued by reference to market-based evidence, using comparable prices adjusted for specific market factors such as nature, location and condition of the property, while buildings were valued based on depreciated replacement cost. Fair value related disclosures for land and buildings measured at fair value are summarized in Note 48 to the financial statements.



**(vii) Useful Life-time of the Property, Plant and Equipment**

The Group reviews the residual values, useful lives and methods of depreciation of property, plant and equipment at each reporting date. Judgement of the management is exercised in the estimation of these values, rates, methods and hence they are subject to uncertainty. (Note 19)

**(viii) Employee Benefit Liability – Gratuity**

The cost of the defined benefit plan – gratuity is determined using an actuarial valuation. Actuarial valuation involves making assumptions about inter-alia discount rates, future salary increases, remaining working life of employees and mortality rates. Due to the long term nature of these obligations, such estimates are subject to significant uncertainty. Description of employee benefits is given in Note 24.

**(ix) Share-Based Payments**

The Group measures the cost of equity settled transactions with employees by reference to the fair value of the equity instruments on the date on which those are granted. Estimating fair value for share based payment transactions require determination of the most appropriate valuation model, which is dependent on the terms and conditions of the grant.

This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about those. (Note 26.2)

**(x) Taxation**

The Group is subject to Income Taxes and other taxes including VAT on Financial Services. Uncertainties exist, with respect to the interpretation of the applicability of tax laws, at the time

of the preparation of these Financial Statements.

Uncertainties also exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Given the wide range of business relationships and the long term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense amounts that were initially recorded, and deferred tax amounts in the period in which the determination is made. (Note 25 & 42)

**(xi) Deferred Tax Assets**

Deferred tax assets are recognised in respect of loan impairment allowances which will be recovered in the foreseeable future and tax losses to the extent that it is probable that future taxable profit will be available against which the losses can be utilised. Judgement is required to determine the amount of deferred tax assets that can be recognised, based on the likely timing and level of future taxable profits, together with future tax planning strategies.

Details on deferred tax assets are disclosed in Note 27.2 to the financial statements.

**(xii) Provisions for Liabilities and Contingencies**

The Group receives legal claims against it in the normal course of business. Management has made judgements as to the likelihood of any claim succeeding in making provisions. The time of concluding legal claims is uncertain, as is the amount of possible outflow of economic benefits.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****3.1 Basis of consolidation**

The Consolidated Financial Statements comprise the Financial Statements of the Bank and its subsidiaries in terms of the Sri Lanka Accounting Standards, SLFRS 10 - Consolidated Financial Statements. The Bank's Financial Statements comprise the amalgamation of the Financial Statements of the Domestic Banking Unit and the Off-shore Banking Unit.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary.

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee

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- Rights arising from other contractual arrangements
- The group's voting rights and potential voting rights

Profit or loss and each component of Other Comprehensive Income (OCI) are attributed to the equity holders of the parent of the Group.

All intra- group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognizes the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognized in profit or loss. Any investment retained is recognized at fair value, at the date of loss of control.

## 3.2 Foreign Currency Transactions and balances

Transactions in foreign currencies are initially recorded at the spot middle rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into the functional currency at the spot middle rate of exchange at the reporting date. All differences arising on non-trading activities are taken to 'Other Operating Income' in the Profit or Loss.'

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the spot exchange rates as at the date of recognition.

## 3.3 Financial Instruments

### 3.3.1 Financial Instruments – Initial recognition

#### (i) Date of recognition

Financial assets and liabilities, with the exception of loans and advances to customers and balances due to customers, 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 customers when funds are transferred to the Bank.

#### (ii) 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 3.3.2. (i) (a) and 3.3.2. (i) (b). Financial instruments are initially measured at their fair value, 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 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.

#### (iii) 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 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.

#### (iv) 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 3.3.2(i)
- Fair value through other comprehensive income (FVOCI), as explained in Notes 3.3.2 (iv) and 3.3.2 (v)
- Fair value through profit or loss (FVPL)

The Bank classifies and measures its derivative and trading portfolio at FVPL as explained in Notes 3.3.2 (ii) and 3.3.2 (iii). The Bank may designate financial instruments at FVPL, if so doing eliminates or significantly reduces measurement or recognition inconsistencies, as explained in Note 3.3.2 (vii).

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 3.3.2 (i), 3.3.2 (ix) and 3.3.2 (x).

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortised cost or at FVPL when they are derivative instruments or the fair value designation is applied, as explained in Note 3.3.2 (vii).

### 3.3.2 Financial assets and liabilities

#### (i) Due from banks, Loans and advances to customers, Financial investments at amortised cost

Before 1 January 2018, Due from banks and Loans and advances to 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 details of these conditions are outlined below.

#### 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
- 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.

#### b. The SPPI test

As a second step of its classification process, the Bank assesses the contractual terms of financial instrument to identify whether they meet the SPPI test.

'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 amortization 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.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

#### (ii) Derivatives recorded at fair value through profit or loss

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 (i.e., the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts expected to have a similar response to changes in market factors.
- It is settled at a future date.

The Bank enters into derivative transactions with various counterparties. These include cross-currency swaps and forward foreign exchange contracts. 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 notional amount and fair value of such derivatives are disclosed separately in Note 9. Changes in the fair

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value of derivatives are included in net trading income.

## (iii) Financial assets or financial liabilities held for trading

The Bank classifies financial assets or financial liabilities as held for trading 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. Held-for-trading assets and liabilities are recorded and measured in the Statement of Financial Position at fair value. Changes in fair value are recognised in 'Net Fair Value Gains/ (Losses) From Financial Instruments at Fair Value Through Profit or Loss.'

Included in this classification are debt securities that have been acquired principally for the purpose of selling or repurchasing in the near term.

## (iv) Debt instruments at FVOCI (Policy applicable from 1 January 2018)

Under SLFRS 9, the Bank applies the new category of debt instruments measured at FVOCI 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 meet the SPPI test

These instruments largely comprise 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 on debt instruments at FVOCI is recognised in Profit or

Loss. The ECL calculation for Debt instruments at FVOCI is explained in Note 16. 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.

## (v) Equity instruments at FVOCI (Policy applicable from 1 January 2018)

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 or Loss. Dividends are recognised in 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.

## (vi) Debt issued and other borrowed funds

After initial measurement, debt issued and other borrowed funds are subsequently measured at amortised cost. Amortised cost is calculated by taking into account any discount or premium on issue funds, and costs that are an integral part of the EIR.

## (vii) Financial assets and financial liabilities at fair value through profit or loss

Financial assets and financial liabilities in this category are those that are not held for trading and have been either

designated by management upon initial recognition or are mandatorily required to be measured at fair value under SLFRS 9. Management only designates an instrument at FVPL upon initial recognition when one of the following criteria are met. Such designation is determined on an instrument-by-instrument basis:

- The designation eliminates, or significantly reduces, the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis
- or
- The liabilities (and assets until 1 January 2018 under LKAS 39) are part of a group of financial liabilities (or financial assets, or both under LKAS 39), which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy
- or
- The liabilities (and assets until 1 January 2018 under LKAS 39) containing one or more embedded derivatives, unless they do not significantly modify the cash flows that would otherwise be required by the contract, or it is clear with little or no analysis when a similar instrument is first considered that separation of the embedded derivative(s) is prohibited.

Financial assets and financial liabilities at FVPL are recorded in the Statement of Financial Position at fair value. Changes in fair value are recorded in profit and loss. Interest earned or incurred is accrued in interest income or interest expense, respectively, using the EIR, taking into account any discount, premium and qualifying transaction costs being an integral part of instrument.

Interest earned on assets mandatorily required to be measured at FVPL is

recorded using contractual interest rate. Dividend income from equity instruments measured at FVPL is recorded in profit or loss as other operating income when the right to the payment has been established.

**(viii) Financial guarantees, letters of credit and undrawn loan commitments**

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit, guarantees, bonds and acceptances.

Financial guarantees are initially recognised in the financial statements at fair value, being the premium received. Subsequent to initial recognition, the Bank's liability under each financial guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement, and – under LKAS 39 – the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee, or – under SLFRS 9 – an ECL provision as set out in Note 26.

The premium received is recognised in the statement of profit or loss in Net fees and commission income on a straight line basis over the life of the guarantee.

Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment, the Bank is required to provide a loan with pre-specified terms to the customer. Similar to financial guarantee contracts, under LKAS 39, a provision was made if they were an onerous contract but, from 1 January 2018, these contracts are in the scope of the ECL requirements.

The nominal contractual value of financial guarantees, letters of credit and undrawn loan commitments, where the loan agreed to be provided is on

market terms, are not recorded on in the Statement of Financial Position. The nominal values of these instruments together with the corresponding ECLs are disclosed in Note 49 and Note 26 respectively.

**(ix) Available-for-sale financial investments (Policy applicable before 1 January 2018)**

Available for sale investments include debt and equity securities. Debt securities in this category are intended to be held for a definite period of time and may be sold in response to needs for liquidity or in response to changes in the market conditions. Equity investments classified as available-for-sale are those which neither classified as held for trading nor designated at FVTPL.

The Group has not designated any loans or receivables as available for sale.

After initial measurement, available for sale financial investments are subsequently measured at fair value.

Unrealised gains and losses are recognised directly in equity; available-for-sale reserve through Other Comprehensive Income. When the investment is disposed of, the cumulative gain or loss previously recognized in equity is recognized in the Profit or Loss in 'Other Operating Income'. Where the Group holds more than one investment in the same security, they are deemed to be disposed of on a first-in first-out basis. Interest earned whilst holding available for sale financial investments is reported as interest income using the EIR, which takes into account any discount/premium that are an integral part of instrument's yield. Dividends earned whilst holding available-for-sale financial investments are recognised in the Profit or Loss as other operating income when the right of the payment has been established. The losses arising

from impairment of such investments are recognized in the Profit or Loss in 'Impairment losses on financial investments' and removed from the 'Available for Sale Reserve'.

**(x) Held-to-maturity financial investments (Policy applicable before 1 January 2018)**

Held to maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has the intention and ability to hold to maturity. After initial measurement, held to maturity financial assets are subsequently measured at amortized cost using the Effective Interest Rate (EIR) less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortization is included in 'Interest income' in the statement of profit or loss. The losses arising from impairment of such investments are recognized in the statement of profit or loss within 'impairment charge'.

If the Group were to sell or reclassify more than an insignificant amount of held to maturity assets 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 Group would be prohibited from classifying any financial asset as held to maturity during the following two years.

**3.3.3 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



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reclassify any of its financial assets or liabilities in 2018.

## 3.3.4 Derecognition of financial assets and liabilities

### (i) Derecognition due to substantial modification of terms and conditions

The Bank derecognises a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be POCI.

When assessing whether or not to derecognise a loan to a customer, amongst others, the Bank considers the following factors:

- Change in counterparty
- If the modification is such that the instrument would no longer meet the SPPI criterion

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Bank records a modification gain or loss, to the extent that an impairment loss has not already been recorded.

### (ii) Derecognition other than for substantial modification

#### 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. The Bank also derecognises the financial asset if it has both transferred

the financial asset and the transfer qualifies for derecognition.

The Bank has transferred the financial asset if, and only if, either:

- The Bank has transferred its contractual rights to receive cash flows from the financial asset or;
- It retains the rights to the cash flows, but has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement

Pass-through arrangements are transactions whereby the Bank retains the contractual rights to receive the cash flows of a financial asset (the 'original asset'), but assumes a contractual obligation to pay those cash flows to one or more entities (the 'eventual recipients'), when all of the following three conditions are met:

- The Bank has no obligation to pay amounts to the eventual recipients unless it has collected equivalent amounts from the original asset, excluding short-term advances with the right to full recovery of the amount lent plus accrued interest at market rates
- The Bank cannot sell or pledge the original asset other than as security to the eventual recipients
- The Bank has to remit any cash flows it collects on behalf of the eventual recipients without material delay.
- In addition, the Bank is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents including interest earned, during the period between the collection date and the date of required remittance to the eventual recipients.

A transfer only qualifies for derecognition if either:

- The Bank has transferred substantially all the risks and rewards of the asset or;

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

The Bank considers control to be transferred if and only if, the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without imposing additional restrictions on the transfer.

When the Bank has neither transferred nor retained substantially all the risks and rewards and has retained control of the asset, the asset continues to be recognised only to the extent of the Bank's continuing involvement, in which case, the Bank also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration the Bank could be required to pay.

#### b. Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a 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 profit or loss.



### 3.3.11 The effective interest rate method

Under both SLFRS 9 and LKAS 39, interest income is recorded using the effective interest rate (EIR) method for all financial instruments. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset.

The EIR (and therefore, the amortised cost of the asset) is calculated by taking into account any discount or premium on acquisition, fees and costs that are an integral part of the EIR. The Bank recognises interest income using a rate of return that represents the best estimate of a constant rate of return over the expected life of the loan. Hence, it recognises the effect of potentially different interest rates charged at various stages, and other characteristics of the product life cycle (including prepayments, penalty interest and charges).

If expectations regarding the cash flows on the financial asset are revised for reasons other than credit risk. The adjustment is booked as a positive or negative adjustment to the carrying amount of the asset in the balance sheet with an increase or reduction in interest income. The adjustment is subsequently amortised through Interest and similar income in the income statement.

### 3.4 Impairment of Non-Financial Assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or Cash Generating Unit's (CGU's) fair value less costs to sell and its value in use. Where the carrying amount of

an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, and other available fair value indicators.

### 3.5 Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the Profit or Loss net of any reimbursement.

### 3.6 Fiduciary Assets

The Group provides trust and other fiduciary services that result in the holding or investing of assets on behalf of its clients. Assets held in a fiduciary capacity are not reported in the Financial Statements, as they are not the assets of the Group.

### 3.7 Statement of Cash Flows

The Statement of Cash Flows has been prepared by using the 'Direct Method' in accordance with LKAS 7 on Statement of Cash Flows, whereby gross cash receipts and gross cash payments of operating activities, financing activities and investing activities have been recognized. Cash and cash equivalents as referred to in the statement of cash flows comprises of cash in hand, balances with the Central Bank of Sri Lanka, amounts due from banks on

demand or with original maturity of three months or less net of amount due to banks.

### 3.8 Standards issued but not yet effective

Certain new accounting standards and amendments /improvements to existing standards have been published, that are not mandatory for 31 December 2018 reporting period. None of those have been early adopted by the Group/Bank.

#### 3.8.1 SLFRS 16-Leases

SLFRS 16 will replace Sri Lanka Accounting Standard – LKAS 17 (Leases) and related interpretations. SLFRS 16 sets out the principles for the recognition, measurement, presentation and disclosures 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 and short-term leases (leases with a lease term of 12 months or less). At the commencement date of the lease, a lessee will recognize a liability to make lease payments (i.e., lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessee will be required to separately recognize the interest expense on the lease liability and depreciation expense on the right-of-use asset. SLFRS 16 will become effective on 01st January 2019. The Group has already assessed the impact on the implementation of the above standard.

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

## Notes to the Financial Statements

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.

### Transition to SLFRS 16

The Group plans to adopt SLFRS 16 retrospectively with the cumulative effect of initially applying the Standard recognised at the date of initial application. The Group will elect to apply the standard to contracts that were previously identified as leases applying LKAS 17.

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 Group has leases of certain office equipment (i.e., printing and photocopying machines etc) that are considered of low value.

During 2018, the Group has performed a detailed impact assessment of SLFRS 16. In summary the impact of SLFRS 16 adoption is expected to be, as follows:

|   | LKR '000  |
|---|-----------|
| <b>Assets</b>                                       |           |
| Property, plant and equipment (right-of-use assets) | 2,146,787 |
| Prepayments   | 235,988   |
| <b>Liabilities</b>                                  |           |
| Lease liabilities                                   | 1,866,101 |

Due to the adoption of SLFRS 16, the Group's operating profit will improve, while its interest expense will increase. This is due to the change in the accounting for expenses of leases that were classified as operating leases under LKAS 17.

## 4 SEGMENT INFORMATION

The Group's segmental reporting is based on the following operating segments: Corporate Banking, Consumer Banking, SME Banking, Leasing, Treasury functions, Investment Banking, Insurance Broking and Property Management.

For management purposes, the Group is organised into operating segments based on customer segments and products, as follows:

**Corporate Banking:** Primary focus of business is providing loans and other credit facilities and mobilizing deposit and current accounts from top to mid tier corporate and institutional customers.

**Consumer Banking:** Primary focus of business is deposit mobilization from high networth, mass affluent and emerging mass customer segments and providing personal financing including personal, home loans and credit card facilities

**SME Banking:** Primary focus of business is providing business financing for small and medium customer segment including lending facilities and transactional banking

**Leasing:** Primary focus of business is providing finance leases and hire purchase facilities.

**Treasury Function:** Primary focus of business operations includes foreign exchange trading, fixed income security trading, assets & liabilities management.

**Investment Banking:** Primary focus is on margin trading, money market operations and fund and fee based activities.

**Insurance Broking:** Primary focus is on insurance broking.

**Property Management:** Primary focus is on renting out premises.

Management monitors the operating results of its business units separately for the purpose of making decisions on resource allocation and performance assessment. Segment performance is evaluated based on operating profits or losses which are measured differently from operating profits or losses in the consolidated financial statements. A fund transfer pricing mechanism is adopted for sourcing and utilizing of funds. The following table presents income and expenses and certain asset and liability information regarding the Group's operating segments.

# Notes to the Financial Statements

## 4 SEGMENT INFORMATION (CONTD.)

### 4.1 Operating Segments

| For the year ended 31 December 2018   | Corporate<br>Banking | Consumer<br>Banking | SME<br>Banking    | Leasing           | Treasury<br>Functions | Investment<br>Banking | Insurance<br>Brokering | Property<br>Management | Unallocated/<br>Eliminations | Total Group        |
|---|----------------------|---------------------|-------------------|-------------------|-----------------------|-----------------------|------------------------|------------------------|------------------------------|--------------------|
| LKR '000  |                      |                     |                   |                   |                       |                       |                        |                        |                              |                    |
| Operating Income  | 2,679,722            | 8,898,607           | 4,776,604         | 2,321,814         | 2,881,347             | 21,800                | 237,290                | 171,475                | (910,361)                    | 21,078,468         |
| Impairment Charges  | (129,186)            | (1,714,691)         | (1,185,359)       | (232,432)         | (11,039)              | -                     | (1,329)                | -                      | -                            | (3,274,036)        |
| <b>Net Operating Income</b>   | <b>2,550,536</b>     | <b>7,183,916</b>    | <b>3,591,245</b>  | <b>2,089,382</b>  | <b>2,870,308</b>      | <b>21,800</b>         | <b>235,961</b>         | <b>171,475</b>         | <b>(910,361)</b>             | <b>17,804,432</b>  |
| <b>Extracts of Results</b>  |                      |                     |                   |                   |                       |                       |                        |                        |                              |                    |
| Interest Income   | 6,487,338            | 8,113,782           | 9,677,448         | 6,319,126         | 6,560,825             | 21,101                | 10,158                 | 24,645                 | (164,014)                    | 37,050,409         |
| Inter Segment   | (3,621,265)          | 10,261,751          | (4,314,143)       | (4,649,584)       | 2,323,242             | -                     | -                      | -                      | -                            | -                  |
| Interest Expense  | (886,136)            | (13,609,207)        | (1,781,232)       | -                 | (5,751,249)           | (798)                 | -                      | (991)                  | 143,112                      | (21,886,502)       |
| <b>Net Interest Income</b>  | <b>1,979,937</b>     | <b>4,766,326</b>    | <b>3,582,072</b>  | <b>1,669,542</b>  | <b>3,132,818</b>      | <b>20,302</b>         | <b>10,158</b>          | <b>23,655</b>          | <b>(20,902)</b>              | <b>15,163,907</b>  |
| Fees and Commission Income  | 503,025              | 3,987,942           | 985,684           | 447,974           | 95,009                | 2,475                 | 234,200                | 147,821                | (322,086)                    | 6,082,044          |
| Fees and Commission Expense   | (23,451)             | (156,224)           | (51,158)          | -                 | (21,223)              | (978)                 | (7,068)                | -                      | (12,175)                     | (272,277)          |
| <b>Net Fees and Commission Income</b>   | <b>479,575</b>       | <b>3,831,718</b>    | <b>934,526</b>    | <b>447,974</b>    | <b>73,786</b>         | <b>1,497</b>          | <b>227,132</b>         | <b>147,821</b>         | <b>(334,261)</b>             | <b>5,809,767</b>   |
| Net Gain/(Loss) from Trading  | 220,210              | 103,002             | 260,006           | -                 | 2,778,420             | -                     | -                      | -                      | (583,219)                    | 2,778,420          |
| Net Fair Value Gains/(Losses) from Financial Instruments at Fair Value Through Profit or Loss | -                    | -                   | -                 | -                 | (3,758)               | -                     | -                      | -                      | -                            | (3,758)            |
| Net Other Operating Income/(Loss)   | -                    | 197,560             | -                 | 204,299           | (3,099,917)           | -                     | -                      | -                      | 28,021                       | (2,669,868)        |
| Depreciation of Property, Plant and Equipment   | (2,177)              | (199,152)           | (2,174)           | (5,682)           | (8,610)               | -                     | (972)                  | (27,327)               | (149,642)                    | (95,736)           |
| Amortization of Intangible Assets   | (77)                 | (65,529)            | (1,451)           | (2,277)           | (22,973)              | -                     | (3,215)                | -                      | (210,426)                    | (305,948)          |
| <b>Segment Profit before Income Tax</b>   | <b>1,519,173</b>     | <b>573,878</b>      | <b>1,720,473</b>  | <b>896,730</b>    | <b>1,924,246</b>      | <b>15,191</b>         | <b>194,446</b>         | <b>127,226</b>         | <b>(1,112,062)</b>           | <b>5,859,301</b>   |
| Income Tax Expense  | -                    | -                   | -                 | -                 | (5,560)               | (5,560)               | (54,445)               | (10,234)               | (2,087,179)                  | (2,157,418)        |
| <b>Profit for the Year</b>  | <b>1,519,173</b>     | <b>573,878</b>      | <b>1,720,473</b>  | <b>896,730</b>    | <b>1,924,246</b>      | <b>9,631</b>          | <b>140,001</b>         | <b>116,991</b>         | <b>(3,199,241)</b>           | <b>3,701,883</b>   |
| <b>Capital Expenditures</b>   |                      |                     |                   |                   |                       |                       |                        |                        |                              |                    |
| Property, Plant and Equipment   | 969                  | 142,255             | 1,590             | 4,502             | -                     | -                     | 264                    | 49,216                 | 506,775                      | 705,570            |
| Intangible Assets   | -                    | 26,116              | 405               | 29,951            | -                     | -                     | -                      | -                      | 333,932                      | 390,403            |
| <b>Total Assets (as at)</b>   | <b>65,671,447</b>    | <b>49,414,607</b>   | <b>66,576,772</b> | <b>44,974,997</b> | <b>92,994,684</b>     | <b>117,113</b>        | <b>206,411</b>         | <b>798,116</b>         | <b>4,261,846</b>             | <b>325,015,993</b> |
| <b>Total Liabilities (as at)</b>  | <b>20,564,310</b>    | <b>161,360,704</b>  | <b>36,220,196</b> | <b>792,099</b>    | <b>69,212,155</b>     | <b>5,688</b>          | <b>40,338</b>          | <b>28,018</b>          | <b>9,733,775</b>             | <b>297,957,283</b> |

## 4.2 Operating Segments

| For the year ended 31 December 2017   | LKR '000             |                     |                   |                   |                       |                       |                        |                        |                              |                    | Total Group |
|---|----------------------|---------------------|-------------------|-------------------|-----------------------|-----------------------|------------------------|------------------------|------------------------------|--------------------|-------------|
|   | Corporate<br>Banking | Consumer<br>Banking | SME<br>Banking    | Leasing           | Treasury<br>Functions | Investment<br>Banking | Insurance<br>Brokering | Property<br>Management | Unallocated/<br>Eliminations |                    |             |
| Operating Income  | 1,631,089            | 7,737,200           | 3,758,598         | 1,723,403         | 2,357,604             | 123,389               | 205,411                | 118,324                | (741,449)                    | 16,913,568         |             |
| Impairment Charges  | (48,519)             | (639,117)           | (384,267)         | (14,685)          | -                     | -                     | -                      | -                      | (2,237)                      | (1,088,825)        |             |
| <b>Net Operating Income</b>   | <b>1,582,569</b>     | <b>7,098,083</b>    | <b>3,374,331</b>  | <b>1,708,718</b>  | <b>2,357,604</b>      | <b>123,389</b>        | <b>205,411</b>         | <b>118,324</b>         | <b>(743,686)</b>             | <b>15,824,743</b>  |             |
| <b>Extracts of Results</b>  |                      |                     |                   |                   |                       |                       |                        |                        |                              |                    |             |
| Interest Income   | 4,491,780            | 6,715,234           | 7,958,571         | 4,863,799         | 5,954,905             | 135,373               | 19,989                 | 30,098                 | (164,578)                    | 30,005,170         |             |
| Inter Segment   | (2,651,046)          | 8,978,123           | (3,920,072)       | (3,609,490)       | 1,202,484             | -                     | -                      | -                      | -                            | -                  |             |
| Interest Expense  | (791,789)            | (11,741,491)        | (1,384,248)       | -                 | (4,292,940)           | (7,145)               | -                      | (839)                  | 121,790                      | (18,096,662)       |             |
| <b>Net Interest Income</b>  | <b>1,048,945</b>     | <b>3,951,866</b>    | <b>2,654,252</b>  | <b>1,254,309</b>  | <b>2,864,449</b>      | <b>128,228</b>        | <b>19,989</b>          | <b>29,260</b>          | <b>(42,789)</b>              | <b>11,908,508</b>  |             |
| Fees and Commission Income  | 430,893              | 3,607,877           | 916,323           | 299,991           | 74,998                | 2,278                 | 192,962                | 89,064                 | (255,533)                    | 5,358,853          |             |
| Fees and Commission Expense   | (17,319)             | (198,529)           | (46,659)          | -                 | (19,085)              | (7,117)               | (7,540)                | -                      | (26,494)                     | (322,743)          |             |
| <b>Net Fees and Commission Income</b>   | <b>413,573</b>       | <b>3,409,348</b>    | <b>869,664</b>    | <b>299,991</b>    | <b>55,913</b>         | <b>(4,839)</b>        | <b>185,422</b>         | <b>89,064</b>          | <b>(282,027)</b>             | <b>5,036,110</b>   |             |
| Net Gain/(Loss) from Trading  | 168,571              | 76,259              | 234,682           | -                 | 571,461               | -                     | -                      | -                      | (479,512)                    | 571,461            |             |
| Net Fair Value Gains/(Losses) from Financial Instruments at Fair Value Through Profit or Loss | -                    | -                   | -                 | -                 | 18,326                | -                     | -                      | -                      | -                            | 18,326             |             |
| Net Other Operating Income/(Loss)   | -                    | 136,243             | -                 | 169,104           | (987,548)             | -                     | -                      | -                      | 61,364                       | (620,837)          |             |
| Depreciation of Property, Plant and Equipment   | (1,946)              | (220,217)           | (19,231)          | (5,772)           | (2,768)               | -                     | (828)                  | (13,708)               | (119,693)                    | (366,855)          |             |
| Amortization of Intangible Assets   | (80)                 | (29,560)            | (727)             | (364)             | (13,919)              | -                     | (3,236)                | -                      | (227,930)                    | (275,817)          |             |
| <b>Segment Profit before Income Tax</b>   | <b>836,821</b>       | <b>1,004,999</b>    | <b>1,801,133</b>  | <b>738,063</b>    | <b>1,541,679</b>      | <b>93,844</b>         | <b>166,676</b>         | <b>72,599</b>          | <b>(862,331)</b>             | <b>5,393,482</b>   |             |
| Income Tax Expense  | -                    | -                   | -                 | -                 | -                     | (32,666)              | (46,669)               | (10,209)               | (1,932,449)                  | (2,021,993)        |             |
| <b>Profit for the Year</b>  | <b>836,821</b>       | <b>1,004,999</b>    | <b>1,801,133</b>  | <b>738,063</b>    | <b>1,541,679</b>      | <b>61,178</b>         | <b>120,007</b>         | <b>62,390</b>          | <b>(2,794,780)</b>           | <b>3,371,489</b>   |             |
| <b>Capital Expenditures</b>   |                      |                     |                   |                   |                       |                       |                        |                        |                              |                    |             |
| Property, Plant and Equipment   | 5,917                | 155,864             | 4,373             | 8,736             | 29,184                | -                     | 1,300                  | 2,542                  | 259,053                      | 466,970            |             |
| Intangible Assets   | -                    | 11,509              | 9,851             | -                 | 76,099                | -                     | -                      | -                      | 143,068                      | 240,528            |             |
| <b>Total Assets (as at)</b>   | <b>45,118,446</b>    | <b>43,735,313</b>   | <b>60,567,491</b> | <b>37,432,910</b> | <b>73,655,325</b>     | <b>353,825</b>        | <b>126,406</b>         | <b>709,099</b>         | <b>5,930,678</b>             | <b>267,629,494</b> |             |
| <b>Total Liabilities (as at)</b>  | <b>16,474,838</b>    | <b>145,848,162</b>  | <b>25,220,584</b> | <b>940,358</b>    | <b>50,827,829</b>     | <b>23,386</b>         | <b>40,195</b>          | <b>24,223</b>          | <b>6,759,878</b>             | <b>246,159,453</b> |             |

# Notes to the Financial Statements

## 5 ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS

### 5.1 Bank

| As at 31 December   | 2018               |                  |                   |                    |
|---|--------------------|------------------|-------------------|--------------------|
|   | AC                 | FVPL             | FVOCI             | Total              |
|   | LKR '000           | LKR '000         | LKR '000          | LKR '000           |
| <b>Assets</b>   |                    |                  |                   |                    |
| Cash and Cash Equivalents   | 6,437,519          | -                | -                 | 6,437,519          |
| Balances with Central Bank of Sri Lanka                           | 12,762,122         | -                | -                 | 12,762,122         |
| Reverse Repurchase Agreements                                     | 180,593            | -                | -                 | 180,593            |
| Derivative Financial Instruments                                  | -                  | 2,403,787        | -                 | 2,403,787          |
| Financial Assets - Recognised through Profit or Loss              | -                  | 668,812          | -                 | 668,812            |
| Financial Assets at Fair Value through Other Comprehensive Income | -                  | -                | 57,463,831        | 57,463,831         |
| Financial Assets at Amortised Cost - Debt Instruments             | 15,941,247         | -                | -                 | 15,941,247         |
| Financial Assets at Amortised Cost - Loans and Advances           | 221,500,656        | -                | -                 | 221,500,656        |
| <b>Total Financial Assets</b>                                     | <b>256,822,137</b> | <b>3,072,599</b> | <b>57,463,831</b> | <b>317,358,567</b> |
| <b>Liabilities</b>  |                    |                  |                   |                    |
| Due to Banks  | 18,474,545         | -                | -                 | 18,474,545         |
| Derivative Financial Instruments                                  | -                  | 484,373          | -                 | 484,373            |
| Financial Liabilities at Amortised Cost                           |                    |                  |                   |                    |
| Due to Depositors   | 231,936,769        | -                | -                 | 231,936,769        |
| Repurchase Agreements   | 7,784,017          | -                | -                 | 7,784,017          |
| Due to Other Borrowers  | 20,248,816         | -                | -                 | 20,248,816         |
| Debt Securities Issued  | 8,745,611          | -                | -                 | 8,745,611          |
| <b>Total Financial Liabilities</b>                                | <b>287,189,758</b> | <b>484,373</b>   | -                 | <b>287,674,131</b> |



## 5.2 Group

| As at 31 December   | 2018        |           |            |             |
|---|-------------|-----------|------------|-------------|
|   | AC          | FVPL      | FVOCI      | Total       |
|   | LKR '000    | LKR '000  | LKR '000   | LKR '000    |
| Assets  |             |           |            |             |
| Cash and Cash Equivalents   | 6,437,573   | -         | -          | 6,437,573   |
| Balances with Central Bank of Sri Lanka                           | 12,762,122  | -         | -          | 12,762,122  |
| Reverse Repurchase Agreements                                     | 180,593     | -         | -          | 180,593     |
| Derivative Financial Instruments                                  | -           | 2,403,787 | -          | 2,403,787   |
| Financial Assets - Recognised through Profit or Loss              | -           | 668,812   | -          | 668,812     |
| Financial Assets at Fair Value through Other Comprehensive Income | -           | -         | 57,463,831 | 57,463,831  |
| Financial Assets at Amortised Cost- Debt Instruments              | 15,941,247  | -         | -          | 15,941,247  |
| Financial Assets at Amortised Cost – Loans and Advances           | 221,505,692 | -         | -          | 221,505,692 |
| Total Financial Assets  | 256,827,227 | 3,072,599 | 57,463,831 | 317,363,657 |
| Liabilities   |             |           |            |             |
| Due to Banks  | 18,474,545  | -         | -          | 18,474,545  |
| Derivative Financial Instruments                                  | -           | 484,373   | -          | 484,373     |
| Financial Liabilities at Amortised Cost                           |             |           |            |             |
| Due to Depositors   | 231,462,599 | -         | -          | 231,462,599 |
| Repurchase Agreements   | 7,681,669   | -         | -          | 7,681,669   |
| Due to Other Borrowers  | 20,248,816  | -         | -          | 20,248,816  |
| Debt Securities Issued  | 8,745,611   | -         | -          | 8,745,611   |
| Total Financial Liabilities                                       | 286,613,240 | 484,373   | -          | 287,097,613 |

AC – Financial assets/liabilities measured at amortised cost

FVPL – Financial assets/liabilities measured at fair value through profit or loss

FVOCI – Financial assets measured at fair value through other comprehensive income

# Notes to the Financial Statements

## 5 ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS (CONTD.)

### 5.3 Bank

| As at 31 December | 2017                 |   |                             |  |                               |  | Total |
|-------------------|----------------------|---|-----------------------------|--|-------------------------------|--|-------|
|                   | HFT at<br>Fair Value | Financial<br>Derivatives<br>at Fair Value | HTM at<br>Amortised<br>Cost | Available<br>for Sale<br>at Fair Value | L & R at<br>Amortised<br>Cost | Other<br>Financial<br>Assets/<br>Liabilities at<br>Amortised<br>Cost |       |
|                   | LKR '000             | LKR '000                                  | LKR '000                    | LKR '000                               | LKR '000                      | LKR '000   |       |

#### Assets

|   |                |                |                  |                   |                    |          |                    |
|---|----------------|----------------|------------------|-------------------|--------------------|----------|--------------------|
| Cash and Cash Equivalents               | -              | -              | -                | -                 | 6,847,210          | -        | 6,847,210          |
| Balances with Central Bank of Sri Lanka | -              | -              | -                | -                 | 11,213,278         | -        | 11,213,278         |
| Reverse Repurchase Agreements           | -              | -              | -                | -                 | 10,798             | -        | 10,798             |
| Derivative Financial Instruments        | -              | 230,217        | -                | -                 | -                  | -        | 230,217            |
| Financial Assets - Held for Trading     | 521,389        | -              | -                | -                 | -                  | -        | 521,389            |
| Financial Assets-Available for Sale     | -              | -              | -                | 38,852,046        | -                  | -        | 38,852,046         |
| Financial Assets - Held to Maturity     | -              | -              | 9,879,390        | -                 | -                  | -        | 9,879,390          |
| Other Financial Assets                  | -              | -              | -                | -                 | 6,797,607          | -        | 6,797,607          |
| Loans and Advances to Customers         | -              | -              | -                | -                 | 186,536,712        | -        | 186,536,712        |
| <b>Total Financial Assets</b>           | <b>521,389</b> | <b>230,217</b> | <b>9,879,390</b> | <b>38,852,046</b> | <b>211,405,605</b> | <b>-</b> | <b>260,888,647</b> |

#### Liabilities

|                                      |          |                |          |          |          |                    |                    |
|--------------------------------------|----------|----------------|----------|----------|----------|--------------------|--------------------|
| Due to Banks                         | -        | -              | -        | -        | -        | 12,314,853         | 12,314,853         |
| Repurchase Agreements                | -        | -              | -        | -        | -        | 10,718,199         | 10,718,199         |
| Derivative Financial Instruments     | -        | 495,517        | -        | -        | -        | -                  | 495,517            |
| Due to Customers                     | -        | -              | -        | -        | -        | 194,296,718        | 194,296,718        |
| Debt Issued and Other Borrowed Funds | -        | -              | -        | -        | -        | 19,737,574         | 19,737,574         |
| <b>Total Financial Liabilities</b>   | <b>-</b> | <b>495,517</b> | <b>-</b> | <b>-</b> | <b>-</b> | <b>237,067,344</b> | <b>237,562,861</b> |

### 5.4 Group

| As at 31 December | 2017                 |   |                             |  |                               |  | Total |
|-------------------|----------------------|---|-----------------------------|--|-------------------------------|--|-------|
|                   | HFT at<br>Fair Value | Financial<br>Derivatives<br>at Fair Value | HTM at<br>Amortised<br>Cost | Available<br>for Sale<br>at Fair Value | L & R at<br>Amortised<br>Cost | Other<br>Financial<br>Assets/<br>Liabilities at<br>Amortised<br>Cost |       |
|                   | LKR '000             | LKR '000                                  | LKR '000                    | LKR '000                               | LKR '000                      | LKR '000   |       |

#### Assets

|   |                |                |                  |                   |                    |          |                    |
|---|----------------|----------------|------------------|-------------------|--------------------|----------|--------------------|
| Cash and Cash Equivalents               | -              | -              | -                | -                 | 6,849,683          | -        | 6,849,683          |
| Balances with Central Bank of Sri Lanka | -              | -              | -                | -                 | 11,213,278         | -        | 11,213,278         |
| Reverse Repurchase Agreements           | -              | -              | -                | -                 | 10,798             | -        | 10,798             |
| Derivative Financial Instruments        | -              | 230,217        | -                | -                 | -                  | -        | 230,217            |
| Financial Assets - Held for Trading     | 521,389        | -              | -                | -                 | -                  | -        | 521,389            |
| Financial Assets-Available for Sale     | -              | -              | -                | 38,852,046        | -                  | -        | 38,852,046         |
| Financial Assets - Held to Maturity     | -              | -              | 9,950,433        | -                 | -                  | -        | 9,950,433          |
| Other Financial Assets                  | -              | -              | -                | -                 | 6,797,607          | -        | 6,797,607          |
| Loans and Advances to Customers         | -              | -              | -                | -                 | 186,745,711        | -        | 186,745,711        |
| <b>Total Financial Assets</b>           | <b>521,389</b> | <b>230,217</b> | <b>9,950,433</b> | <b>38,852,046</b> | <b>211,617,077</b> | <b>-</b> | <b>261,171,162</b> |

#### Liabilities

|                                      |          |                |          |          |          |                    |                    |
|--------------------------------------|----------|----------------|----------|----------|----------|--------------------|--------------------|
| Due to Banks                         | -        | -              | -        | -        | -        | 12,314,853         | 12,314,853         |
| Repurchase Agreements                | -        | -              | -        | -        | -        | 10,339,794         | 10,339,794         |
| Derivative Financial Instruments     | -        | 495,517        | -        | -        | -        | -                  | 495,517            |
| Due to Customers                     | -        | -              | -        | -        | -        | 194,268,995        | 194,268,995        |
| Debt Issued and Other Borrowed Funds | -        | -              | -        | -        | -        | 19,737,574         | 19,737,574         |
| <b>Total Financial Liabilities</b>   | <b>-</b> | <b>495,517</b> | <b>-</b> | <b>-</b> | <b>-</b> | <b>236,661,216</b> | <b>237,156,733</b> |

HFT -Held for Trading HTM - Held-to-Maturity L&R- Loans and Receivables AFS-Available for Sale

## 6 CASH AND CASH EQUIVALENTS

| As at 31 December                                   | Bank      |           | Group     |           |
|---|-----------|-----------|-----------|-----------|
|   | 2018      | 2017      | 2018      | 2017      |
|   | LKR '000  | LKR '000  | LKR '000  | LKR '000  |
| Cash in Hand  | 5,419,519 | 5,589,806 | 5,419,542 | 5,589,829 |
| Balances with Banks                                 | 1,018,271 | 1,257,404 | 1,018,302 | 1,259,854 |
| Less: Impairment for Balances with Banks (Note 6.1) | (271)     | -         | (271)     | -         |
|   | 6,437,519 | 6,847,210 | 6,437,573 | 6,849,683 |

### 6.1 Movements in impairment during the year

| For the Year Ended 31 December         | Bank / Group<br>2018<br>LKR '000 |
|--|----------------------------------|
| Opening balance as at 01 January 2018  | -                                |
| Impact of adopting SLFRS 9 (Note 53)   | 228                              |
| Charge to income statement (Note 38)   | 43                               |
| Closing balance as at 31 December 2018 | 271                              |

## 7 BALANCES WITH CENTRAL BANK OF SRI LANKA

| As at 31 December                                    | Bank       |            | Group      |            |
|--|------------|------------|------------|------------|
|  | 2018       | 2017       | 2018       | 2017       |
|  | LKR '000   | LKR '000   | LKR '000   | LKR '000   |
| Statutory Balance with Central Bank of Sri Lanka     | 12,634,094 | 11,193,266 | 12,634,094 | 11,193,266 |
| Non Statutory Balance with Central Bank of Sri Lanka | 128,028    | 20,012     | 128,028    | 20,012     |
|  | 12,762,122 | 11,213,278 | 12,762,122 | 11,213,278 |

As required by the provisions of section 93 of the Monetary Law Act, a cash balance is required to be maintained with the Central Bank of Sri Lanka.

As at 31 December 2018, the minimum cash reserve requirement was 6.0% (2017: 7.5%) of the rupee deposit liabilities other than margin deposits against letters of credit of Domestic Banking Unit. The minimum cash reserve requirement for margin deposits against letters of credit of Domestic Banking Unit was at 100% (2017 - 7.5%). There is no reserve requirement for foreign currency deposit liabilities in Domestic Banking Unit and the deposit liabilities in Foreign Currency Banking Unit.

## 8 TRANSFERRED FINANCIAL ASSETS

### Reverse Repurchase /Repurchase Agreements

#### Accounting Policy

During its normal course of business, the Bank sells securities under agreements to repurchase (repos) and purchase securities under agreements to resell (reverse repos). The accounting treatment of these transactions is explained below;

Securities sold under agreements to repurchase at a specified future date are not derecognized from the Statement of Financial Position as the Group retains substantially all of the risks and rewards of ownership. The corresponding cash received is recognized in the Consolidated Statement of Financial Position as an asset with a corresponding obligation to return it, including accrued interest as a liability within 'Repurchase Agreements', reflecting the transaction's economic substance as a loan to the Group. The difference between the sale and repurchase price is treated as interest expense and is accrued over the life of agreement using the EIR.

Conversely, securities purchased under agreements to resell at a specified future date are not recognized in the Statement of Financial Position. The consideration paid, including accrued interest, is recorded in the Statement of Financial Position, within 'Reverse Repurchase Agreements', reflecting the transaction's economic substance as a loan by the Group. The difference between the purchase and resale price is treated as interest income and is accrued over the life of the agreement using the EIR. The Group has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognized them, instead it recognizes a financial liability for cash received.

# Notes to the Financial Statements

## 8 TRANSFERRED FINANCIAL ASSETS (CONTD.)

### 8.1 Reverse repurchase agreements

| As at 31 December      | Bank     |          | Group    |          |
|------------------------|----------|----------|----------|----------|
|                        | 2018     | 2017     | 2018     | 2017     |
| Due from;              | LKR '000 | LKR '000 | LKR '000 | LKR '000 |
| - Banks                | 172,043  | -        | 172,043  | -        |
| - Other Counterparties | 8,550    | 10,798   | 8,550    | 10,798   |
|                        | 180,593  | 10,798   | 180,593  | 10,798   |

The Group holds collateral against reverse repurchase agreements and is permitted to sell or repledge the collateral in case of a default by the owner of the collateral. The fair value of collateral held under reverse repurchase agreements by the Bank/Group amounts to LKR 199.25 Mn (2017 – LKR 10.98 Mn).

### 8.2 Repurchase agreements

| As at 31 December                                    | Bank              |                   | Group             |                   |
|--|-------------------|-------------------|-------------------|-------------------|
|  | 2018              | 2017              | 2018              | 2017              |
| On Government Securities                             | LKR '000          | LKR '000          | LKR '000          | LKR '000          |
| <b>On Government Securities</b>                      |                   |                   |                   |                   |
| Due to;  |                   |                   |                   |                   |
| - Banks (Note 21)                                    | 8,509,788         | 1,600,989         | 8,509,788         | 1,600,989         |
| - Other Financial Institutions                       | -                 | 6,512,716         | -                 | 6,449,602         |
| - Other Counterparties                               | 6,545,752         | 2,463,909         | 6,545,752         | 2,463,909         |
|  | 15,055,540        | 10,577,614        | 15,055,540        | 10,514,500        |
| <b>On Other Securities</b>                           |                   |                   |                   |                   |
| Due to;  |                   |                   |                   |                   |
| - Other Financial Institutions                       | -                 | 697,476           | -                 | 697,476           |
| - Other Counterparties                               | 1,238,265         | 1,044,098         | 1,135,917         | 728,807           |
|  | 1,238,265         | 1,741,574         | 1,135,917         | 1,426,283         |
| <b>Total Repurchase Agreements</b>                   | <b>16,293,805</b> | <b>12,319,188</b> | <b>16,191,457</b> | <b>11,940,783</b> |
| <b>Repurchase Agreements - Other than with Banks</b> | <b>7,784,017</b>  | <b>10,718,199</b> | <b>7,681,669</b>  | <b>10,339,794</b> |

## 9 DERIVATIVE FINANCIAL INSTRUMENTS

The below table shows the fair values of derivative financial instruments recorded as assets or liabilities, together with their notional (contract) amounts. Settlement of these contracts against customer is on delivery against payment basis which eliminates credit risks. Settlements against the Bank is on a gross basis subject to approved credit limits.

The notional amounts that indicate the volume of transactions outstanding at the year-end are indicative of neither the market risk nor the credit risk. This transaction type is exposed to market risks due to fluctuation of market rates. The Bank may take positions with the expectation of profiting from favorable movements in rates.

Derivatives entered into for risk management purposes that do not meet the hedge accounting criteria are also included under this classification.

### 9.1 Derivative Asset - Held for Trading

At a Gain Position

| As at 31 December                    | Bank / Group  |            | Bank / Group  |            |
|--------------------------------------|---------------|------------|---------------|------------|
|                                      | Fair Value of | Contract   | Fair Value of | Contract   |
|                                      | Assets        | amount     | Assets        | amount     |
|                                      | 2018          | 2018       | 2017          | 2017       |
|                                      | LKR '000      | LKR '000   | LKR '000      | LKR '000   |
| Foreign Currency Derivatives         |               |            |               |            |
| - Currency Swaps                     | 1,877,602     | 28,034,941 | 213,497       | 10,792,764 |
| - Forward Foreign Exchange Contracts | 526,067       | 7,024,177  | 16,634        | 968,960    |
| - Spot Contracts                     | 118           | 48,350     | 86            | 43,947     |
|                                      | 2,403,787     | 35,107,468 | 230,217       | 11,805,671 |

### 9.2 Derivative Liabilities - Held for Trading

At a Loss Position

| As at 31 December                    | Bank / Group  |           | Bank / Group  |            |
|--------------------------------------|---------------|-----------|---------------|------------|
|                                      | Fair Value of | Contract  | Fair Value of | Contract   |
|                                      | Assets        | amount    | Assets        | amount     |
|                                      | 2018          | 2018      | 2017          | 2017       |
|                                      | LKR '000      | LKR '000  | LKR '000      | LKR '000   |
| Foreign Currency Derivatives         |               |           |               |            |
| - Currency Swaps                     | 410,848       | 7,941,038 | 319,426       | 16,253,681 |
| - Forward Foreign Exchange Contracts | 73,416        | 1,884,900 | 175,518       | 9,910,511  |
| - Spot Contracts                     | 109           | 113,819   | 573           | 228,607    |
|                                      | 484,373       | 9,939,757 | 495,517       | 26,392,799 |

# Notes to the Financial Statements

## 10 FINANCIAL ASSETS - RECOGNISED THROUGH PROFIT OR LOSS

| As at 31 December         | Bank     |          | Group    |          |
|---------------------------|----------|----------|----------|----------|
|                           | 2018     | 2017     | 2018     | 2017     |
|                           | LKR '000 | LKR '000 | LKR '000 | LKR '000 |
| Measured at Fair Value    |          |          |          |          |
| Government Treasury Bonds | 668,812  | 521,389  | 668,812  | 521,389  |
|                           | 668,812  | 521,389  | 668,812  | 521,389  |

### 10.1 Analysis

| As at 31 December    | Bank     |          | Group    |          |
|----------------------|----------|----------|----------|----------|
|                      | 2018     | 2017     | 2018     | 2017     |
|                      | LKR '000 | LKR '000 | LKR '000 | LKR '000 |
| By collateralisation |          |          |          |          |
| Unencumbered         | 668,812  | 521,389  | 668,812  | 521,389  |
|                      | 668,812  | 521,389  | 668,812  | 521,389  |
| By currency          |          |          |          |          |
| Sri Lankan Rupee     | 668,812  | 521,389  | 668,812  | 521,389  |
|                      | 668,812  | 521,389  | 668,812  | 521,389  |

## 11 FINANCIAL ASSETS - AVAILABLE FOR SALE

| As at 31 December                  | Bank     |            | Group    |            |
|------------------------------------|----------|------------|----------|------------|
|                                    | 2018     | 2017       | 2018     | 2017       |
|                                    | LKR '000 | LKR '000   | LKR '000 | LKR '000   |
| Government Treasury Bills          | -        | 24,351,263 | -        | 24,351,263 |
| Government Treasury Bonds          | -        | 14,494,846 | -        | 14,494,846 |
| Unquoted Equity Shares (Note 11.1) | -        | 5,937      | -        | 5,937      |
|                                    | -        | 38,852,046 | -        | 38,852,046 |

### 11.1 Unquoted Equity Shares

| As at 31 December   | Bank     |          | Group    |          |
|---|----------|----------|----------|----------|
|   | 2018     | 2017     | 2018     | 2017     |
|   | LKR '000 | LKR '000 | LKR '000 | LKR '000 |
| Lanka Clear (Private) Limited<br>150,000 Ordinary Shares of LKR 10/- each               | -        | 1,500    | -        | 1,500    |
| Credit Information Bureau (CRIB)<br>9,000 Ordinary Shares of LKR 10/- each              | -        | 90       | -        | 90       |
| Lanka Financial Services Bureau<br>112,500 Ordinary Shares of LKR 10/- each             | -        | 1,125    | -        | 1,125    |
| Society of Worldwide Interbank Financial Telecommunication<br>(SWIFT) 5 Ordinary Shares | -        | 3,222    | -        | 3,222    |
|   | -        | 5,937    | -        | 5,937    |



## 11.2 Analysis

| As at 31 December     | Bank     |            | Group    |            |
|-----------------------|----------|------------|----------|------------|
|                       | 2018     | 2017       | 2018     | 2017       |
|                       | LKR '000 | LKR '000   | LKR '000 | LKR '000   |
| By collateralisation  |          |            |          |            |
| Pledged as collateral | -        | 4,639,458  | -        | 4,639,458  |
| Unencumbered          | -        | 34,212,588 | -        | 34,212,588 |
|                       | -        | 38,852,046 | -        | 38,852,046 |
| By currency           |          |            |          |            |
| Sri Lankan Rupee      | -        | 38,848,824 | -        | 38,848,824 |
| United States Dollar  | -        | 3,222      | -        | 3,222      |
|                       | -        | 38,852,046 | -        | 38,852,046 |

## 12 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

| As at 31 December              | Bank       |          | Group      |          |
|--------------------------------|------------|----------|------------|----------|
|                                | 2018       | 2017     | 2018       | 2017     |
|                                | LKR '000   | LKR '000 | LKR '000   | LKR '000 |
| Debt Instruments               |            |          |            |          |
| Government Treasury Bills      | 40,965,971 | -        | 40,965,971 | -        |
| Government Treasury Bonds      | 16,483,886 | -        | 16,483,886 | -        |
| Equity Instruments (Note 12.1) | 13,974     | -        | 13,974     | -        |
|                                | 57,463,831 | -        | 57,463,831 | -        |

### 12.1 Equity Instruments at Fair Value through Other Comprehensive Income

| As at 31 December  | Bank     |          | Group    |          |
|--|----------|----------|----------|----------|
|  | 2018     | 2017     | 2018     | 2017     |
|  | LKR '000 | LKR '000 | LKR '000 | LKR '000 |
| Lanka Clear (Private) Limited<br>150,000 Ordinary Shares of LKR 10/- each                | 1,500    | -        | 1,500    | -        |
| Credit Information Bureau (CRIB)<br>9,000 Ordinary Shares of LKR 10/- each               | 90       | -        | 90       | -        |
| Lanka Financial Services Bureau<br>112,500 Ordinary Shares of LKR 10/- each              | 1,125    | -        | 1,125    | -        |
| Society of Worldwide Interbank Financial Telecommunication<br>(SWIFT) 12 Ordinary Shares | 11,259   | -        | 11,259   | -        |
|  | 13,974   | -        | 13,974   | -        |

# Notes to the Financial Statements

## 12 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (CONTD.)

### 12.2 Analysis

| As at 31 December     | Bank             |                  | Group            |                  |
|-----------------------|------------------|------------------|------------------|------------------|
|                       | 2018<br>LKR '000 | 2017<br>LKR '000 | 2018<br>LKR '000 | 2017<br>LKR '000 |
| By collateralisation  |                  |                  |                  |                  |
| Pledged as collateral | 11,104,972       | -                | 11,104,972       | -                |
| Unencumbered          | 46,358,859       | -                | 46,358,859       | -                |
|                       | 57,463,831       | -                | 57,463,831       | -                |
| By currency           |                  |                  |                  |                  |
| Sri Lankan Rupee      | 57,452,572       | -                | 57,452,572       | -                |
| United States Dollar  | 11,259           | -                | 11,259           | -                |
|                       | 57,463,831       | -                | 57,463,831       | -                |

## 13 FINANCIAL ASSETS HELD TO MATURITY

| As at 31 December         | Bank             |                  | Group            |                  |
|---------------------------|------------------|------------------|------------------|------------------|
|                           | 2018<br>LKR '000 | 2017<br>LKR '000 | 2018<br>LKR '000 | 2017<br>LKR '000 |
| Government Treasury Bonds | -                | 9,879,390        | -                | 9,950,433        |
|                           | -                | 9,879,390        | -                | 9,950,433        |

### 13.1 Analysis

| As at 31 December     | Bank             |                  | Group            |                  |
|-----------------------|------------------|------------------|------------------|------------------|
|                       | 2018<br>LKR '000 | 2017<br>LKR '000 | 2018<br>LKR '000 | 2017<br>LKR '000 |
| By collateralisation  |                  |                  |                  |                  |
| Pledged as collateral | -                | 6,184,435        | -                | 6,184,435        |
| Unencumbered          | -                | 3,694,955        | -                | 3,765,998        |
|                       | -                | 9,879,390        | -                | 9,950,433        |
| By currency           |                  |                  |                  |                  |
| Sri Lankan Rupee      | -                | 9,879,390        | -                | 9,950,433        |
| United States Dollar  | -                | -                | -                | -                |
|                       | -                | 9,879,390        | -                | 9,950,433        |

## 14 OTHER FINANCIAL ASSETS

| As at 31 December             | Bank             |                  | Group            |                  |
|-------------------------------|------------------|------------------|------------------|------------------|
|                               | 2018<br>LKR '000 | 2017<br>LKR '000 | 2018<br>LKR '000 | 2017<br>LKR '000 |
| Sri Lanka Development Bonds   | -                | 4,053,665        | -                | 4,053,665        |
| Quoted Debentures (Note 14.1) | -                | 2,743,942        | -                | 2,743,942        |
|                               | -                | 6,797,607        | -                | 6,797,607        |

## 14.1 Quoted Debentures

| Company                                     | Type                              | No of Debentures<br>2017 | LKR '000<br>2017 |
|---|-----------------------------------|--------------------------|------------------|
| Hemas Holdings PLC                          | Unsecured, Redeemable Debentures  | 223,900                  | 23,011           |
| Lion Brewery (Ceylon) PLC                   | Unsecured, Redeemable Debentures  | 1,686,000                | 171,936          |
| Seylan Bank PLC                             | Unsecured, Redeemable Debentures  | 3,000,000                | 300,636          |
| Alliance Finance Company PLC                | Unsecured, Redeemable Debentures  | 1,365,498                | 148,940          |
| Singer (Sri Lanka) PLC                      | Unsecured, Redeemable Debentures  | 2,000,000                | 208,671          |
| DFCC Vardhana Bank                          | Unsecured, Redeemable Debentures  | 1,988,600                | 209,024          |
| MTD Walkers PLC                             | Unsecured, Redeemable Debentures  | 2,000,000                | 204,968          |
| Housing and Development Finance Corporation | Unsecured, Redeemable Debentures  | 2,500,000                | 253,021          |
| Access Engineering PLC                      | Unsecured, Redeemable Debentures  | 3,500,000                | 354,226          |
| Sanasa Development Bank PLC                 | Guaranteed, Redeemable Debentures | 3,784,500                | 397,337          |
| Sanasa Development Bank PLC                 | Guaranteed, Redeemable Debentures | 1,000,000                | 105,192          |
| Senkadagala Finance PLC                     | Unsecured, Redeemable Debentures  | 611,500                  | 62,348           |
| Peoples Leasing & Finance PLC               | Unsecured, Redeemable Debentures  | 3,000,000                | 304,632          |
|   |                                   |                          | 2,743,942        |

## 14.2 Analysis

| As at 31 December     | Bank             |                  | Group            |                  |
|-----------------------|------------------|------------------|------------------|------------------|
|                       | 2018<br>LKR '000 | 2017<br>LKR '000 | 2018<br>LKR '000 | 2017<br>LKR '000 |
| By collateralisation  |                  |                  |                  |                  |
| Pledged as collateral | -                | 1,605,931        | -                | 1,605,931        |
| Unencumbered          | -                | 5,191,676        | -                | 5,191,676        |
|                       | -                | 6,797,607        | -                | 6,797,607        |
| By currency           |                  |                  |                  |                  |
| Sri Lankan Rupee      | -                | 2,743,942        | -                | 2,743,942        |
| United States Dollar  | -                | 4,053,665        | -                | 4,053,665        |
|                       | -                | 6,797,607        | -                | 6,797,607        |

## 15 FINANCIAL ASSETS AT AMORTISED COST - DEBT INSTRUMENTS

| As at 31 December             | Bank/Group       |                  |
|-------------------------------|------------------|------------------|
|                               | 2018<br>LKR '000 | 2017<br>LKR '000 |
| Government Treasury Bonds     | 10,208,370       | -                |
| Sri Lanka Development Bonds   | 3,914,439        | -                |
| Quoted Debentures (Note 15.1) | 1,888,957        | -                |
| Less: Impairment (Note 15.3)  | (70,519)         | -                |
|                               | 15,941,247       | -                |

# Notes to the Financial Statements

## 15 FINANCIAL ASSETS AT AMORTISED COST - DEBT INSTRUMENTS (CONTD.)

### 15.1 Quoted Debentures

| Company                                     | Type                              | No of Debentures<br>2018 | LKR '000<br>2018 |
|---|-----------------------------------|--------------------------|------------------|
| Hemas Holdings PLC                          | Unsecured, Redeemable Debentures  | 223,900                  | 23,011           |
| Lion Brewery (Ceylon) PLC                   | Unsecured, Redeemable Debentures  | 1,686,000                | 171,936          |
| Seylan Bank PLC                             | Unsecured, Redeemable Debentures  | 3,000,000                | 300,636          |
| DFCC Vardhana Bank                          | Unsecured, Redeemable Debentures  | 1,988,600                | 209,024          |
| MTD Walkers PLC                             | Unsecured, Redeemable Debentures  | 1,019,134                | 104,932          |
| Housing and Development Finance Corporation | Unsecured, Redeemable Debentures  | 2,500,000                | 253,021          |
| Access Engineering PLC                      | Unsecured, Redeemable Debentures  | 3,500,000                | 354,226          |
| Sanasa Development Bank PLC                 | Guaranteed, Redeemable Debentures | 1,000,000                | 105,192          |
| Senkadagala Finance PLC                     | Unsecured, Redeemable Debentures  | 611,500                  | 62,348           |
| Peoples Leasing & Finance PLC               | Unsecured, Redeemable Debentures  | 3,000,000                | 304,631          |
|   |                                   |                          | 1,888,957        |

### 15.2 Analysis

| As at 31 December     | Bank/Group |          |
|-----------------------|------------|----------|
|                       | 2018       | 2017     |
|                       | LKR '000   | LKR '000 |
| By collateralisation  |            |          |
| Pledged as collateral | 5,886,719  | -        |
| Unencumbered          | 10,054,528 | -        |
|                       | 15,941,247 | -        |
| By currency           |            |          |
| Sri Lankan Rupee      | 12,026,808 | -        |
| United States Dollar  | 3,914,439  | -        |
|                       | 15,941,247 | -        |

### 15.3 Movements in impairment during the year 2018

| As at 31 December                                 | Bank/Group<br>2018<br>LKR '000 |
|---|--------------------------------|
| Stage 1   |                                |
| Opening balance as at 01 January 2018             | -                              |
| Impact of adopting SLFRS 9 (Note 53)              | 20,785                         |
| Charge/(Write back) to income statement (Note 38) | 7,361                          |
| Write-off during the year                         | -                              |
| <b>Closing balance as at 31 December 2018</b>     | <b>28,146</b>                  |
| Stage 2   |                                |
| Opening balance as at 01 January 2018             | -                              |
| Impact of adopting SLFRS 9                        | -                              |
| Charge/(Write back) to income statement           | -                              |
| Write-off during the year                         | -                              |
| <b>Closing balance as at 31 December 2018</b>     | <b>-</b>                       |
| Stage 3   |                                |
| Opening balance as at 01 January 2018             | -                              |
| Impact of adopting SLFRS 9                        | -                              |
| Charge/(Write back) to income statement (Note 38) | 42,373                         |
| Write-off during the year                         | -                              |
| <b>Closing balance as at 31 December 2018</b>     | <b>42,373</b>                  |
| <b>Total impairment provision</b>                 | <b>70,519</b>                  |

# Notes to the Financial Statements

## 16 FINANCIAL ASSETS AT AMORTISED COST - LOANS AND ADVANCES

### Accounting Policy

#### Impairment of financial assets (Policy applicable from 1 January 2018)

##### (i) Overview of the ECL principles

As described in Note 2.8.1.1, 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 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 lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL) as outlined in Note 3.3.5 (ii). The Bank's policies for determining if there has been a significant increase in credit risk are set out in Note 49.

The 12mECL is the portion of LTECLs 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 LTECLs and 12mECLs 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 49

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 49.

Based on the above process, the Bank groups its loans into Stage 1, Stage 2, Stage 3 and POCI, as described below:

|            |   |
|------------|---|
| • Stage 1: | When loans are first recognised, the Bank recognises an allowance based on 12mECLs. 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 LTECLs. 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 49). The bank records an allowance for the LTECLs.  |
| • POCI     | Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit-adjusted EIR. ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses. |

##### (ii) The calculation of ECLs

The Bank calculates ECLs based on a three probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

The mechanics of the ECL calculations are outlined below and the key elements are, as follows:

- PD: The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio. The concept of PDs is further explained in Note 49.
- EAD: The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments. The EAD is further explained in Note 49.
- LGD: The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD. The LGD is further explained in Note 49.



When estimating the ECLs, the Bank considers three scenarios (a base case, a best case, a worst case). Each of these is associated with different PDs, EADs and LGDs, as set out in Note 3.3.5 (V)

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 from selling the asset.

With the exception of credit cards and other revolving facilities, for which the treatment is separately set out in Note 3.3.5 (V), 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.

Impairment losses and releases are accounted for and disclosed separately from modification losses or gains that are accounted for as an adjustment of the financial asset's gross carrying value.

Provisions for ECLs for undrawn loan commitments are assessed as set out in Note 26. The calculation of ECLs (including the ECLs related to the undrawn element) of revolving facilities such as credit cards is explained in Note 3.3.5.(v).

The mechanics of the ECL method are summarised below:

|   |  |
|---|--|
| • Stage 1:                              | The 12mECL is calculated as the portion of LTECLs 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 12mECL 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, including the use of multiple scenarios, 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 49), the Bank recognises the lifetime expected credit losses for these loans. The method is similar to that for Stage 2 assets, with the PD set at 100%.  |
| • POCI                                  | POCI assets are financial assets that are credit impaired on initial recognition. The Bank only recognises the cumulative changes in lifetime ECLs since initial recognition, discounted by the credit adjusted EIR.   |
| 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, the portion of ECLs related to the drawn amount are calculated and presented together with the loan. For undrawn loan commitments and letters of credit, the ECL is recognised within Other Liabilities.   |
| 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 holder for a credit loss that it incurs by using Credit Conversion Factors (CCF) specified by the Central Bank of Sri Lanka for the purpose of calculating Capital Adequacy Ratio of the Bank. 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 Other Liabilities. |

### (iii) Debt instruments measured at fair value through OCI

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 profit or loss. The accumulated loss recognised in OCI is recycled to the profit and loss upon derecognition of the assets.

## Notes to the Financial Statements

### 16 FINANCIAL ASSETS AT AMORTISED COST – LOANS AND ADVANCES (CONTD.)

#### (iv) Purchased or originated credit impaired financial assets (POCI)

For POCI financial assets, the Bank only recognises the cumulative changes in LTECL since initial recognition in the loss allowance.

#### (v) 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 a notice. Revolving facilities are subject to regular post disbursement reviews and every such facility goes through one or more formal review annually. Therefore, all revolving facilities are assessed for 12mECLs.

The ongoing assessment of whether a significant increase in credit risk has occurred for revolving facilities is similar to other lending products. This is mainly based on shifts in the delinquency level of the customer with a consideration given to qualitative factors such as changes in usage 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.

The calculation of ECLs, including the estimation of the expected period of exposure and discount rate is made, as explained in Note 49, on an individual basis for corporate and on a collective basis for retail products.

The collective assessments are made separately for portfolios of facilities with similar credit risk characteristics.

#### (vi) 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
- Inflation
- Interest Rates
- Exchange Rates
- Unemployment rates

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material. Detailed information about these inputs and sensitivity analysis are provided in Note 49.

#### (vii) 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 and credit enhancements. 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. Collateral is not recorded on the Bank's statement of financial position. However, the fair value of collateral affects the calculation of ECLs. It is generally assessed, at a minimum, at inception and re-assessed subsequently as and when required. However, some collateral, for example, cash or securities relating to margining requirements, is valued daily. Details of the impact of the Bank's various credit enhancements are disclosed in Note 49.

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 etc.

#### (viii) Collateral repossessed

The Bank's accounting policy under SLFRS 9 remains the same as it was under LKAS 39. The Group's policy is to sell the repossessed assets at the earliest possible opportunity. Such collateral repossessed are held on a memorandum basis without derecognizing the underlying receivable.

**(ix) 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 Other Operating Income in the Profit or Loss.

**(x) 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 classifies a loan as a "Rescheduled Loan" 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 Management Department. A reschedulement of a loan 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 rescheduled loans to help ensure that future payments continue to be likely to occur. All rescheduled loans are classified as Stage 3 until the fulfillment of regulatory watch period or written off.

**Impairment of financial assets (Policy applicable before 1 January 2018)**

The Group assesses at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that 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 financial asset or the group of financial assets that can be reliably estimated.

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

**i. Financial Assets carried at Amortized Cost**

The Bank's impairment methodology for assets carried at amortised costs comprises:

- Specific impairment losses for individually significant or specifically identified exposures
- Collective impairment of:
  - I. Individually not significant exposures
  - II. Incurred but not yet identified losses (IBNI)
- Specific impairment losses for individually significant or specifically identified exposures

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

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the 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. The interest income is recorded as a part of 'Interest income'.

# Notes to the Financial Statements

## 16 FINANCIAL ASSETS AT AMORTISED COST – LOANS AND ADVANCES (CONTD.)

Loans together with the associated allowance are written-off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is recognized in the 'Other Operating Income'.

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

The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Group's internal credit grading system that considers credit risk characteristics such as asset type, industry and past-due status and other relevant factors. 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 directionally consistent with, changes in related observable data from year to year (such as property 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.

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

For available-for-sale financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment is impaired. In the case of debt instruments classified as available-for-sale, the Bank assesses individually whether there is objective evidence of impairment based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the Profit or Loss. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of interest income. If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to a credit event occurring after the impairment loss was recognized in the income statement, the impairment loss is reversed through the Profit or Loss.

| As at 31 December                              | Bank<br>2018<br>LKR '000 | Group<br>2018<br>LKR '000 |
|--|--------------------------|---------------------------|
| Gross loans and advances                       |                          |                           |
| Stage 1  | 192,775,638              | 192,780,544               |
| Stage 2  | 12,474,005               | 12,474,005                |
| Stage 3  | 22,009,069               | 22,009,069                |
|  | 227,258,712              | 227,263,618               |
| (Less): Allowance for impairment losses under: |                          |                           |
| Stage 1  | (1,047,569)              | (1,047,439)               |
| Stage 2  | (296,431)                | (296,431)                 |
| Stage 3  | (4,414,056)              | (4,414,056)               |
|  | (5,758,056)              | (5,757,926)               |
| Net loans and advances                         | 221,500,656              | 221,505,692               |

Gross loans included under stage 1 reflect the balance net of allowance for day 1 difference of staff loans amounting to LKR 746.857 Mn. (Note 17) which add on to LKR 228,005.569 Mn.

Gross loans & advances individually determined to be impaired, before deducting individually assessed impairment allowance amounts to LKR 14,088 Mn.

Analysis of gross/net loans and advances as at 31 December 2017 is given below:

| As at 31 December                               | Bank<br>2017<br>LKR '000 | Group<br>2017<br>LKR '000 |
|---|--------------------------|---------------------------|
| Corporate Loans                                 | 45,767,388               | 45,808,101                |
| Retail, SME and Consumer Lending                | 100,575,835              | 100,743,992               |
| Housing Loans                                   | 3,202,405                | 3,202,405                 |
| Leases  | 37,253,690               | 37,253,690                |
|   | 186,799,318              | 187,008,187               |
| Less : Allowance for Impairment Losses          | (2,608,915)              | (2,608,785)               |
|   | 184,190,403              | 184,399,402               |
| Staff Loans                                     | 2,985,412                | 2,985,412                 |
| Less : Allowance for Day 1 Difference (Note 17) | (639,103)                | (639,103)                 |
|   | 2,346,309                | 2,346,309                 |
|   | 186,536,712              | 186,745,711               |

# Notes to the Financial Statements

## 16 FINANCIAL ASSETS AT AMORTISED COST – LOANS AND ADVANCES (CONTD.)

### 16.1 Gross Loans and Advances by Product

| As at 31 December         | Bank        |             | Group       |             |
|---------------------------|-------------|-------------|-------------|-------------|
|                           | 2018        | 2017        | 2018        | 2017        |
|                           | LKR '000    | LKR '000    | LKR '000    | LKR '000    |
| <b>By Product</b>         |             |             |             |             |
| Bills of Exchange         | 49,968      | 37,337      | 49,968      | 37,337      |
| Trade Finance             | 41,344,142  | 14,635,212  | 41,344,142  | 14,635,212  |
| Overdrafts                | 41,893,956  | 36,190,637  | 41,893,956  | 36,190,637  |
| Term Loans                | 71,110,701  | 77,712,312  | 71,110,701  | 77,712,312  |
| Staff Loans               | 3,391,441   | 2,985,543   | 3,391,441   | 2,985,543   |
| Leases (Note 16.6)        | 44,864,827  | 37,253,690  | 44,864,827  | 37,253,690  |
| Credit Cards              | 24,872,193  | 20,185,840  | 24,872,193  | 20,185,840  |
| Pawning                   | 329,280     | 279,281     | 329,280     | 279,281     |
| Corporate Debt Securities | -           | 325,243     | -           | 325,243     |
| Other Advances            | 149,061     | 179,635     | 153,967     | 388,504     |
|                           | 228,005,569 | 189,784,730 | 228,010,475 | 189,993,599 |

### 16.2 Gross Loans and Advances by Currency

| As at 31 December    | Bank        |             | Group       |             |
|----------------------|-------------|-------------|-------------|-------------|
|                      | 2018        | 2017        | 2018        | 2017        |
|                      | LKR '000    | LKR '000    | LKR '000    | LKR '000    |
| <b>By Currency</b>   |             |             |             |             |
| Sri Lanka Rupee      | 202,521,098 | 174,447,291 | 202,526,004 | 174,656,160 |
| United States Dollar | 25,204,522  | 15,137,780  | 25,204,522  | 15,137,780  |
| Great Britain Pound  | 77,651      | 53,470      | 77,651      | 53,470      |
| Others               | 202,298     | 146,189     | 202,298     | 146,189     |
|                      | 228,005,569 | 189,784,730 | 228,010,475 | 189,993,599 |

### 16.3 Gross Loans and Advances by Industry

| As at 31 December          | Bank        |             | Group       |             |
|----------------------------|-------------|-------------|-------------|-------------|
|                            | 2018        | 2017        | 2018        | 2017        |
|                            | LKR '000    | LKR '000    | LKR '000    | LKR '000    |
| Agriculture                | 26,192,333  | 19,074,418  | 26,192,333  | 19,074,418  |
| Consumer Discretionary     | 60,817,517  | 50,690,155  | 60,817,517  | 50,690,155  |
| Consumer Staples           | 16,239,064  | 14,281,903  | 16,239,064  | 14,281,903  |
| Energy                     | 1,008,095   | 844,818     | 1,008,095   | 844,818     |
| Financials                 | 24,744,294  | 19,609,876  | 24,744,294  | 19,609,876  |
| Health Care                | 4,322,142   | 3,623,687   | 4,322,142   | 3,623,687   |
| Information Technology     | 4,882,409   | 2,698,781   | 4,882,409   | 2,698,781   |
| Industrials                | 41,166,244  | 36,144,449  | 41,166,244  | 36,144,449  |
| Materials                  | 6,310,236   | 5,389,350   | 6,310,236   | 5,389,350   |
| Real Estate                | 2,883,086   | 4,087,359   | 2,883,086   | 4,087,359   |
| Telecommunication Services | 414,053     | 1,669,433   | 414,053     | 1,669,433   |
| Utilities                  | 326,987     | 247,334     | 326,987     | 247,334     |
| Other                      | 25,162,935  | 20,789,446  | 25,167,841  | 20,998,315  |
| Zero Risk                  | 13,536,174  | 10,633,721  | 13,536,174  | 10,633,721  |
|                            | 228,005,569 | 189,784,730 | 228,010,475 | 189,993,599 |



## 16.4 Movements in impairment during the year 2018

| For the Year Ended 31 December                          | Bank<br>2018<br>LKR '000 | Group<br>2018<br>LKR '000 |
|---|--------------------------|---------------------------|
| Stage 1   |                          |                           |
| Opening balance as at 01 January 2018                   | 453,772                  | 453,642                   |
| Impact of adopting SLFRS 9 on opening balance (Note 53) | 549,706                  | 549,706                   |
| Charge/(Write back) to income statement (Note 38)       | 44,091                   | 44,091                    |
| Write-off during the year                               | -                        | -                         |
| Other movements   | -                        | -                         |
| Closing balance as at 31 December 2018                  | 1,047,569                | 1,047,439                 |
| Stage 2   |                          |                           |
| Opening balance as at 01 January 2018                   | 154,674                  | 154,674                   |
| Impact of adopting SLFRS 9 on opening balance (Note 53) | 157,736                  | 157,736                   |
| Charge/(Write back) to income statement (Note 38)       | (15,979)                 | (15,979)                  |
| Write-off during the year                               | -                        | -                         |
| Other movements   | -                        | -                         |
| Closing balance as at 31 December 2018                  | 296,431                  | 296,431                   |
| Stage 3   |                          |                           |
| Opening balance as at 01 January 2018                   | 2,000,469                | 2,000,469                 |
| Impact of adopting SLFRS 9 on opening balance (Note 53) | 265,133                  | 265,133                   |
| Charge/(Write back) to income statement (Note 38)       | 3,125,851                | 3,125,851                 |
| Write-off during the year                               | (977,397)                | (977,397)                 |
| Other movements   | -                        | -                         |
| Closing balance as at 31 December 2018                  | 4,414,056                | 4,414,056                 |

The impact of the movement of loans & advances during the current year to stage 3 from stage 1 and stage 2 is reflected within the current year's charge to the income statement.

# Notes to the Financial Statements

## 16 FINANCIAL ASSETS AT AMORTISED COST – LOANS AND ADVANCES (CONTD.)

### 16.5 Movements in impairment during the year 2017

#### 16.5.1 Bank

|   | Corporate Loans | Retail, SME<br>and Consumer<br>Lending | Housing<br>Loans | Leases    | Total     |
|---|-----------------|--|------------------|-----------|-----------|
|   | LKR '000        | LKR '000                               | LKR '000         | LKR '000  | LKR '000  |
| As at 01 January 2017   | 261,131         | 1,618,314                              | 79,795           | 318,837   | 2,278,077 |
| Charge/ (Reversal) for the period   | 48,827          | 1,036,293                              | (13,896)         | 12,644    | 1,083,868 |
| Amounts written off   | -               | (553,291)                              | -                | (199,739) | (753,030) |
| As at 31 December 2017  | 309,957         | 2,101,316                              | 65,899           | 131,743   | 2,608,915 |
| Impairment - As at 31 December 2017   |                 |  |                  |           |           |
| Individual impairment   | 246,817         | 803,954                                | -                | 6,193     | 1,056,964 |
| Collective impairment   | 63,140          | 1,297,362                              | 65,899           | 125,550   | 1,551,951 |
|   | 309,957         | 2,101,316                              | 65,899           | 131,743   | 2,608,915 |
| Gross amount of loans individually<br>determined to be impaired, before deducting<br>the individually assessed impairment<br>allowance as at 31 December 2017 | 1,466,105       | 3,690,898                              | -                | 168,933   | 5,325,936 |

#### 16.5.2 Group

|   | Corporate Loans | Retail, SME<br>and Consumer<br>Lending | Housing<br>Loans | Leases    | Total     |
|---|-----------------|--|------------------|-----------|-----------|
|   | LKR '000        | LKR '000                               | LKR '000         | LKR '000  | LKR '000  |
| As at 01 January 2017   | 260,913         | 1,618,314                              | 79,795           | 318,837   | 2,277,656 |
| Charge/ (Reversal) for the period   | 48,940          | 1,036,500                              | (13,896)         | 12,745    | 1,084,289 |
| Amounts written off   | -               | (553,421)                              | -                | (199,739) | (753,160) |
| As at 31 December 2017  | 309,853         | 2,101,393                              | 65,899           | 131,843   | 2,608,785 |
| Impairment - As at 31 December 2017   |                 |  |                  |           |           |
| Individual impairment   | 246,817         | 803,954                                | -                | 6,193     | 1,056,964 |
| Collective impairment   | 62,933          | 1,297,439                              | 65,899           | 125,550   | 1,551,821 |
|   | 309,750         | 2,101,393                              | 65,899           | 131,743   | 2,608,785 |
| Gross amount of loans individually<br>determined to be impaired, before deducting<br>the individually assessed impairment<br>allowance as at 31 December 2017 | 1,466,105       | 3,690,898                              | -                | 168,933   | 5,325,936 |

**16.5.3 Movement in Individual Impairment during the year 2017**

| As at 31 December                     | Bank/Group<br>2017<br>LKR '000 |
|---------------------------------------|--------------------------------|
| As at 01 January                      | 702,650                        |
| Charge for the year, net of write-off | 354,314                        |
| As at 31 December                     | 1,056,964                      |

**16.6 Rental Receivable on Leases**

| As at 31 December                      | 2018                      |                         |                          |                   | 2017                      |                         |                          |                   |
|--|---------------------------|-------------------------|--------------------------|-------------------|---------------------------|-------------------------|--------------------------|-------------------|
|  | Bank/Group                |                         |                          |                   | Bank/Group                |                         |                          |                   |
|  | Within 1 year<br>LKR '000 | 1 - 5 years<br>LKR '000 | Over 5 years<br>LKR '000 | Total<br>LKR '000 | Within 1 year<br>LKR '000 | 1 - 5 years<br>LKR '000 | Over 5 years<br>LKR '000 | Total<br>LKR '000 |
| Gross Rentals Receivables              | 21,547,858                | 33,763,327              | 1,488,994                | 56,800,179        | 17,911,019                | 29,065,930              | 557,990                  | 47,534,939        |
| Less : Unearned Income                 | (5,294,351)               | (6,261,672)             | (379,329)                | (11,935,352)      | (4,679,946)               | (5,353,039)             | (248,264)                | (10,281,249)      |
| Net Rentals Receivables                | 16,253,507                | 27,501,655              | 1,109,665                | 44,864,827        | 13,231,073                | 23,712,891              | 309,726                  | 37,253,690        |
| Less : Allowance for Impairment Losses | -                         | -                       | -                        | (406,420)         | -                         | -                       | -                        | (131,742)         |
| Total Net Rentals Receivables          | 16,253,507                | 27,501,655              | 1,109,665                | 44,458,407        | 13,231,073                | 23,712,891              | 309,726                  | 37,121,948        |

**17 OTHER ASSETS**

| As at 31 December                                | Bank      |           | Group     |           |
|--|-----------|-----------|-----------|-----------|
|  | 2018      | 2017      | 2018      | 2017      |
|  | LKR '000  | LKR '000  | LKR '000  | LKR '000  |
| Deposits and Prepayments                         | 560,243   | 600,652   | 569,925   | 619,719   |
| Unamortized Staff Cost (Note 16)                 | 746,857   | 639,103   | 746,857   | 639,103   |
| Debenture Proceeds Receivable                    | 546,177   | -         | 546,177   | -         |
| Other Receivables                                | 792,975   | 657,793   | 838,929   | 686,240   |
| Less: Impairment for Leasing Charges (Note 17.1) | (19,666)  | (4,074)   | (20,994)  | (4,074)   |
|  | 2,626,586 | 1,893,474 | 2,680,894 | 1,940,988 |

**17.1 Movements in impairment during the year 2018**

| For the Year Ended 31 December                     | Bank<br>2018<br>LKR '000 | Group<br>2018<br>LKR '000 |
|--|--------------------------|---------------------------|
| Opening balance as at 01 January 2018              | 4,074                    | 4,074                     |
| Impact of adopting SLFRS 9                         | 584                      | 584                       |
| Charge /(write back) to income statement (Note 38) | 21,721                   | 23,049                    |
| Write-off during the year                          | (6,713)                  | (6,713)                   |
| Closing balance as at 31 December 2018             | 19,666                   | 20,994                    |

# Notes to the Financial Statements

## 18 INVESTMENTS IN SUBSIDIARIES

### Unquoted

| As at 31 December                 | Country of Incorporation | Bank    |         |          |          |
|-----------------------------------|--------------------------|---------|---------|----------|----------|
|                                   |                          | 2018    | 2017    | 2018     | 2017     |
|                                   |                          | Holding | Holding | Cost     | Cost     |
| Name of Company                   |                          | %       | %       | LKR '000 | LKR '000 |
| Waldock Mackenzie Limited         | Sri Lanka                | 99.99   | 99.99   | -        | -        |
| Allied Properties Limited         | Sri Lanka                | 99.99   | 99.99   | 652,907  | 652,907  |
| Nations Insurance Brokers Limited | Sri Lanka                | 99.99   | 99.99   | 25,803   | 25,803   |
| Net Carrying Amount               |                          |         |         | 678,710  | 678,710  |

## 19 PROPERTY, PLANT AND EQUIPMENT

### Accounting Policy

#### Cost Model

The Group applies cost model to property, plant and equipment except for freehold land and buildings and records at cost of purchase or construction together with any incidental expenses thereon less accumulated depreciation and any accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the following;

- the cost of materials and direct labour
- any other costs directly attributable to bringing the assets to a working condition for their intended use
- when the Group has an obligation to remove the asset or restore the site, an estimate of the costs of dismantling and removing the items and restoring the site on which they are located.

#### Revaluation model

The Group applies the revaluation model to the entire class of freehold land and buildings. Such properties are carried at a revalued amount, being their fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Freehold land and buildings of the Group are revalued by independent professional valuers every three years to ensure that the carrying amounts do not differ materially from the fair values as at the reporting date. The Group has revalued its freehold land & building during the year 2017 and details of the revaluation are given in Note 19.3.

On revaluation of an asset, any increase in the carrying amount is recognised in 'Other comprehensive income' and accumulated in equity, under revaluation reserve or used to reverse a previous revaluation decrease relating to the same asset, which was charged to the Statement of Profit or Loss. In this circumstance, the increase is recognized as income to the extent of the previous write down. Any decrease in the carrying amount is recognized as an expense in the Statement of Profit or Loss or debited to the other comprehensive income to the extent of any credit balance existing in the capital reserve in respect of that asset.

The decrease recognised in other comprehensive income reduces the amount accumulated in equity under capital reserves. Any balance remaining in the revaluation reserve in respect of an asset is transferred directly to retained earnings on retirement or disposal of the asset.

#### Subsequent expenditure and replacement

The cost of replacing a part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group, and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

## Depreciation

Depreciation is calculated using the straight-line method to write down the cost of property, plant and equipment to their residual values over their estimated useful lives. Lands are not depreciated. The estimated useful lives are as follows:

|                               |                              |
|-------------------------------|------------------------------|
| <u>Buildings</u>              | <u>40 years</u>              |
| <u>Motor Vehicles</u>         | <u>04 years</u>              |
| <u>Other Equipment</u>        | <u>04 - 08 years</u>         |
| <u>Computer Hardware</u>      | <u>02 - 04 years</u>         |
| <u>Furniture and Fittings</u> | <u>08 years</u>              |
| <u>Leasehold Improvements</u> | <u>Over the lease period</u> |

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if requires. Changes in the expected useful life are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates.

## De-recognition

The carrying amount of an item of property, plant and equipment is de-recognized upon disposal or when no future economic benefits are expected from its use. The gain or loss arising from de-recognition of an item of property, plant and equipment is included in the Statement of Profit or Loss when the item is derecognised.

## Capital work-in-progress

Capital work-in-progress is stated at cost. These are the expenses of a capital nature directly incurred in the construction of buildings, machinery and system development, awaiting capitalization. Capital work-in-progress would be transferred to the relevant asset when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Capital work-in-progress is stated at cost less any accumulated impairment losses.

# Notes to the Financial Statements

## 19 PROPERTY, PLANT AND EQUIPMENT (CONTD.)

### 19.1 Bank

| Gross Carrying Amounts - at Cost          | Land - Free hold | Land - Lease hold | Buildings | Motor Vehicles | Office and Electrical Equipments | Computer hardware | Furniture, Fixtures and Fittings | Leasehold improvements | Capital Work In Progress | Total     |
|---|------------------|-------------------|-----------|----------------|----------------------------------|-------------------|----------------------------------|------------------------|--------------------------|-----------|
|   | LKR '000         | LKR '000          | LKR '000  | LKR '000       | LKR '000                         | LKR '000          | LKR '000                         | LKR '000               | LKR '000                 | LKR '000  |
| At 01 January 2017                        | 559,440          | -                 | 116,596   | 25,999         | 657,138                          | 1,701,206         | 753,709                          | 317,892                | 59                       | 4,132,039 |
| Additions                                 | -                | -                 | 2,528     | -              | 53,470                           | 319,710           | 42,736                           | 44,684                 | -                        | 463,128   |
| Disposals                                 | -                | -                 | -         | -              | (11,740)                         | (1,906)           | (8,685)                          | -                      | -                        | (22,331)  |
| Revaluation Surplus                       | 842,060          | -                 | 54,377    | -              | -                                | -                 | -                                | -                      | -                        | 896,436   |
| Capital WIP - Capitalized during the year | -                | -                 | -         | -              | -                                | -                 | -                                | -                      | (59)                     | (59)      |
| At 31 December 2017                       | 1,401,500        | -                 | 173,501   | 25,999         | 698,867                          | 2,019,010         | 787,760                          | 362,576                | -                        | 5,469,213 |
| Additions                                 | -                | -                 | 677       | -              | 93,918                           | 489,515           | 42,901                           | 29,077                 | -                        | 656,090   |
| Disposals                                 | -                | -                 | -         | -              | (64,556)                         | (332,640)         | (27,675)                         | -                      | -                        | (424,872) |
| Capital WIP - Additions during the year   | -                | -                 | -         | -              | -                                | -                 | -                                | -                      | 18,283                   | 18,283    |
| Capital WIP - Capitalized during the year | -                | -                 | -         | -              | -                                | -                 | -                                | -                      | -                        | -         |
| At 31 December 2018                       | 1,401,500        | -                 | 174,178   | 25,999         | 728,229                          | 2,175,885         | 802,986                          | 391,653                | 18,283                   | 5,718,714 |
| <b>Depreciation / Amortization</b>        |                  |                   |           |                |                                  |                   |                                  |                        |                          |           |
| At 01 January 2017                        | -                | -                 | 37,870    | 5,317          | 439,862                          | 1,403,952         | 486,538                          | 221,836                | -                        | 2,595,375 |
| Charge for the year                       | -                | -                 | 2,682     | 5,350          | 64,656                           | 176,655           | 65,938                           | 37,039                 | -                        | 352,319   |
| Disposals                                 | -                | -                 | -         | -              | (11,711)                         | (1,906)           | (8,614)                          | -                      | -                        | (22,231)  |
| Revaluation Surplus                       | -                | -                 | (40,552)  | -              | -                                | -                 | -                                | -                      | -                        | (40,552)  |
| At 31 December 2017                       | -                | -                 | -         | 10,667         | 492,807                          | 1,578,701         | 543,862                          | 258,875                | -                        | 2,884,912 |
| Charge for the year                       | -                | -                 | 5,211     | 5,316          | 65,289                           | 191,887           | 62,798                           | 36,936                 | -                        | 367,437   |
| Disposals                                 | -                | -                 | -         | -              | (64,556)                         | (309,230)         | (27,673)                         | -                      | -                        | (401,460) |
| At 31 December 2018                       | -                | -                 | 5,211     | 15,981         | 493,540                          | 1,461,358         | 578,987                          | 295,811                | -                        | 2,850,889 |
| <b>Net Book Value</b>                     |                  |                   |           |                |                                  |                   |                                  |                        |                          |           |
| At 01 January 2017                        | 559,440          | -                 | 78,726    | 20,682         | 217,276                          | 297,254           | 267,171                          | 96,055                 | 59                       | 1,536,664 |
| At 31 December 2017                       | 1,401,500        | -                 | 173,501   | 15,332         | 206,060                          | 440,309           | 243,896                          | 103,701                | -                        | 2,584,301 |
| At 31 December 2018                       | 1,401,500        | -                 | 168,967   | 10,018         | 234,689                          | 714,527           | 223,999                          | 95,842                 | 18,283                   | 2,867,825 |

During the financial year, the Bank acquired Property, Plant and Equipment to the aggregate value of LKR 656 Mn. (2017 - LKR 463 Mn). Cash payments amounting to LKR 660.6 Mn. (2017 - LKR 373.3 Mn) were made during the year for purchase of Property, Plant and Equipment. Property, Plant and Equipment includes fully depreciated assets having a gross carrying amount of LKR 1,961 Mn (2017 - LKR 1,973 Mn).

For the purpose of better presentation, accumulated depreciation relevant to the revaluation was rearranged. There is no impact to the revaluation values

**19.1.1** The carrying amount of Group's freehold land and buildings, if they were carried at cost less accumulated depreciation would be as follows:

| As at 31 December | 2018     |                          |                | 2017     |                          |                |
|-------------------|----------|--------------------------|----------------|----------|--------------------------|----------------|
|                   | Cost     | Accumulated Depreciation | Carrying Value | Cost     | Accumulated Depreciation | Carrying Value |
|                   | LKR '000 | LKR '000                 | LKR '000       | LKR '000 | LKR '000                 | LKR '000       |
| Freehold Land     | 559,440  | -                        | 559,440        | 559,440  | -                        | 559,440        |
| Freehold Building | 119,802  | 43,310                   | 76,492         | 119,125  | 40,553                   | 78,572         |
| Total             | 679,242  | 43,310                   | 635,932        | 678,565  | 40,553                   | 638,012        |



## 19.2 Group

| Gross Carrying Amounts - at Cost          | Land - Free hold |          | Land - Lease hold |          | Buildings |           | Motor Vehicles |          | Office and Electrical Equipments |           | Computer hardware |          | Furniture, Fixtures and Fittings |          | Leasehold improvements |          | Capital Work In Progress |          | Total    |           |
|---|------------------|----------|-------------------|----------|-----------|-----------|----------------|----------|----------------------------------|-----------|-------------------|----------|----------------------------------|----------|------------------------|----------|--------------------------|----------|----------|-----------|
|   | LKR '000         | LKR '000 | LKR '000          | LKR '000 | LKR '000  | LKR '000  | LKR '000       | LKR '000 | LKR '000                         | LKR '000  | LKR '000          | LKR '000 | LKR '000                         | LKR '000 | LKR '000               | LKR '000 | LKR '000                 | LKR '000 | LKR '000 | LKR '000  |
| <b>At 01 January 2017</b>                 | 559,440          | 148,000  | 565,484           | 26,169   | 661,937   | 1,704,420 | 756,933        | 317,891  | 59                               | 4,740,333 |                   |          |                                  |          |                        |          |                          |          |          |           |
| Additions                                 | -                | -        | 3,799             | -        | 54,494    | 321,010   | 42,983         | 44,684   | -                                | 466,970   |                   |          |                                  |          |                        |          |                          |          |          |           |
| Disposals                                 | -                | -        | -                 | -        | (11,740)  | (1,906)   | (8,685)        | -        | -                                | (22,331)  |                   |          |                                  |          |                        |          |                          |          |          |           |
| Revaluation Surplus                       | 842,060          | -        | 252,417           | -        | -         | -         | -              | -        | -                                | -         | -                 | -        | -                                | -        | -                      | -        | -                        | -        | -        | 1,094,477 |
| Capital WIP - Additions                   | -                | -        | -                 | -        | -         | -         | -              | -        | -                                | -         | -                 | -        | -                                | -        | -                      | -        | -                        | -        | -        | -         |
| Capital WIP - Capitalized during the year | -                | -        | -                 | -        | -         | -         | -              | -        | -                                | -         | -                 | -        | -                                | -        | -                      | -        | -                        | -        | -        | -         |
| <b>At 31 December 2017</b>                | 1,401,500        | 148,000  | 821,700           | 26,169   | 704,690   | 2,023,524 | 791,231        | 362,575  | -                                | 6,279,390 |                   |          |                                  |          |                        |          |                          |          |          |           |
| Additions                                 | -                | -        | 17,288            | -        | 126,371   | 489,639   | 43,199         | 29,077   | -                                | 705,576   |                   |          |                                  |          |                        |          |                          |          |          |           |
| Disposals                                 | -                | -        | -                 | -        | (64,557)  | (332,645) | (27,673)       | -        | -                                | (424,878) |                   |          |                                  |          |                        |          |                          |          |          |           |
| Capital WIP - Additions                   | -                | -        | -                 | -        | -         | -         | -              | -        | -                                | -         | -                 | -        | -                                | -        | -                      | -        | -                        | -        | -        | -         |
| Capital WIP - Capitalized during the year | -                | -        | -                 | -        | -         | -         | -              | -        | -                                | -         | -                 | -        | -                                | -        | -                      | -        | -                        | -        | -        | -         |
| <b>At 31 December 2018</b>                | 1,401,500        | 148,000  | 838,988           | 26,169   | 766,504   | 2,180,518 | 806,757        | 391,652  | 18,283                           | 6,578,371 |                   |          |                                  |          |                        |          |                          |          |          |           |
| <b>Depreciation / Amortization</b>        |                  |          |                   |          |           |           |                |          |                                  |           |                   |          |                                  |          |                        |          |                          |          |          |           |
| <b>At 01 January 2017</b>                 | -                | 20,669   | 159,152           | 5,485    | 442,813   | 1,406,349 | 487,823        | 221,834  | -                                | 2,744,125 |                   |          |                                  |          |                        |          |                          |          |          |           |
| Charge for the year                       | -                | 1,893    | 14,000            | 5,350    | 65,032    | 177,183   | 66,357         | 37,039   | -                                | 366,855   |                   |          |                                  |          |                        |          |                          |          |          |           |
| Disposals                                 | -                | -        | -                 | -        | (11,711)  | (1,906)   | (8,614)        | -        | -                                | (22,231)  |                   |          |                                  |          |                        |          |                          |          |          |           |
| Revaluation Surplus                       | -                | -        | (173,152)         | -        | 496,134   | 1,581,626 | 545,566        | 258,873  | -                                | 2,915,598 |                   |          |                                  |          |                        |          |                          |          |          |           |
| <b>At 31 December 2017</b>                | -                | 22,562   | 28,798            | 10,835   | 67,003    | 192,555   | 63,235         | 36,936   | -                                | 395,736   |                   |          |                                  |          |                        |          |                          |          |          |           |
| Charge for the year                       | -                | 1,893    | -                 | 5,316    | (64,558)  | (309,230) | (27,673)       | -        | -                                | (401,465) |                   |          |                                  |          |                        |          |                          |          |          |           |
| Disposals                                 | -                | -        | -                 | -        | -         | -         | -              | -        | -                                | -         |                   |          |                                  |          |                        |          |                          |          |          |           |
| <b>At 31 December 2018</b>                | -                | 24,454   | 28,798            | 16,150   | 498,579   | 1,464,951 | 581,128        | 295,809  | -                                | 2,909,869 |                   |          |                                  |          |                        |          |                          |          |          |           |
| <b>Net Book Value</b>                     |                  |          |                   |          |           |           |                |          |                                  |           |                   |          |                                  |          |                        |          |                          |          |          |           |
| <b>At 01 January 2017</b>                 | 559,440          | 127,331  | 406,332           | 20,684   | 219,124   | 298,071   | 269,110        | 96,057   | 59                               | 1,996,208 |                   |          |                                  |          |                        |          |                          |          |          |           |
| <b>At 31 December 2017</b>                | 1,401,500        | 125,438  | 821,698           | 15,334   | 208,557   | 441,898   | 245,665        | 103,702  | -                                | 3,363,792 |                   |          |                                  |          |                        |          |                          |          |          |           |
| <b>At 31 December 2018</b>                | 1,401,500        | 123,546  | 810,190           | 10,019   | 267,925   | 715,567   | 225,629        | 95,843   | 18,283                           | 3,668,502 |                   |          |                                  |          |                        |          |                          |          |          |           |

During the financial year, the Group acquired Property, Plant and Equipment to the aggregate value of LKR 705.5 Mn (2017 - LKR 466.9 Mn). Cash payments amounting to LKR 691 Mn (2017 - LKR 377.2 Mn) were made during the year for purchase of Property, Plant and Equipment. Property, Plant and Equipment includes fully depreciated assets having a gross carrying amount of LKR 1,966 Mn (2017 - LKR 1,978 Mn).

**19.21** The carrying amount of Group's freehold land and buildings, if they were carried at cost less accumulated depreciation would be as follows:

| As at 31 December | 2018             |                          | 2017           |                          |
|-------------------|------------------|--------------------------|----------------|--------------------------|
|                   | Cost             | Accumulated Depreciation | Cost           | Accumulated Depreciation |
|                   | LKR '000         | LKR '000                 | LKR '000       | LKR '000                 |
| Freehold Land     | 559,440          | -                        | 559,440        | -                        |
| Freehold Building | 586,572          | 187,721                  | 398,651        | 173,152                  |
| <b>Total</b>      | <b>1,146,012</b> | <b>187,721</b>           | <b>958,291</b> | <b>173,152</b>           |

# Notes to the Financial Statements

## 19 PROPERTY, PLANT AND EQUIPMENT (CONTD.)

### 19.3 Details of Bank's / Group's Land and Building Stated at Valuation

#### BANK

Valuer - Mr. P B Kalugalagedara

| Location                           | Date of Valuation | Method of valuation   | Net Book Value Before Revaluation |          |       | Revaluation amount |          |       | Revaluation gain recognised in OCI |          |        |
|------------------------------------|-------------------|---|-----------------------------------|----------|-------|--------------------|----------|-------|------------------------------------|----------|--------|
|                                    |                   |   | Land                              | Building | Total | Land               | Building | Total | Land                               | Building | Total  |
| No.242 Union Place, Colombo 02     | 30-09-2017        | Direct capital comparison method/<br>Depreciation replacement cost method | 543.99                            | 68.62    |       | 1,224.00           | 145.00   |       | 680.02                             | 76.38    | 756.40 |
| No.76 York Street Fort, Colombo 01 | 30-09-2017        | Direct capital comparison method/<br>Depreciation replacement cost method | 15.46                             | 9.96     |       | 177.50             | 28.50    |       | 162.04                             | 18.54    | 180.58 |
| Total                              |                   |   | 559.45                            | 78.58    |       | 1,401.50           | 173.50   |       | 842.05                             | 94.92    | 936.98 |

Other than properties included in the Bank, Group Land and Buildings consist of Allied Properties Limited's properties.

#### GROUP

Valuer - Mr. P B Kalugalagedara

| Location                           | Date of Valuation | Method of valuation              | Net Book Value Before Revaluation |          |       | Revaluation amount |          |       | Revaluation gain recognised in OCI |          |          |
|------------------------------------|-------------------|----------------------------------|-----------------------------------|----------|-------|--------------------|----------|-------|------------------------------------|----------|----------|
|                                    |                   |                                  | Land                              | Building | Total | Land               | Building | Total | Land                               | Building | Total    |
| No.46/58 Navam Mawatha, Colombo 02 | 30-09-2017        | Direct Capital Comparison Method | -                                 | 317.57   |       | -                  | 648.20   |       | -                                  | 330.65   | 330.63   |
| Total                              |                   |                                  | 559.45                            | 396.15   |       | 1,401.50           | 821.70   |       | 842.05                             | 425.55   | 1,267.63 |

Refer Note 48 for the fair valuation of Land & Buildings.

## 20 INTANGIBLE ASSETS

### Accounting Policy

The Group's intangible assets include the cost of computer software and licenses. An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the 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 with finite lives are amortised over the useful economic life. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and they are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is presented as a separate line item in the Profit or Loss.

Amortization is calculated using the straight-line method to write down the cost of intangible assets to their residual values over their estimated useful lives of 7-10 years, for computer software and other license fees.

### 20.1 Bank

| As at 31 December       | Computer Software<br>LKR '000 | Other License Fees<br>LKR '000 | Total<br>LKR '000 |
|-------------------------|-------------------------------|--------------------------------|-------------------|
| <b>Cost</b>             |                               |                                |                   |
| At 01 January 2017      | 1,945,782                     | 331,288                        | 2,277,070         |
| Additions               | 240,528                       | -                              | 240,528           |
| At 31 December 2017     | 2,186,310                     | 331,288                        | 2,517,598         |
| Additions               | 390,404                       | -                              | 390,404           |
| Disposals / Write - off | (20,282)                      | -                              | (20,282)          |
| Capital WIP Additions   | 74,947                        | -                              | 74,947            |
| At 31 December 2018     | 2,631,379                     | 331,288                        | 2,962,667         |
| <b>Amortization</b>     |                               |                                |                   |
| At 01 January 2017      | 886,556                       | 209,815                        | 1,096,371         |
| Charge for the year     | 239,452                       | 33,129                         | 272,581           |
| At 31 December 2017     | 1,126,008                     | 242,944                        | 1,368,952         |
| Charge for the year     | 269,604                       | 33,129                         | 302,733           |
| Disposals               | (10,266)                      | -                              | (10,266)          |
| At 31 December 2018     | 1,385,346                     | 276,073                        | 1,661,419         |
| <b>Net Book Value</b>   |                               |                                |                   |
| At 01 January 2017      | 1,059,226                     | 121,473                        | 1,180,699         |
| At 31 December 2017     | 1,060,302                     | 88,344                         | 1,148,646         |
| At 31 December 2018     | 1,246,033                     | 55,215                         | 1,301,248         |

During the financial year, the Bank acquired Intangible Assets to the aggregate value of LKR 390 Mn (2017 - LKR 240.5 Mn). Cash payments amounting to LKR 304 Mn (2017 - LKR 135.9 Mn) were made during the year for purchase of Intangible Assets.

## Notes to the Financial Statements

### 20 INTANGIBLE ASSETS (CONTD.)

#### 20.2 Group

| As at 31 December       | Computer Software<br>LKR '000 | Other License Fees<br>LKR '000 | Total<br>LKR '000 |
|-------------------------|-------------------------------|--------------------------------|-------------------|
| <b>Cost</b>             |                               |                                |                   |
| At 01 January 2017      | 1,968,438                     | 331,288                        | 2,299,726         |
| Additions               | 240,528                       | -                              | 240,528           |
| At 31 December 2017     | 2,208,966                     | 331,288                        | 2,540,254         |
| Additions               | 390,404                       | -                              | 390,404           |
| Disposals / Write - off | (20,282)                      | -                              | (20,282)          |
| Capital WIP Additions   | 74,948                        | -                              | 74,948            |
| At 31 December 2018     | 2,654,036                     | 331,288                        | 2,985,324         |
| <b>Amortization</b>     |                               |                                |                   |
| At 01 January 2017      | 901,070                       | 209,815                        | 1,110,885         |
| Charge for the year     | 242,688                       | 33,129                         | 275,817           |
| At 31 December 2017     | 1,143,758                     | 242,944                        | 1,386,702         |
| Charge for the year     | 272,819                       | 33,129                         | 305,948           |
| Disposals               | (10,266)                      | -                              | (10,266)          |
| At 31 December 2018     | 1,406,311                     | 276,073                        | 1,682,384         |
| <b>Net Book Value</b>   |                               |                                |                   |
| At 01 January 2017      | 1,067,368                     | 121,473                        | 1,188,841         |
| At 31 December 2017     | 1,065,208                     | 88,344                         | 1,153,552         |
| At 31 December 2018     | 1,247,725                     | 55,215                         | 1,302,940         |

During the financial year, the Group acquired Intangible Assets to the aggregate value of LKR. 390 Mn (2017 - LKR 240.5 Mn). Cash payments amounting to LKR 304 Mn (2017 - LKR 135.9 Mn) were made during the year for purchase of Intangible Assets.

## 21 DUE TO BANKS

| As at 31 December   | Bank       |            | Group      |            |
|---|------------|------------|------------|------------|
|   | 2018       | 2017       | 2018       | 2017       |
|   | LKR '000   | LKR '000   | LKR '000   | LKR '000   |
| Money Market Borrowing  | 9,878,203  | 10,567,825 | 9,878,203  | 10,567,825 |
| Securities Sold under Repurchase Agreements (Repo) (Note 8.2) | 8,509,788  | 1,600,989  | 8,509,788  | 1,600,989  |
| Deposits from Other Banks                                     | 86,554     | 146,039    | 86,554     | 146,039    |
|   | 18,474,545 | 12,314,853 | 18,474,545 | 12,314,853 |

## 22 FINANCIAL LIABILITIES AT AMORTISED COST

| As at 31 December   | Bank        |             | Group       |             |
|---|-------------|-------------|-------------|-------------|
|   | 2018        | 2017        | 2018        | 2017        |
|   | LKR '000    | LKR '000    | LKR '000    | LKR '000    |
| Due to Depositors (Note 22.1)                                 | 231,936,769 | 194,296,718 | 231,462,599 | 194,268,995 |
| Securities sold under repurchase (repo) agreements (Note 8.2) | 7,784,017   | 10,718,199  | 7,681,669   | 10,339,794  |
| Due to Other Borrowers (Note 22.2)                            | 20,248,816  | 11,662,223  | 20,248,816  | 11,662,223  |
|   | 259,969,602 | 216,677,140 | 259,393,084 | 216,271,012 |

### 22.1 Analysis of amount due to depositors

| As at 31 December | Bank     |          | Group    |          |
|-------------------|----------|----------|----------|----------|
|                   | 2018     | 2017     | 2018     | 2017     |
|                   | LKR '000 | LKR '000 | LKR '000 | LKR '000 |

#### 22.1.1 By Product

|                         |             |             |             |             |
|-------------------------|-------------|-------------|-------------|-------------|
| Demand Deposits         | 17,140,867  | 18,026,048  | 17,129,573  | 17,998,325  |
| Savings Deposits        | 40,873,081  | 36,102,924  | 40,873,080  | 36,102,924  |
| Call Deposits           | 1,319,721   | 58,575      | 1,319,721   | 58,575      |
| Fixed Deposits          | 172,372,828 | 138,258,169 | 171,909,953 | 138,258,169 |
| Certificate of Deposits | 230,272     | 1,851,002   | 230,272     | 1,851,002   |
|                         | 231,936,769 | 194,296,718 | 231,462,599 | 194,268,995 |

#### 22.1.2 By Currency

|                      |             |             |             |             |
|----------------------|-------------|-------------|-------------|-------------|
| Sri Lanka Rupee      | 199,047,823 | 170,791,494 | 198,573,653 | 170,763,771 |
| United States Dollar | 26,499,636  | 18,000,478  | 26,499,636  | 18,000,478  |
| Sterling Pound       | 2,171,230   | 1,743,184   | 2,171,230   | 1,743,184   |
| Others               | 4,218,080   | 3,761,562   | 4,218,080   | 3,761,562   |
|                      | 231,936,769 | 194,296,718 | 231,462,599 | 194,268,995 |

## Notes to the Financial Statements

### 22 FINANCIAL LIABILITIES AT AMORTISED COST (CONTD.)

#### 22.2 Due to Other Borrowers

| As at 31 December                                    | Bank       |            | Group      |            |
|--|------------|------------|------------|------------|
|  | 2018       | 2017       | 2018       | 2017       |
|  | LKR '000   | LKR '000   | LKR '000   | LKR '000   |
| Development Finance Institutions (DFI) (Note 22.2.1) | 16,285,609 | 8,395,298  | 16,285,609 | 8,395,298  |
| Refinance Borrowings                                 | 1,411,180  | 702,132    | 1,411,180  | 702,132    |
| Financial Institutions                               | 2,552,027  | 2,564,793  | 2,552,027  | 2,564,793  |
|  | 20,248,816 | 11,662,223 | 20,248,816 | 11,662,223 |

**22.2.1** These borrowings are from Foreign Development Finance Institutions with an original maturity ranging from 5-10 years. Interest is payable on a variable base with a fixed spread.

### 23 DEBT SECURITIES ISSUED

| As at 31 December                                   | Bank      |           | Group     |           |
|---|-----------|-----------|-----------|-----------|
|   | 2018      | 2017      | 2018      | 2017      |
|   | LKR '000  | LKR '000  | LKR '000  | LKR '000  |
| Subordinated Debt Securities Issued by the Bank     |           |           |           |           |
| Rated, Unsecured, Redeemable Debentures (Note 23.1) | 8,745,611 | 8,075,351 | 8,745,611 | 8,075,351 |
|   | 8,745,611 | 8,075,351 | 8,745,611 | 8,075,351 |
| Due within 1 Year                                   | 260,419   | 2,995,714 | 260,419   | 2,995,714 |
| Due after 1 Year                                    | 8,485,192 | 5,079,637 | 8,485,192 | 5,079,637 |
|   | 8,745,611 | 8,075,351 | 8,745,611 | 8,075,351 |



### 23.1 Details of Subordinated Debentures Issued by the Bank/Group

| Type                       | Face Value |           | Coupon Rate | Interest Terms  | Issued Date | Maturity Date | Amortized Cost - Bank / Group |           | Interest rate of Comparable Government Security |      |
|----------------------------|------------|-----------|-------------|-----------------|-------------|---------------|-------------------------------|-----------|---|------|
|                            | 2018       | 2017      |             |                 |             |               | 2018                          | 2017      | 2018  | 2017 |
|                            | LKR '000   | LKR '000  |             |                 |             |               | LKR '000                      | LKR '000  | %   | %    |
| NTB/BC/19/12/18A13         | -          | 3,000,000 | 13.00%      | Semi - Annually | 19-Dec-18   | 19-Dec-18     | -                             | 2,995,714 | -   | 8.90 |
| NTB-BD-08/11/21-C2363      | 2,410      | 2,410     | 11.25%      | Semi - Annually | 8-Nov-16    | 8-Nov-21      | 2,445                         | 2,445     | 11.49   | 9.84 |
| NTB-BD-08/11/21-C2365-1265 | 3,885,800  | 3,885,800 | 12.65%      | Semi - Annually | 8-Nov-16    | 8-Nov-21      | 3,950,323                     | 3,947,502 | 11.49   | 9.84 |
| NTB-BD-08/11/21-C2364-128  | 1,111,790  | 1,111,790 | 12.80%      | Annually        | 8-Nov-16    | 8-Nov-21      | 1,130,498                     | 1,129,691 | 11.49   | 9.84 |
| NTB-BD-20/04/23-C2402-1265 | 2,213,000  | -         | 12.65%      | Semi - Annually | 20-Apr-18   | 20-Apr-23     | 2,262,040                     | -         | 11.54   | -    |
| NTB-BD-20/04/23-C2401-13   | 1,287,000  | -         | 13.00%      | Annually        | 20-Apr-18   | 20-Apr-23     | 1,400,305                     | -         | 11.54   | -    |
|                            | 8,500,000  | 8,000,000 |             |                 |             |               | 8,745,611                     | 8,075,351 |   |      |

| Ratios of Debt           |  | 2018   | 2017   |
|--------------------------|--|--------|--------|
| Debt / Equity Ratio* (%) |  | 99.75% | 78.48% |
| Interest Cover (Times)   |  | 3.76   | 6.31   |
| Quick Asset Ratio (%)    |  | 115%   | 112%   |

\*Borrowings of which original maturity with five years or more are considered for debt.

**23.2** All the securities were issued by Nations Trust Bank PLC. The Bank has not had any defaults of principal, interest or other breaches with regard to any liabilities as of 31 December 2018.

# Notes to the Financial Statements

## 24 RETIREMENT BENEFIT OBLIGATIONS

### Accounting Policy

#### (i) Defined Contribution Plans - Employees' Provident Fund and Employees' Trust Fund

Employees are eligible for Employees' Provident Fund and Employees' Trust Fund contributions in line with respective statutes and regulations. The Bank and its subsidiaries except for Nations Insurance Brokers Limited contribute 12% of gross emoluments of employees to an approved private provident fund managed by Nations Trust Bank PLC and 3% gross emoluments of employees to the Employees' Trust Fund respectively. Nations Insurance Brokers Limited contributes 12% and 3% of gross emoluments of employees to the Employees' Provident Fund and the Employees' Trust Fund respectively.

#### (ii) Defined Benefit Plan - Gratuity

The Group measures the present value of the retirement benefits of gratuity which is a defined benefit plan using the projected unit credit method as recommended by revised LKAS 19 -Employee benefits and resulting actuarial gain/loss is recognized in full in the Other Comprehensive Income (OCI).

The actuarial valuation involves making assumptions about discount rate, expected rates of return on assets, future salary increases and mortality rates. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. All assumptions are reviewed at each reporting date.

Accordingly, the employee benefit liability is based on the actuarial valuation as of 31 December 2018, carried out by M/s Actuarial and Management Consultants (Private) Limited, actuaries.

The gratuity liability is not externally funded.

The key assumptions used by the actuary include the following:

|                         | 2018        | 2017        |
|-------------------------|-------------|-------------|
| Rate of Discount        | 11.7%       | 10.1%       |
| Rate of Salary Increase | 8.0%        | 8.0%        |
| Retirement Age          | 55-60 years | 55-60 years |

### 24.1 Net benefit expense categorized under personnel expenses:

| For the Year Ended 31 December | Bank     |          | Group    |          |
|--------------------------------|----------|----------|----------|----------|
|                                | 2018     | 2017     | 2018     | 2017     |
|                                | LKR '000 | LKR '000 | LKR '000 | LKR '000 |
| Interest Cost                  | 49,145   | 48,864   | 49,744   | 49,451   |
| Current Service Cost           | 60,982   | 60,909   | 61,605   | 61,580   |
|                                | 110,127  | 109,773  | 111,348  | 111,031  |

**24.2 Changes in the Present Value of the Retirement Benefit Plan are as follows;**

|   | Bank     |          | Group    |          |
|---|----------|----------|----------|----------|
|   | 2018     | 2017     | 2018     | 2017     |
|   | LKR '000 | LKR '000 | LKR '000 | LKR '000 |
| As at 01 January                        | 486,897  | 394,062  | 493,044  | 398,797  |
| Liability Transferred from subsidiaries | 223      | -        | -        | -        |
| Interest Cost (Note 24.1)               | 49,145   | 48,864   | 49,744   | 49,451   |
| Current Service Cost (Note 24.1)        | 60,982   | 60,909   | 61,605   | 61,580   |
| Benefits Paid                           | (57,470) | (64,295) | (57,470) | (64,293) |
| Gratuity Payable                        | (10,195) | (2,692)  | (10,196) | (2,692)  |
| Actuarial (Gain)/ Loss                  | (24,551) | 50,049   | (25,125) | 50,201   |
| As at 31 December                       | 505,031  | 486,897  | 511,602  | 493,044  |

**24.3** In order to illustrate the significance of the salary escalation rates and discount rates assumed in this valuation a sensitivity analysis for all employees assuming the above is as follows.

| Group                  |               |          |                                      | Group                  |               |          |                                      |
|------------------------|---------------|----------|--------------------------------------|------------------------|---------------|----------|--------------------------------------|
| 2018                   |               |          |                                      | 2017                   |               |          |                                      |
| Salary Escalation Rate | Discount Rate | PVDBO    | Effect on Other Comprehensive Income | Salary Escalation Rate | Discount Rate | PVDBO    | Effect on Other Comprehensive Income |
|                        |               | LKR '000 | LKR '000                             |                        |               | LKR '000 | LKR '000                             |
| 8.0%                   | 12.70%        | 488,841  | 22,761                               | 8.0%                   | 11.10%        | 468,966  | 24,078                               |
| 8.0%                   | 10.70%        | 536,536  | (24,934)                             | 8.0%                   | 9.10%         | 518,461  | (25,417)                             |
| 9.0%                   | 11.70%        | 539,476  | (27,874)                             | 9.0%                   | 10.10%        | 520,948  | (27,904)                             |
| 7.0%                   | 11.70%        | 485,794  | 25,808                               | 7.0%                   | 10.10%        | 466,308  | 26,736                               |

**24.4** Average Future working Life Time as per the assumptions made in year 2018: 6.43 years (Year 2017: 6.39 years).

**24.5** Group Maturity Profile of the Defined Benefit Obligation as at 31 December

| Future Working Life Time  | Defined Benefit Obligation |          |
|---------------------------|----------------------------|----------|
|                           | 2018                       | 2017     |
|                           | LKR '000                   | LKR '000 |
| Within the next 12 months | 74,929                     | 70,887   |
| Between 1 - 2 years       | 130,230                    | 115,608  |
| Between 2 - 5 years       | 139,840                    | 132,292  |
| Between 5 - 10 years      | 113,773                    | 115,326  |
| Beyond 10 years           | 52,830                     | 58,931   |
|                           | 511,602                    | 493,044  |

Weighted Average duration of Defined Benefit Obligation is 5.17 years ( 2017 - 5.50 years)

# Notes to the Financial Statements

## 25 CURRENT TAX LIABILITIES

|   | Bank        |             | Group       |             |
|---|-------------|-------------|-------------|-------------|
|   | 2018        | 2017        | 2018        | 2017        |
|   | LKR '000    | LKR '000    | LKR '000    | LKR '000    |
| Opening balance as at 01 January                          | 803,249     | 439,215     | 847,501     | 478,011     |
| Payments made / tax credits set off                       | (1,577,886) | (1,151,069) | (1,666,268) | (1,235,694) |
| Charge for the year (Note 42.1)                           | 2,349,090   | 1,540,332   | 2,420,358   | 1,630,431   |
| Over/(Under) provisions for the previous year (Note 42.1) | (26,620)    | (25,229)    | (26,619)    | (25,247)    |
| Closing balance as at 31 December                         | 1,547,833   | 803,249     | 1,574,972   | 847,501     |

## 26 OTHER LIABILITIES

| As at 31 December  | Bank      |           | Group     |           |
|--|-----------|-----------|-----------|-----------|
|  | 2018      | 2017      | 2018      | 2017      |
|  | LKR '000  | LKR '000  | LKR '000  | LKR '000  |
| Accounts payable and sundry creditors                                  | 1,964,134 | 1,606,292 | 1,983,963 | 1,622,830 |
| Obligations under financial guarantees (Note 26.1)                     | 121,357   | 101,708   | 121,357   | 101,708   |
| Margin balances  | 1,210,053 | 235,700   | 1,210,053 | 235,700   |
| Pay orders   | 1,095,703 | 1,040,136 | 1,095,703 | 1,040,136 |
| Share based payments (Note 26.2)                                       | 64,506    | 18,078    | 64,506    | 18,078    |
| Impairment in respect of off-balance sheet credit exposure (Note 26.3) | 471,484   | -         | 471,484   | -         |
| Others   | 2,755,819 | 2,793,610 | 2,775,672 | 2,815,794 |
|  | 7,683,056 | 5,795,524 | 7,722,738 | 5,834,246 |

**26.1** The movement in 'Obligations under Financial Guarantees' during the year is as follows;

|                                   | Bank      |          | Group     |          |
|-----------------------------------|-----------|----------|-----------|----------|
|                                   | 2018      | 2017     | 2018      | 2017     |
|                                   | LKR '000  | LKR '000 | LKR '000  | LKR '000 |
| As at 01 January                  | 101,708   | 78,460   | 101,708   | 78,460   |
| Income recognised during the year | (292,695) | (23,249) | (292,695) | (23,249) |
| Arising during the year           | 312,344   | 46,497   | 312,344   | 46,497   |
| As at 31 December                 | 121,357   | 101,708  | 121,357   | 101,708  |

## 26.2 Share Based Payments

### Employee Share Appreciation Rights (ESAR)

#### Accounting Policy

Employees (senior executives) of the Group/Bank receive benefit in the form of share - based payments, whereby employees render services are granted share appreciation rights which are settled in cash (Cash-settled transaction). A liability is recognized for the fair value of cash settled transactions. The fair value is measured initially and at each reporting date up to and including the exercise date or expiry date of ESAR, with changes in fair value recognized in employee benefits expense. The fair value is expensed over the period until the vesting date with recognition of a corresponding liability. The fair value is determined using a binomial model.

|  | Bank/Group 2018               |                   |                               |                   | Bank/Group 2017   |                   |
|--|-------------------------------|-------------------|-------------------------------|-------------------|-------------------|-------------------|
|  | Number of<br>SARs<br>Scheme 1 | Value<br>LKR '000 | Number of<br>SARs<br>Scheme 2 | Value<br>LKR '000 | Number of<br>SARs | Value<br>LKR '000 |
| Opening balance as at the 01 January                 | 932,000                       | 18,078            | -                             | -                 | -                 | -                 |
| Granted during the year                              | -                             | -                 | 1,500,000                     | 3,492             | 932,000           | 18,078            |
| Granted during the year due to Scrip Dividend - 2017 | 24,230                        | 1,873             | -                             | -                 | -                 | -                 |
| Exercised during the year                            | (22,177)                      | (242)             | (11,363)                      | (130)             | -                 | -                 |
| Movement of ESAR During the Period                   | -                             | 12,597            | -                             | 28,838            | -                 | -                 |
| Closing balance as at 31 December                    | 934,053                       | 32,306            | 1,488,637                     | 32,200            | 932,000           | 18,078            |

The following table lists the input to the model used for valuation of the liability under SARs as at 31 December each year.

|  | 2018      |            | 2017      |
|--|-----------|------------|-----------|
|  | Scheme 1  | Scheme 2   |           |
| Dividend Yield                             | 2.6%      | 2.7%       | 3.0%      |
| Expected Volatility                        | 18.43%    | 18.43%     | 19.3%     |
| Risk free Interest rate                    | 11%       | 11%        | 10.7%     |
| Expected Life of the Option                | 3.5 Years | 4.25 Years | 4.5 Years |
| Weighted Average Share Price on grant date | 79.29     | 78.47      | 79.29     |

The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

## 26.3 Impairment in respect of off-balance sheet credit exposure

|  | Bank / Group<br>2018<br>LKR '000 |
|--|----------------------------------|
| Opening balance as at 01 January 2018              | -                                |
| Impact of adopting SLFRS 9 (Note 53)               | 424,236                          |
| Charge /(write back) to income statement (Note 38) | 47,248                           |
| Closing balance as at 31 December 2018             | 471,484                          |

# Notes to the Financial Statements

## 27 TAXES

### 27.1 Accounting Policy

#### (i) Current Tax

Current tax assets and liabilities for the current and prior year are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

#### Nations Trust Bank PLC

Income tax on profit from the Domestic Banking Unit and on-shore operations of the Foreign Currency Banking Unit is calculated at the rate of 28%.

#### Subsidiary - Waldock Mackenzie Limited

Income tax on profit from operations is calculated at the rate of 28%.

#### Subsidiary - Allied Properties Limited

In terms of a BOI Agreement, the Company enjoys a concessionary tax rate of 2% on its turnover for a period of 15 years commencing from 01 April 2007. Income tax on profit from other sources of income is calculated at 28%.

#### Subsidiary - Nations Insurance Brokers Limited

Income tax on profit from operations is calculated at the rate of 28%.

#### (ii) Deferred tax

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognized for all taxable temporary differences, except:

- Where 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, 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 recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized except:

- where the deferred tax asset relating to the deductible temporary difference arises 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, deferred tax assets are recognized 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 utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets (DTA) and liabilities (DTL) are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

DTA and DTL are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.



## 27.2 Deferred Taxation

Bank

|   | 2018                  |  |                                     |                      | 2017                    |                       |                                     |                      |
|---|-----------------------|--|-------------------------------------|----------------------|-------------------------|-----------------------|-------------------------------------|----------------------|
|   | 1/1/2018<br>DTL/(DTA) | Impact due to<br>adoption of<br>SLFRS 9<br>(Note 53) | Recognised in<br>P&L<br>(Note 42.1) | Recognised<br>in OCI | 31/12/2018<br>DTL/(DTA) | 1/1/2017<br>DTL/(DTA) | Recognised in<br>P&L<br>(Note 42.1) | Recognised<br>in OCI |
|   | LKR '000              | LKR '000   | LKR '000                            | LKR '000             | LKR '000                | LKR '000              | LKR '000                            | LKR '000             |
| Accelerated depreciation allowances for tax purposes - property, plant<br>and equipment and intangible assets | 336,667               | -  | 13,517                              | -                    | 350,184                 | 301,570               | 35,097                              | -                    |
| Accelerated depreciation allowances for tax purposes- lease rentals<br>receivable                             | 1,754,458             | -  | (509,743)                           | -                    | 1,244,715               | 1,255,584             | 498,874                             | -                    |
| Net gains on re-measuring of available -for-sale financial assets/ FA<br>at FVOCI                             | 80,734                | -  | -                                   | (118,877)            | (38,143)                | (69,252)              | -                                   | 149,986              |
| Revaluation of land & building  | 262,357               | -  | -                                   | -                    | 262,357                 | -                     | -                                   | 262,357              |
| Carry forward tax losses on lease business  | (559,619)             | -  | 279,813                             | -                    | (279,806)               | (406,547)             | (153,072)                           | -                    |
| Share based payments  | -                     | -  | (18,062)                            | -                    | (18,062)                | -                     | -                                   | -                    |
| Retirement benefit plan - gratuity  | (137,085)             | -  | (4,324)                             | 6,874                | (134,535)               | (110,942)             | (12,129)                            | (14,014)             |
| Impairment of loans & advances  | -                     | -  | (8,754)                             | -                    | (8,754)                 | -                     | -                                   | -                    |
| Impairment of other financial assets  | -                     | -  | (20,019)                            | -                    | (20,019)                | -                     | -                                   | -                    |
| Adoption of SLFRS 9 - Loans & Advances  | -                     | (391,270)  | -                                   | -                    | (391,270)               | -                     | -                                   | -                    |
| Adoption of SLFRS 9 - Other Financial Assets  | -                     | (5,884)  | -                                   | -                    | (5,884)                 | -                     | -                                   | -                    |
| Total Timing Difference   | 1,737,512             | (397,154)  | (267,572)                           | (112,003)            | 960,783                 | 970,413               | 368,770                             | 398,329              |
|   |                       |  |                                     |                      |                         |                       |                                     | 1,737,512            |

## Notes to the Financial Statements

27 TAXES (CONTD.)  
27.2 Deferred Taxation (Contd.)

Group

|   | 2018                              |  |   |                                  | 2017                                |                                   |   |                                     |
|---|-----------------------------------|--|---|----------------------------------|-------------------------------------|-----------------------------------|---|-------------------------------------|
|   | 1/1/2018<br>DTL/(DTA)<br>LKR '000 | Impact due to<br>adoption of<br>SLFRS 9<br>(Note 53)<br>LKR '000 | Recognised in<br>P&L<br>(Note 42.1)<br>LKR '000 | Recognised<br>in OCI<br>LKR '000 | 31/12/2018<br>DTL/(DTA)<br>LKR '000 | 1/1/2017<br>DTL/(DTA)<br>LKR '000 | Recognised in<br>P&L<br>(Note 42.1)<br>LKR '000 | 31/12/2017<br>DTL/(DTA)<br>LKR '000 |
| Accelerated depreciation allowances for tax purposes -<br>property, plant and equipment and Intangible assets | 335,819                           | -  | 13,123  | -                                | 348,942                             | 301,025                           | 34,794  | 335,819                             |
| Accelerated depreciation allowances for tax purposes- lease<br>rentals receivable                             | 1,754,458                         | -  | (509,743)                                       | -                                | 1,244,715                           | 1,255,584                         | 498,874   | 1,754,458                           |
| Net gains on re-measuring of available-for-sale financial assets/FA<br>at FVOCI                               | 80,733                            | -  | -   | (118,877)                        | (38,144)                            | (69,253)                          | -   | 80,733                              |
| Revaluation of Land & Building  | 354,936                           | -  | -   | -                                | 354,936                             | -                                 | -   | 354,936                             |
| Carry forward Tax losses on Lease Business  | (559,618)                         | -  | 279,812   | -                                | (279,806)                           | (406,546)                         | (153,072)                                       | (559,618)                           |
| Share based payments  | -                                 | -  | (18,062)  | -                                | (18,062)                            | -                                 | -   | -                                   |
| Retirement Benefit Plan -Gratuity   | (138,399)                         | -  | (4,587)   | 7,061                            | (135,924)                           | (111,656)                         | (12,687)  | (138,399)                           |
| Impairment of loans & advances  | -                                 | -  | (9,126)   | -                                | (9,126)                             | -                                 | -   | -                                   |
| Impairment of Financial assets  | -                                 | -  | (20,019)  | -                                | (20,019)                            | -                                 | -   | -                                   |
| Adoption of SLFRS 9 - Loans & Advances  | -                                 | (391,270)  | -   | -                                | (391,270)                           | -                                 | -   | -                                   |
| Adoption of SLFRS 9 - Other Financial Assets  | -                                 | (5,884)  | -   | -                                | (5,884)                             | -                                 | -   | -                                   |
| <b>Total Timing Difference</b>  | <b>1,827,929</b>                  | <b>(397,154)</b>   | <b>(268,602)</b>                                | <b>(111,816)</b>                 | <b>1,050,358</b>                    | <b>969,154</b>                    | <b>367,909</b>                                  | <b>1,827,929</b>                    |

Deferred tax has been determined based on the effective tax rate of 28%.

## 28 STATED CAPITAL

| As at 31 December   | Bank/ Group        |                  | Bank/ Group        |                  |
|---|--------------------|------------------|--------------------|------------------|
|   | 2018               |                  | 2017               |                  |
|   | Number             | LKR '000         | Number             | LKR '000         |
| <b>Ordinary Shares - Voting</b>                               |                    |                  |                    |                  |
| <b>Issued and fully paid</b>                                  |                    |                  |                    |                  |
| As at 01 January  | 230,607,283        | 5,101,369        | 230,607,283        | 5,101,369        |
| Scrip Dividend for 2017**                                     | 5,991,740          | 473,347          | -                  | -                |
| Conversion of Non-Voting Shares to Voting Shares              | 2,065,650          | 165,200          | -                  | -                |
| <b>As at 31 December</b>                                      | <b>238,664,673</b> | <b>5,739,916</b> | <b>230,607,283</b> | <b>5,101,369</b> |
| <b>Ordinary Shares - Convertible Non-Voting</b>               |                    |                  |                    |                  |
| <b>Issued and fully paid</b>                                  |                    |                  |                    |                  |
| As at 01 January  | -                  | -                | -                  | -                |
| Rights Issue*   | 40,105,614         | 3,208,449        | -                  | -                |
| Scrip Dividend for 2017**                                     | 1,042,499          | 82,358           | -                  | -                |
| Conversion of Non-Voting Shares to Voting Shares              | (2,065,650)        | (165,200)        | -                  | -                |
| <b>As at 31 December</b>                                      | <b>39,082,463</b>  | <b>3,125,607</b> | <b>-</b>           | <b>-</b>         |
| <b>Total Ordinary Shares/Stated Capital as at 31 December</b> | <b>277,747,136</b> | <b>8,865,523</b> | <b>230,607,283</b> | <b>5,101,369</b> |

\*Rights Issue - During the year, the Bank issued 40,105,614 Convertible Non-Voting Shares (Convertible to Ordinary Voting Shares) at a price of Rs. 80 per share in order to raise a sum of up to Rs. 3,208,449,120, in the proportion of 4 Convertible Non-Voting Shares for every 23 Ordinary Voting Shares held by the Shareholders in the Register of Shareholders, as at 12th January 2018. Such issued Convertible Non-Voting Shares shall have the option of convertibility into Ordinary Voting Shares at every calendar quarter at a conversion ratio of 1 Ordinary Voting Share for every 1 Convertible Non-Voting Share.

\*\*Scrip Dividend for 2017 - A dividend of Rs. 2.10 per share in respect of year 2017 paid in the form of a Scrip dividend in the proportion of 01 share for every 38.4644498 shares for both Ordinary Voting Shares and Convertible Non-Voting Shares (Convertible to Ordinary Voting Shares). Fractions in shares were paid in cash.

## 29 STATUTORY RESERVE FUND

**29.1** Statutory reserve fund is maintained as per the requirement in terms of Section 20 of the Banking Act No 30 of 1988. Accordingly, a sum equivalent to 5% of profit after tax is transferred to the reserve fund until reserve fund is equal to 50% of the Bank's Stated Capital. Thereafter a further 2% of profits will be transferred until the said reserve fund is equal to the Bank's stated Capital.

### 29.2 Movement in Statutory Reserve Fund

|                                     | Bank             |                  | Group            |                  |
|-------------------------------------|------------------|------------------|------------------|------------------|
|                                     | 2018             | 2017             | 2018             | 2017             |
|                                     | LKR '000         | LKR '000         | LKR '000         | LKR '000         |
| As at 01 January                    | 1,010,732        | 796,400          | 1,010,732        | 796,400          |
| Transfers during the year (Note 30) | 188,398          | 214,332          | 188,398          | 214,332          |
| <b>As at 31 December</b>            | <b>1,199,130</b> | <b>1,010,732</b> | <b>1,199,130</b> | <b>1,010,732</b> |

# Notes to the Financial Statements

## 30 RETAINED EARNINGS

|                                       | Bank        |            | Group       |            |
|---------------------------------------|-------------|------------|-------------|------------|
|                                       | 2018        | 2017       | 2018        | 2017       |
|                                       | LKR '000    | LKR '000   | LKR '000    | LKR '000   |
| As at 01 January                      | 13,813,403  | 10,261,404 | 14,237,649  | 11,600,912 |
| Impact of adopting SLFRS 9 (Note 53)  | (1,021,253) | -          | (1,021,253) | -          |
| Total Comprehensive Income            | 3,785,645   | 4,250,606  | 3,719,947   | 3,335,344  |
| Dividend Paid (Note 44.1)             | (568,497)   | (484,275)  | (568,497)   | (484,275)  |
| Transfers to Reserve Fund (Note 29.2) | (188,398)   | (214,332)  | (188,398)   | (214,332)  |
| As at 31 December                     | 15,820,900  | 13,813,403 | 16,179,448  | 14,237,649 |

## 31 OTHER RESERVES

### 31.1 Other Comprehensive Income (OCI) Reserve

|  | Bank      |           | Group     |           |
|--|-----------|-----------|-----------|-----------|
|  | 2018      | 2017      | 2018      | 2017      |
|  | LKR '000  | LKR '000  | LKR '000  | LKR '000  |
| As at 01 January   | 207,600   | (178,077) | 207,600   | (178,077) |
| Net gains / (loss) on re-measuring available-for-sale financial assets / Financial assets at FVOCI | (424,559) | 535,663   | (424,559) | 535,663   |
| Income tax relating to the above   | 118,877   | (149,986) | 118,877   | (149,986) |
| As at 31 December  | (98,082)  | 207,600   | (98,082)  | 207,600   |

This reserve was known as Available for Sale Reserve upto 31 December 2017.

### 31.2 Revaluation Reserve

|   | Bank     |           | Group    |           |
|---|----------|-----------|----------|-----------|
|   | 2018     | 2017      | 2018     | 2017      |
|   | LKR '000 | LKR '000  | LKR '000 | LKR '000  |
| As at 01 January                              | 674,631  | -         | 912,691  | -         |
| Revaluation Surplus                           | -        | 936,988   | -        | 1,267,627 |
| Deferred Tax reversal relating to revaluation | -        | (262,357) | -        | (354,936) |
| As at 31 December                             | 674,631  | 674,631   | 912,691  | 912,691   |

## Accounting Policy

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

### (i) Interest Income and Expense

The Bank calculates interest income by applying the EIR to the gross carrying amount of financial assets other than credit-impaired assets.

The Bank ceases the recognition of interest income on assets when it is probable that the economic benefit associated will not continue to flow to the Bank.

Interest income on all trading assets and financial assets mandatorily required to be measured at FVPL is also recognised using the contractual interest rate in interest income.

### (ii) Fee and Commission Income

The Group earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided in to the following three categories:

- a) Fee income earned from services that are provided over a certain period of time  
Fees earned for the provision of services are recognised as revenue as the services are provided. These fees include commission income and asset management fees, custody and other management and advisory fees.
- b) Fee income from providing financial services are earned on the execution of a significant act  
Fees and commissions arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement/participation or negotiation of the lending transactions or other securities are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.
- c) Fee income forming an integral part of the corresponding financial instrument  
Fees that the Bank considers to be an integral part of the corresponding financial instruments include: loan origination fees, loan commitment fees for loans that are likely to be drawn down and other credit related fees. The recognition of these fees (together with any incremental costs) form an integral part of the corresponding financial instruments and are recognised as interest income through an adjustment to the EIR. The exception is, when it is unlikely that a loan will be drawndown, the loan commitment fees are recognised as revenue on expiry.

### (iii) Dividend Income

Dividend income is recognized when the Group's right to receive the payment is established which is generally when the shareholders approve the dividend.

### (iv) Net Trading Income

Results arising from trading activities include all gains and losses from changes in fair value.

### (v) Rental Income

Rental income is recognized on a straight line basis.

### (vi) Other Income

Other income is recognized on an accrual basis.

### (vii) Other Expense

All other expenses have been recognized in the Financial Statements as they are incurred in the period to which they relate.

All expenditure incurred in the operation of the business and in maintaining the capital assets in a state of efficiency has been charged to revenue in arriving at the Group's profit for the year.

## Notes to the Financial Statements

### 32 INTEREST INCOME

| For the Year Ended 31 December   | Bank       |            | Group      |            |
|--|------------|------------|------------|------------|
|  | 2018       | 2017       | 2018       | 2017       |
|  | LKR '000   | LKR '000   | LKR '000   | LKR '000   |
| Cash and Cash Equivalents  | 46,220     | 38,922     | 46,220     | 38,922     |
| Financial Assets Recognized through Profit or Loss                         |            |            |            |            |
| - Measured at Fair Value   | 100,189    | 124,353    | 100,189    | 124,353    |
| Financial Assets at Amortised Cost   |            |            |            |            |
| - Loans and Advances to Customers  | 29,958,510 | 23,988,362 | 29,968,084 | 24,102,587 |
| - Reverse Repurchase Agreements  | 113,000    | 170,689    | 113,000    | 170,689    |
| - Debt Instruments   | 1,503,562  | -          | 1,510,043  | -          |
| Financial Assets - Held to Maturity  | -          | 1,239,069  | -          | 1,247,534  |
| Other Financial Assets   | -          | 465,957    | -          | 465,957    |
| Financial Assets Measured at Fair Value Through Other Comprehensive Income | 4,557,802  | -          | 4,557,802  | -          |
| Financial Assets - Available for Sale                                      | -          | 3,578,771  | -          | 3,578,771  |
| Interest Income Accrued on Impaired Financial Assets                       | 755,071    | 276,357    | 755,071    | 276,357    |
|  | 37,034,354 | 29,882,480 | 37,050,409 | 30,005,170 |

#### a Net Interest Income from Sri Lanka Government Securities

| For the Year Ended 31 December                           | Bank      |           | Group     |           |
|--|-----------|-----------|-----------|-----------|
|  | 2018      | 2017      | 2018      | 2017      |
|  | LKR '000  | LKR '000  | LKR '000  | LKR '000  |
| Interest Income  | 5,885,108 | 5,130,757 | 5,891,589 | 5,139,221 |
| Less: Interest Expenses                                  | -         | -         | -         | -         |
| Net Interest Income from Sri Lanka Government Securities | 5,885,108 | 5,130,757 | 5,891,589 | 5,139,221 |

### 33 INTEREST EXPENSE

| For the Year Ended 31 December          | Bank       |            | Group      |            |
|---|------------|------------|------------|------------|
|   | 2018       | 2017       | 2018       | 2017       |
|   | LKR '000   | LKR '000   | LKR '000   | LKR '000   |
| Due to Banks                            | 261,977    | 862,506    | 261,977    | 861,407    |
| Financial Liabilities at Amortised Cost |            |            |            |            |
| - Due to Customers                      | 18,018,869 | 14,787,785 | 18,005,714 | 14,787,785 |
| - Repurchase Agreements                 | 1,146,832  | 1,311,965  | 1,120,936  | 1,256,040  |
| - Due to Debt Security Holders          | 1,341,026  | 1,033,435  | 1,341,026  | 1,033,435  |
| - Due to Other Borrowers                | 1,155,858  | 156,684    | 1,156,849  | 157,157    |
| Others                                  | -          | -          | -          | 838        |
|   | 21,924,562 | 18,152,375 | 21,886,502 | 18,096,662 |

## 34 NET FEE AND COMMISSION INCOME

### 34.1 Fees and Commission Income

| For the Year Ended 31 December                       | Bank      |           | Group     |           |
|--|-----------|-----------|-----------|-----------|
|  | 2018      | 2017      | 2018      | 2017      |
|  | LKR '000  | LKR '000  | LKR '000  | LKR '000  |
| Portfolio and Other Management Fees                  | -         | -         | 2,475     | 2,278     |
| Credit Card Related Fee and Commission               | 3,207,912 | 2,940,098 | 3,207,830 | 2,939,543 |
| Commission on Trade Finance Facilities & Remittances | 674,648   | 564,813   | 674,648   | 564,813   |
| Commission on Services-Loans                         | 1,171,636 | 1,017,821 | 1,171,636 | 1,017,821 |
| Commission on Services-Deposits                      | 454,078   | 434,684   | 454,078   | 434,684   |
| Other Fees   | 283,688   | 176,349   | 571,377   | 399,714   |
|  | 5,791,962 | 5,133,765 | 6,082,044 | 5,358,853 |

### 34.2 Fees and Commission Expenses

| For the Year Ended 31 December | Bank      |           | Group     |           |
|--------------------------------|-----------|-----------|-----------|-----------|
|                                | 2018      | 2017      | 2018      | 2017      |
|                                | LKR '000  | LKR '000  | LKR '000  | LKR '000  |
| Brokerage Fees                 | (21,225)  | (37,580)  | (21,225)  | (37,580)  |
| Credit Card Related Fees       | (251,052) | (285,157) | (251,052) | (285,163) |
|                                | (272,277) | (322,737) | (272,277) | (322,743) |
| Net Fee and Commission Income  | 5,519,685 | 4,811,028 | 5,809,767 | 5,036,110 |

## 35 NET GAIN/ (LOSS) FROM TRADING

| For the Year Ended 31 December     | Bank      |           | Group     |           |
|------------------------------------|-----------|-----------|-----------|-----------|
|                                    | 2018      | 2017      | 2018      | 2017      |
|                                    | LKR '000  | LKR '000  | LKR '000  | LKR '000  |
| Foreign Exchange                   |           |           |           |           |
| - From Banks                       | (191,646) | (84,560)  | (191,646) | (84,560)  |
| - From Other Customers             | 813,582   | 667,687   | 813,582   | 667,687   |
| Fixed Income Securities (Realised) | (28,177)  | 190,074   | (28,005)  | 190,074   |
| Derivative Financial Instruments   | 2,184,489 | (201,740) | 2,184,489 | (201,740) |
|                                    | 2,778,248 | 571,461   | 2,778,420 | 571,461   |



## Notes to the Financial Statements

### 36 NET FAIR VALUE GAINS/ (LOSSES) FROM FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

| For the Year Ended 31 December                                      | Bank     |          | Group    |          |
|---|----------|----------|----------|----------|
|   | 2018     | 2017     | 2018     | 2017     |
|   | LKR '000 | LKR '000 | LKR '000 | LKR '000 |
| Net Gains on financial assets at fair value through profit or loss  | -        | 18,326   | -        | 18,326   |
| Net Losses on financial assets at fair value through profit or loss | (3,758)  | -        | (3,758)  | -        |
|   | (3,758)  | 18,326   | (3,758)  | 18,326   |

### 37 NET OTHER OPERATING INCOME/(LOSS)

| For the Year Ended 31 December                       | Bank        |           | Group       |           |
|--|-------------|-----------|-------------|-----------|
|  | 2018        | 2017      | 2018        | 2017      |
|  | LKR '000    | LKR '000  | LKR '000    | LKR '000  |
| Dividend Income                                      | 294,489     | 443,548   | 3,960       | 3,472     |
| Profit on Subsidiary Share Buy Back                  | -           | 671,925   | -           | -         |
| Gain/(Loss) on Sale of Property, Plant and Equipment | (9,609)     | (694)     | (8,261)     | (694)     |
| Gain/(Loss) on Revaluation of Foreign Exchange       | (2,999,101) | (982,344) | (2,999,101) | (982,344) |
| Other Non-Trading Foreign Exchange                   | (100,817)   | (5,204)   | (100,817)   | (5,204)   |
| Recovery of Loans Written -Off                       | 265,438     | 188,984   | 265,438     | 188,984   |
| Others   | 168,913     | 174,948   | 168,913     | 174,949   |
|  | (2,380,687) | 491,163   | (2,669,868) | (620,837) |

### 38 IMPAIRMENT CHARGES

| For the Year Ended 31 December                          | Note | Bank<br>2018<br>LKR '000 | Group<br>2018<br>LKR '000 |
|---|------|--------------------------|---------------------------|
| Financial assets at amortised cost - Loans and Advances |      |                          |                           |
| Stage 1   | 16.4 | (44,091)                 | (44,091)                  |
| Stage 2   | 16.4 | 15,979                   | 15,979                    |
| Stage 3   | 16.4 | (3,125,851)              | (3,125,851)               |
| Financial assets at amortised cost – Debt Instruments   |      |                          |                           |
| Stage 1   | 15.3 | (7,361)                  | (7,361)                   |
| Stage 2   |      | -                        | -                         |
| Stage 3   | 15.3 | (42,373)                 | (42,373)                  |
| Financial assets at amortised cost – Others             |      |                          |                           |
| Stage 1   | 6.1  | (43)                     | (43)                      |
| Stage 2   |      | -                        | -                         |
| Stage 3   | 17.1 | (21,721)                 | (23,049)                  |
| Contingent Liabilities & Commitments                    |      |                          |                           |
| Stage 1   | 26.3 | (61,283)                 | (61,283)                  |
| Stage 2   | 26.3 | (10,898)                 | (10,898)                  |
| Stage 3   | 26.3 | 24,934                   | 24,934                    |
| Total Impairment Loss                                   |      | (3,272,708)              | (3,274,036)               |

Following is a sensitivity analysis of macro economic factors used in the expected credit loss calculation.

| Change in Macro Economic Factors | Impact on Allowance for Credit Loss<br>LKR '000 |
|----------------------------------|---|
| 1%                               | 18,936  |
| 5%                               | 94,678  |
| 10%                              | 189,356   |

The table below shows the impairment charges recorded in the income statement under LKAS 39 during the year 2017.

| For the Year Ended 31 December         | Bank      | Group     |
|--|-----------|-----------|
|  | 2017      | 2017      |
|  | LKR '000  | LKR '000  |
| Individual Impairment                  | 354,314   | 354,314   |
| Collective Impairment                  | 729,554   | 729,975   |
| Others - Charges Receivable Impairment | 4,536     | 4,536     |
|  | 1,088,404 | 1,088,825 |
| Consists of;                           |           |           |
| Loans and Advances to Customers        |           |           |
| Corporate Loans                        | 48,519    | 48,940    |
| Retail, SME and Consumer Lending       | 1,036,500 | 1,036,500 |
| Housing Loans                          | (13,896)  | (13,896)  |
| Leases                                 | 12,745    | 12,745    |
|  | 1,083,868 | 1,084,289 |
| Add: Direct Write off on other charges | 4,536     | 4,536     |
|  | 1,088,404 | 1,088,825 |

### 39 PERSONNEL EXPENSES

| For the Year Ended 31 December                       | Bank      |           | Group     |           |
|--|-----------|-----------|-----------|-----------|
|  | 2018      | 2017      | 2018      | 2017      |
|  | LKR '000  | LKR '000  | LKR '000  | LKR '000  |
| Salaries and Bonus                                   | 2,724,328 | 2,577,256 | 2,746,829 | 2,601,127 |
| Employee Benefits - Defined Contribution Plan        | 348,142   | 309,917   | 350,848   | 312,820   |
| Employee Benefits - Defined Benefit Plan (Note 24.1) | 110,127   | 109,772   | 111,348   | 111,031   |
| Share Based Payments (Note 26.2)                     | 46,800    | 18,078    | 46,800    | 18,078    |
| Amortization of Staff Loan Day 1 Difference          | 122,356   | 91,502    | 122,356   | 91,502    |
| Other Allowances                                     | 792,240   | 719,045   | 795,590   | 722,430   |
|  | 4,143,993 | 3,825,570 | 4,173,771 | 3,856,988 |

### 40 OTHER OPERATING EXPENSES

| For the Year Ended 31 December          | Bank      |           | Group     |           |
|---|-----------|-----------|-----------|-----------|
|   | 2018      | 2017      | 2018      | 2017      |
|   | LKR '000  | LKR '000  | LKR '000  | LKR '000  |
| Operating Lease Expenses                | 634,797   | 380,475   | 548,429   | 335,910   |
| Professional Fees                       | 80,810    | 20,971    | 81,337    | 21,441    |
| Auditors Fees and Expenses              | 10,525    | 10,178    | 11,995    | 11,893    |
| Non Audit fees and Expenses to Auditors | 3,580     | 3,227     | 3,580     | 3,357     |
| Legal Fees                              | 23,874    | 20,845    | 23,874    | 20,845    |
| Transport                               | 262,310   | 208,857   | 262,953   | 209,344   |
| Office Administration & Establishment   | 4,233,699 | 3,632,049 | 4,270,769 | 3,670,604 |
|   | 5,249,595 | 4,276,602 | 5,202,937 | 4,273,394 |

# Notes to the Financial Statements

## 41 TAXES AND LEVIES ON FINANCIAL SERVICES

| For the Year Ended 31 December        | Bank      |           | Group     |           |
|---------------------------------------|-----------|-----------|-----------|-----------|
|                                       | 2018      | 2017      | 2018      | 2017      |
|                                       | LKR '000  | LKR '000  | LKR '000  | LKR '000  |
| Value Added Tax (VAT)                 | 1,482,049 | 1,438,521 | 1,484,468 | 1,458,558 |
| Nations Building Tax (NBT)            | 203,391   | 197,572   | 203,763   | 199,649   |
| Debt Repayment Levy (DRL) (Note 41.1) | 178,508   | -         | 178,508   | -         |
|                                       | 1,863,948 | 1,636,093 | 1,866,739 | 1,658,207 |

- 41.1** Debt Repayment Levy is calculated at 7% on value addition computed for VAT on Financial Services by Banks and Financial Institutions with effect from 01 October 2018 and carries until 31 December 2021.

## 42 INCOME TAX EXPENSE

### 42.1 Amount recognized in profit or loss

| For the Year Ended 31 December | Bank     |          | Group    |          |
|--------------------------------|----------|----------|----------|----------|
|                                | 2018     | 2017     | 2018     | 2017     |
|                                | LKR '000 | LKR '000 | LKR '000 | LKR '000 |

The component of Income Tax expense for years ended 31 December 2018 & 2017 are ;

#### Current Tax Expense

|   |           |           |           |           |
|---|-----------|-----------|-----------|-----------|
| Current Income Tax on Profit for the Year (Note 42.2) | 2,349,090 | 1,540,332 | 2,420,358 | 1,630,431 |
| 10% Withholding Tax on Subsidiary Dividend            | -         | -         | 32,281    | 48,900    |
| Under /(Over) Provisions in respect of Prior Years    | (26,620)  | (25,229)  | (26,619)  | (25,247)  |

#### Deferred Tax Expense

|                                     |           |           |           |           |
|-------------------------------------|-----------|-----------|-----------|-----------|
| Charge for Deferred Tax (Note 27.2) | (267,572) | 368,770   | (268,602) | 367,909   |
|                                     | 2,054,898 | 1,883,873 | 2,157,418 | 2,021,993 |

|                           |        |        |        |        |
|---------------------------|--------|--------|--------|--------|
| Effective Income Tax Rate | 35.29% | 30.53% | 36.82% | 37.49% |
|---------------------------|--------|--------|--------|--------|

### 42.2 Reconciliation of Accounting Profit and Taxable Income

A reconciliation between the tax expense and the accounting profit multiplied by Government of Sri Lanka's tax rate for the years ended 31 December 2018 and 2017 is as follows;

| For the Year Ended 31 December             | Bank         |              | Group        |              |
|--|--------------|--------------|--------------|--------------|
|  | 2018         | 2017         | 2018         | 2017         |
|  | LKR '000     | LKR '000     | LKR '000     | LKR '000     |
| Accounting Profit (Profit before Taxation) | 5,822,866    | 6,170,514    | 5,859,301    | 5,393,482    |
| Add : Disallowable Expenses                | 26,857,405   | 22,831,509   | 26,787,750   | 22,821,303   |
|  | 32,680,271   | 29,002,023   | 32,647,051   | 28,214,785   |
| Less: Allowable Expenses                   | (23,873,135) | (21,905,961) | (23,875,916) | (21,908,943) |
| Exempt Income                              | (417,530)    | (1,594,875)  | (127,001)    | (482,873)    |
| Statutory Income                           | 8,389,606    | 5,501,187    | 8,644,134    | 5,822,969    |
| Taxable Income                             | 8,389,606    | 5,501,187    | 8,644,134    | 5,822,969    |
| Current Income Tax Expense                 | 2,349,090    | 1,540,332    | 2,420,358    | 1,630,431    |

The Group Tax expense is based on the taxable profit of each Company, since present tax laws do not provide for Group taxation.

### 43 BASIC / DILUTED EARNINGS PER SHARE

Basic Earnings Per Share is calculated by dividing the net profit for the year attributable to Ordinary Shareholders of the Bank by the weighted average number of Ordinary Shares in issue during the year. The following table shows the income and share data used in the basic earnings per share calculation.

#### 43.1 Earnings per Share - Basic / Diluted

| For the Year Ended 31 December                              | Bank         |              | Group        |              |
|---|--------------|--------------|--------------|--------------|
|   | 2018         | 2017         | 2018         | 2017         |
| <b>Amount Used as the Numerator:</b>                        |              |              |              |              |
| Net profit attributable to ordinary shareholders (LKR '000) | 3,767,968    | 4,286,641    | 3,701,883    | 3,371,489    |
| <b>No of Ordinary Shares Used as the Denominator:</b>       |              |              |              |              |
| Weighted average number of ordinary shares (Note 43.2)      | 282,576,693  | 244,990,296  | 282,576,693  | 244,990,296  |
| <b>Basic / Diluted Earnings per Share (LKR)</b>             | <b>13.33</b> | <b>17.50</b> | <b>13.10</b> | <b>13.76</b> |

#### 43.2 Weighted Average Number of Ordinary Shares

Except for the scrip dividend 2018 (Note 52 - Events after the reporting date), there have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of authorisation of these financial statements that require adjustment of the weighted average number of ordinary shares.

### 44 DIVIDENDS PAID AND DECLARED

Dividends on ordinary shares are recognized as a liability and deducted from equity when they are approved by the Board of Directors of the Bank. Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date. (Note 52).

#### 44.1 Paid During the Year

| For the Year Ended 31 December   | Bank           |                | Group          |                |
|--|----------------|----------------|----------------|----------------|
|  | 2018           | 2017           | 2018           | 2017           |
|  | LKR '000       | LKR '000       | LKR '000       | LKR '000       |
| <b>Dividends on Ordinary Voting Shares:</b>  |                |                |                |                |
| First and Final dividend for 2017 : LKR 2.10 per share*<br>(2016 : LKR 2.10 per share) | 484,275        | 484,275        | 484,275        | 484,275        |
| <b>Dividends on Ordinary Non-Voting Shares:</b>  |                |                |                |                |
| First and Final dividend for 2017: LKR 2.10 per share                                  | 84,222         | -              | 84,222         | -              |
| <b>Total dividends declared</b>  | <b>568,497</b> | <b>484,275</b> | <b>568,497</b> | <b>484,275</b> |

\*Dividend for the year 2017 was paid in the form of a scrip dividend in the proportion of 01 share for every 38.4644498 shares for both Ordinary Voting Shares and Convertible Non-Voting Shares (Convertible to Ordinary Voting Shares). Fractions in shares were paid in cash.

# Notes to the Financial Statements

## 44 DIVIDENDS PAID AND DECLARED (CONTD.)

### 44.2 Declared by the Board of Directors

(not recognized as a liability as at 31 December)

| As at 31 December   | Bank/Group     |                |
|---|----------------|----------------|
|   | 2018           | 2017           |
|   | LKR '000       | LKR '000       |
| Dividends on Ordinary Voting Shares:  |                |                |
| First and Final dividend for 2018: LKR 2.10 per share<br>(2017: LKR 2.10 per share) | 501,382        | 484,275        |
| Dividends on Ordinary Non-Voting Shares:  |                |                |
| First and Final dividend for 2018: LKR 2.10 per share<br>(2017: LKR 2.10 per share) | 81,887         | 84,222         |
| <b>Total dividends declared</b>   | <b>583,269</b> | <b>568,497</b> |

Fractions in shares will be paid in cash.

### 44.3 Scrip Dividend Conversion Ratio

Scrip dividend is declared by the Board of Directors in the proportion of 01 share for every;

| As at 31 December                      | Bank/Group |            |
|--|------------|------------|
|  | 2018       | 2017       |
| Ordinary Voting Shares (Number)        | 46,100,184 | 38,464,498 |
| Convertible Non-Voting Shares (Number) | 42,006,938 | 38,464,498 |

## 45 CASH FLOW INFORMATION

### 45.1 (Increase)/Decrease in Operating Assets

| For the Year Ended 31 December                                      | Bank                |                     | Group               |                     |
|---|---------------------|---------------------|---------------------|---------------------|
|   | 2018                | 2017                | 2018                | 2017                |
|   | LKR '000            | LKR '000            | LKR '000            | LKR '000            |
| Reverse Repurchase Agreements                                       | (169,800)           | 3,900               | (169,800)           | 3,900               |
| Financial Assets - At Fair Value through Profit or Loss             | (144,500)           | 1,073,716           | (144,500)           | 1,073,716           |
| Financial Assets - At Amortised Cost - Debt Instruments             | 140,528             | -                   | 215,629             | -                   |
| Financial Assets - At Fair Value through Other Comprehensive Income | (20,061,154)        | -                   | (20,061,154)        | -                   |
| Financial Assets - Held to Maturity                                 | -                   | 3,145,812           | -                   | 3,144,234           |
| Financial Assets - Available for Sale                               | -                   | (16,645,792)        | -                   | (16,645,792)        |
| Other Financial Assets  | -                   | 58,488              | -                   | 58,488              |
| Financial Assets - At Amortised Cost - Loans & Advances             | (38,200,630)        | (38,714,252)        | (37,996,666)        | (38,030,465)        |
| Other Assets  | (126,589)           | (60,699)            | (140,753)           | (71,131)            |
|   | <b>(58,562,145)</b> | <b>(51,138,827)</b> | <b>(58,297,244)</b> | <b>(50,467,050)</b> |

### 45.2 Increase/(Decrease) in Operating Liabilities

| For the Year Ended 31 December                                | Bank              |                   | Group             |                   |
|---|-------------------|-------------------|-------------------|-------------------|
|   | 2018              | 2017              | 2018              | 2017              |
|   | LKR '000          | LKR '000          | LKR '000          | LKR '000          |
| Repurchase Agreements   | 4,023,975         | 2,455,070         | 4,299,765         | 2,662,956         |
| Financial Liabilities - At Amortised Cost - Due to Depositors | 36,379,620        | 41,661,611        | 35,933,680        | 41,691,320        |
| Other Liabilities   | 876,392           | 695,327           | 869,386           | 673,977           |
|   | <b>41,279,987</b> | <b>44,812,008</b> | <b>41,102,831</b> | <b>45,028,253</b> |

### 45.3 Other Non Cash Items included in Profit Before Tax

| For the Year Ended 31 December   | Bank        |           | Group       |           |
|--|-------------|-----------|-------------|-----------|
|  | 2018        | 2017      | 2018        | 2017      |
|  | LKR '000    | LKR '000  | LKR '000    | LKR '000  |
| Depreciation of Property, Plant and Equipment  | 367,437     | 352,319   | 395,736     | 366,855   |
| Amortisation of Intangible Assets  | 302,733     | 272,581   | 305,948     | 275,817   |
| (Gain)/Loss on Fair Valuation of Financial Assets - At Fair Value through Profit or Loss | 3,758       | (18,326)  | 3,758       | (18,326)  |
| Unrealized (Gain)/Loss on Derivative Financial Instruments                               | (2,184,714) | 225,749   | (2,184,714) | 225,749   |
| Interest Income/Expense on Loans, Deposits & Government Securities                       | (248,093)   | (109,443) | (248,305)   | (109,443) |
| Interest Income Accrued on Impaired Financial Assets                                     | (755,071)   | (276,357) | (755,071)   | (276,357) |
|  | (2,513,950) | 446,523   | (2,482,648) | 464,295   |

Changes in liabilities arising from financing activities.

| Bank/Group  | 1 January         | Cash Flows       | Non Cash       | 31 December       |
|---|-------------------|------------------|----------------|-------------------|
|   | 2018              |                  | Flows          | 2018              |
|   | LKR '000          | LKR '000         | LKR '000       | LKR '000          |
| Development Finance Institutions (DFI)            | 8,395,298         | 7,842,952        | 47,358         | 16,285,609        |
| Refinance Borrowings                              | 702,132           | 704,215          | 4,833          | 1,411,180         |
| Financial Institutions                            | 2,564,793         | -                | (12,766)       | 2,552,027         |
| Rated, Unsecured, Redeemable Debentures           | 8,075,351         | 500,000          | 170,260        | 8,745,611         |
| <b>Total Debt Issued and Other Borrowed Funds</b> | <b>19,737,574</b> | <b>9,047,167</b> | <b>209,685</b> | <b>28,994,427</b> |
| Money Market Borrowings                           | 10,567,825        | (689,622)        | -              | 9,878,203         |
| <b>Total</b>                                      | <b>30,305,399</b> | <b>8,357,545</b> | <b>209,685</b> | <b>38,872,630</b> |

## 46 RELATED PARTY DISCLOSURES

The Bank has carried out transactions with related parties as defined in LKAS 24 - Related Party Disclosures. The pricing applicable to such transactions were based on the assessment of risk and pricing model of the Bank and was comparable with what was applied to transactions between the Bank and non related parties.

### 46.1 Transactions with Key Management Personnel

Key Management Personnel (KMP) include the Board of Directors of the Bank and Chief Executive Officer of the Bank.

#### (a) Compensation to Key Management Personnel

| For the Year Ended 31 December    | 2018     | 2017     |
|-----------------------------------|----------|----------|
|                                   | LKR '000 | LKR '000 |
| Key Management Personnel Benefits | 71,127   | 53,539   |
| Post Employment Benefits          | 3,728    | 3,230    |
|                                   | 74,855   | 56,769   |

In addition to the salaries, the Group also has arranged non cash benefits such as vehicle & insurance to Executive Director in line with approved benefits plan of the Group. Executive Director is also entitled to 112,115 (2017 - 48,387) share appreciation rights.

# Notes to the Financial Statements

## 46 RELATED PARTY DISCLOSURES (CONTD.)

### 46.1 Transactions with Key Management Personnel (Contd.)

(b) Transactions, Arrangements and Agreements involving Key Management Personnel

| For the Year Ended 31 December | Key Management Personnel & their Close Family Members (CFM ) |          |          |          | Entities in which KMPs and CFMs have control or joint control |          |          |          |
|--------------------------------|--|----------|----------|----------|---|----------|----------|----------|
|                                | Maximum Balances   |          |          |          | Maximum Balances  |          |          |          |
|                                | 2018   | 2017     | 2018     | 2017     | 2018  | 2017     | 2018     | 2017     |
|                                | LKR '000   | LKR '000 | LKR '000 | LKR '000 | LKR '000  | LKR '000 | LKR '000 | LKR '000 |

#### Items in the Statement of Financial Position

##### Assets

|                  |        |        |        |        |   |     |    |     |
|------------------|--------|--------|--------|--------|---|-----|----|-----|
| Loans & Advances | 25,268 | 15,945 | 25,268 | 24,341 | - | -   | -  | -   |
| Credit Cards     | 4,557  | 2,756  | 4,711  | 3,696  | - | 267 | 81 | 276 |

##### Liabilities

|                   |         |         |         |         |   |   |   |   |
|-------------------|---------|---------|---------|---------|---|---|---|---|
| Due to Customers  | 139,669 | 125,876 | 132,980 | 125,876 | - | - | - | - |
| Other Liabilities | 1       | -       | -       | -       | - | - | - | - |

##### Equity

|                        |       |     |   |   |   |   |   |   |
|------------------------|-------|-----|---|---|---|---|---|---|
| Dividends paid ( Net ) | 1,102 | 433 | - | - | - | - | - | - |
|------------------------|-------|-----|---|---|---|---|---|---|

##### Commitments

|                    |        |        |   |   |   |     |   |   |
|--------------------|--------|--------|---|---|---|-----|---|---|
| Undrawn Facilities | 11,827 | 18,421 | - | - | - | 733 | - | - |
|--------------------|--------|--------|---|---|---|-----|---|---|

#### Items in Statement of Profit or Loss

|                        |       |       |   |   |   |   |   |   |
|------------------------|-------|-------|---|---|---|---|---|---|
| Interest Income Earned | 1,697 | 1,426 | - | - | - | - | - | - |
| Interest Expenses Paid | 9,322 | 6,589 | - | - | - | - | - | - |
| Other Income Earned    | 604   | 875   | - | - | - | - | - | - |
| Expenses Paid          | 716   | 1,607 | - | - | - | - | - | - |

### 46.2 Post-Employment Benefits Plan

The Employees' Private Provident Fund of the Bank is managed by a Committee of Trustees appointed by the members.

The Bank has contributed a sum of LKR 279.63 Mn (2017 - LKR 249.50 Mn) to the Fund during the year.

As at 31 December 2018, the Fund has invested a sum of LKR 919.75 Mn (2017 - LKR 1,207.38 Mn) in Financial Instruments (Repo, Fixed Deposits and Debentures) of the Bank. Also as at 31 December 2018, the fund has maintained a sum of LKR 5.22 Mn (2017 - 2.42 Mn) in Deposit accounts of the Bank.

During the year, the Bank has incurred a sum of LKR 106.17 Mn (2017 - LKR 92.27 Mn) as interest expense to the Fund out of which a sum of LKR 45.28 Mn (2017 - LKR 35.95 Mn) is payable as of 31 December 2018.



## 46.3 Transactions with Related Entities

| For the Year Ended 31 December                      | Subsidiaries *   |           |          |          | Significant Investors ** |           |            |           | Significant Investor Related Entities *** |           |           |           |
|---|------------------|-----------|----------|----------|--------------------------|-----------|------------|-----------|---|-----------|-----------|-----------|
|   | Maximum Balances |           |          |          | Maximum Balances         |           |            |           | Maximum Balances                          |           |           |           |
|   | 2018             | 2017      | 2018     | 2017     | 2018                     | 2017      | 2018       | 2017      | 2018                                      | 2017      | 2018      | 2017      |
| LKR '000  | LKR '000         | LKR '000  | LKR '000 | LKR '000 | LKR '000                 | LKR '000  | LKR '000   | LKR '000  | LKR '000                                  | LKR '000  | LKR '000  | LKR '000  |
| <b>Items in the Statement of Financial Position</b> |                  |           |          |          |                          |           |            |           |   |           |           |           |
| <b>Assets</b>                                       |                  |           |          |          |                          |           |            |           |   |           |           |           |
| Loans & Advances                                    | -                | -         | 33,861   | 397,685  | 815,514                  | 169,261   | 824,211    | 436,619   | 59,881                                    | 198,855   | 123,235   | 308,556   |
| Corporate Credit Cards                              | -                | -         | -        | -        | -                        | -         | 163        | -         | 4,100                                     | 498       | 5,542     | 530       |
| Derivative Financial Assets                         | -                | -         | -        | -        | -                        | -         | -          | -         | 61,637                                    | -         | -         | -         |
| Other Assets  | 1,124            | -         | 1,124    | -        | -                        | -         | -          | -         | 13,146                                    | 19,666    | -         | -         |
| <b>Liabilities</b>                                  |                  |           |          |          |                          |           |            |           |   |           |           |           |
| Due to Customers                                    | 472,399          | 26,114    | 509,610  | 108,238  | 5,567,281                | 1,595,022 | 10,396,221 | 3,301,198 | 1,413,884                                 | 1,803,874 | 1,633,951 | 2,178,713 |
| Borrowing & Others                                  | 102,348          | 378,405   | 583,201  | 764,898  | 2,559,503                | 2,942,630 | 3,117,749  | 2,946,274 | 352,252                                   | 354,664   | 523,190   | 342,650   |
| Debtenture Issued                                   | -                | -         | -        | -        | -                        | -         | -          | -         | 629,500                                   | -         | 629,500   | -         |
| Other Liabilities                                   | -                | -         | -        | -        | 9,942                    | -         | -          | -         | 257,148                                   | 273,225   | -         | -         |
| Derivative Financial Liabilities                    | -                | -         | -        | -        | -                        | -         | -          | -         | 721                                       | 11,346    | -         | -         |
| <b>Equity</b>                                       |                  |           |          |          |                          |           |            |           |   |           |           |           |
| Dividends Paid (Net)                                | -                | -         | -        | -        | 379,572                  | 284,474   | -          | -         | -   | -         | -         | -         |
| <b>Commitments</b>                                  |                  |           |          |          |                          |           |            |           |   |           |           |           |
| Undrawn Facilities                                  | -                | 1,800,000 | -        | -        | 6,737                    | 639,880   | -          | -         | 743,658                                   | 629,725   | -         | -         |
| Letter of Credit / Guarantees                       | -                | -         | -        | -        | 42,764                   | 225,874   | -          | -         | 446,291                                   | 484,320   | -         | -         |
| Forward - Foreign Exchange Contracts                | -                | -         | -        | -        | -                        | -         | -          | -         | 562,945                                   | 708,931   | -         | -         |
| <b>Items in statement of profit or loss</b>         |                  |           |          |          |                          |           |            |           |   |           |           |           |
| Interest Income Earned                              | 798              | 5,747     | -        | -        | 50,813                   | 22,682    | -          | -         | 5,987                                     | 4,977     | -         | -         |
| Interest Expenses Paid                              | 39,051           | 57,024    | -        | -        | 659,844                  | 528,294   | -          | -         | 159,234                                   | 153,864   | -         | -         |
| Other Income Earned                                 | 8,046            | 14,656    | -        | -        | 5,741                    | 3,615     | -          | -         | 141,890                                   | 14,280    | -         | -         |
| Dividend Received (Gross)                           | 290,529          | 440,100   | -        | -        | -                        | -         | -          | -         | -   | -         | -         | -         |
| Proceeds from Sale of Shares                        | -                | 671,925   | -        | -        | -                        | -         | -          | -         | -   | -         | -         | -         |
| Expenses Paid                                       | 80,777           | 41,686    | -        | -        | 37,399                   | 46,657    | -          | -         | 89,830                                    | 77,770    | -         | -         |

\* Subsidiaries of the Group includes Waldoock Mackenzie Limited, Allied Properties Limited and Nations Insurance Brokers Limited.

\*\* Significant investors include John Keells Holdings PLC, Mackinnon Keells Limited, HWIC Asia Fund, Central Finance Company PLC, CF Growth Fund Limited and CF Insurance Brokers (Pvt) Ltd.

\*\*\* Significant investor related entities include entities controlled and/or jointly controlled by the significant investors of the Bank and private provident funds of such significant investors.

In addition to the above, the bank has carried out various promotional activities with related entities during the year.

There were no transactions carried out by the subsidiaries of the Bank with related party entities other than with the Bank, for the year ended 31 December 2018 (2017-Nil).

# Notes to the Financial Statements

## 47 MATURITY ANALYSIS OF ASSETS AND LIABILITIES

| As at 31 December 2018  | Bank               |                    |                    | Group              |                    |                    |
|---|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
|   | Within             | After              | Total              | Within             | After              | Total              |
|   | 12 months          | 12 months          |                    | 12 months          | 12 months          |                    |
|   | LKR '000           | LKR '000           | LKR '000           | LKR '000           | LKR '000           | LKR '000           |
| <b>Assets</b>   |                    |                    |                    |                    |                    |                    |
| Cash and Cash Equivalents   | 6,437,519          | -                  | 6,437,519          | 6,437,573          | -                  | 6,437,573          |
| Balances with Central Bank of Sri Lanka                           | 12,348,994         | 413,128            | 12,762,122         | 12,348,994         | 413,128            | 12,762,122         |
| Reverse Repurchase Agreements                                     | 180,593            | -                  | 180,593            | 180,593            | -                  | 180,593            |
| Derivative Financial Instruments                                  | 2,403,787          | -                  | 2,403,787          | 2,403,787          | -                  | 2,403,787          |
| Financial Assets - Recognised through Profit or Loss              | 668,812            | -                  | 668,812            | 668,812            | -                  | 668,812            |
| Financial Assets at Fair Value through Other Comprehensive Income | 57,449,857         | 13,974             | 57,463,831         | 57,449,857         | 13,974             | 57,463,831         |
| Financial Assets at Amortised Cost                                | 2,241,177          | 13,700,070         | 15,941,247         | 2,241,177          | 13,700,070         | 15,941,247         |
| Financial Assets at Amortised Cost – Loans and Advances           | 137,541,063        | 83,959,593         | 221,500,656        | 137,546,099        | 83,959,593         | 221,505,692        |
| Other Assets  | 1,765,615          | 860,971            | 2,626,586          | 1,805,404          | 875,490            | 2,680,894          |
| Investments in Subsidiaries                                       | -                  | 678,710            | 678,710            | -                  | -                  | -                  |
| Property, Plant and Equipment                                     | -                  | 2,867,825          | 2,867,825          | -                  | 3,668,502          | 3,668,502          |
| Intangible Assets   | -                  | 1,301,248          | 1,301,248          | -                  | 1,302,940          | 1,302,940          |
| <b>Total Assets</b>   | <b>221,037,416</b> | <b>103,795,520</b> | <b>324,832,936</b> | <b>221,082,296</b> | <b>103,933,697</b> | <b>325,015,993</b> |
| <b>Liabilities</b>  |                    |                    |                    |                    |                    |                    |
| Due to Banks  | 18,474,545         | -                  | 18,474,545         | 18,474,545         | -                  | 18,474,545         |
| Derivative Financial Instruments                                  | 484,373            | -                  | 484,373            | 484,373            | -                  | 484,373            |
| Financial Liabilities at Amortised Cost                           |                    |                    |                    |                    |                    |                    |
| Due to Depositors   | 225,796,202        | 6,140,567          | 231,936,769        | 225,322,032        | 6,140,567          | 231,462,599        |
| Repurchase Agreements   | 7,784,017          | -                  | 7,784,017          | 7,681,669          | -                  | 7,681,669          |
| Due to Other Borrowers  | 3,290,451          | 16,958,365         | 20,248,816         | 3,290,451          | 16,958,365         | 20,248,816         |
| Debt Securities Issued  | 260,419            | 8,485,192          | 8,745,611          | 260,419            | 8,485,192          | 8,745,611          |
| Retirement benefit obligations                                    | 73,967             | 431,064            | 505,031            | 74,929             | 436,673            | 511,602            |
| Current Tax Liabilities   | 1,547,833          | -                  | 1,547,833          | 1,574,972          | -                  | 1,574,972          |
| Other Liabilities   | 6,670,966          | 1,012,090          | 7,683,056          | 6,700,836          | 1,021,902          | 7,722,738          |
| Deferred Tax Liabilities  | -                  | 960,783            | 960,783            | -                  | 1,050,358          | 1,050,358          |
| <b>Total Liabilities</b>  | <b>264,382,773</b> | <b>33,988,061</b>  | <b>298,370,834</b> | <b>263,864,226</b> | <b>34,093,057</b>  | <b>297,957,283</b> |
| Net   | (43,345,357)       | 69,807,459         | 26,462,102         | (42,781,930)       | 69,840,640         | 27,058,710         |

| As at 31 December 2017                                  | Bank               |                   |                    | Group              |                   |                    |
|---|--------------------|-------------------|--------------------|--------------------|-------------------|--------------------|
|   | Within             | After             | Total              | Within             | After             | Total              |
|   | 12 months          | 12 months         |                    | 12 months          | 12 months         |                    |
|   | LKR '000           | LKR '000          | LKR '000           | LKR '000           | LKR '000          | LKR '000           |
| <b>Assets</b>   |                    |                   |                    |                    |                   |                    |
| Cash and Cash Equivalents                               | 6,847,210          | -                 | 6,847,210          | 6,849,683          | -                 | 6,849,683          |
| Balances with Central Bank of Sri Lanka                 | 10,839,587         | 373,691           | 11,213,278         | 10,839,534         | 373,744           | 11,213,278         |
| Reverse Repurchase Agreements                           | 10,798             | -                 | 10,798             | 10,798             | -                 | 10,798             |
| Derivative Financial Instruments                        | 230,217            | -                 | 230,217            | 230,217            | -                 | 230,217            |
| Financial Assets - Recognised through Profit or Loss    | 521,389            | -                 | 521,389            | 521,389            | -                 | 521,389            |
| Financial Assets-Available for Sale                     | 38,846,109         | 5,937             | 38,852,046         | 38,846,109         | 5,937             | 38,852,046         |
| Financial Assets - Held to Maturity                     | 2,284,037          | 7,595,353         | 9,879,390          | 2,282,969          | 7,667,464         | 9,950,433          |
| Other Financial Assets                                  | 2,129,727          | 4,667,880         | 6,797,607          | 2,129,727          | 4,667,880         | 6,797,607          |
| Financial Assets at Amortised Cost – Loans and Advances | 115,802,517        | 70,734,195        | 186,536,712        | 116,011,516        | 70,734,195        | 186,745,711        |
| Other Assets  | 938,339            | 955,135           | 1,893,474          | 985,663            | 955,325           | 1,940,988          |
| Investments in Subsidiaries                             | -                  | 678,710           | 678,710            | -                  | -                 | -                  |
| Property, Plant and Equipment                           | -                  | 2,584,301         | 2,584,301          | -                  | 3,363,792         | 3,363,792          |
| Intangible Assets                                       | -                  | 1,148,646         | 1,148,646          | -                  | 1,153,552         | 1,153,552          |
| <b>Total Assets</b>                                     | <b>178,449,930</b> | <b>88,743,848</b> | <b>267,193,778</b> | <b>178,707,604</b> | <b>88,921,890</b> | <b>267,629,494</b> |
| <b>Liabilities</b>                                      |                    |                   |                    |                    |                   |                    |
| Due to Banks  | 12,314,853         | -                 | 12,314,853         | 12,314,853         | -                 | 12,314,853         |
| Derivative Financial Instruments                        | 495,517            | -                 | 495,517            | 495,517            | -                 | 495,517            |
| Financial Liabilities at Amortised Cost                 |                    |                   |                    |                    |                   |                    |
| Due to Depositors                                       | 187,810,061        | 6,486,657         | 194,296,718        | 187,782,338        | 6,486,657         | 194,268,995        |
| Repurchase Agreements                                   | 10,718,199         | -                 | 10,718,199         | 10,339,794         | -                 | 10,339,794         |
| Due to Other Borrowers                                  | 2,568,487          | 9,093,736         | 11,662,223         | 2,568,487          | 9,093,736         | 11,662,223         |
| Debt Securities Issued                                  | 3,085,902          | 4,989,449         | 8,075,351          | 3,085,902          | 4,989,449         | 8,075,351          |
| Retirement benefit obligations                          | 70,079             | 416,818           | 486,897            | 70,964             | 422,080           | 493,044            |
| Current Tax Liabilities                                 | 803,249            | -                 | 803,249            | 847,501            | -                 | 847,501            |
| Other Liabilities                                       | 5,342,394          | 453,130           | 5,795,524          | 5,375,665          | 458,581           | 5,834,246          |
| Deferred Tax Liabilities                                | -                  | 1,737,512         | 1,737,512          | -                  | 1,827,929         | 1,827,929          |
| <b>Total Liabilities</b>                                | <b>223,208,742</b> | <b>23,177,301</b> | <b>246,386,043</b> | <b>222,881,022</b> | <b>23,278,432</b> | <b>246,159,454</b> |
| Net   | (44,758,812)       | 65,566,547        | 20,807,735         | (44,173,418)       | 65,643,459        | 21,470,041         |

# Notes to the Financial Statements

## 48 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e., an exit price), regardless of whether that price is directly observable or estimated using a valuation technique. In order to show how fair values have been derived, financial instruments are classified based on a hierarchy of valuation techniques, as summarised below:

- Level 1 financial instruments - Those where the inputs used in the valuation are unadjusted quoted prices from active markets for identical assets or liabilities that the Bank has access to at the measurement date. The Bank considers markets as active only if there are sufficient trading activities with regards to the volume and liquidity of the identical assets or liabilities and when there are binding and exercisable price quotes available on the reporting date.
- Level 2 financial instruments - Those where the inputs that are used for valuation and are significant, are derived from directly or indirectly observable market data available over the entire period of the instrument's life. Such inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical instruments in inactive markets and observable inputs other than quoted prices such as interest rates and yield curves, implied volatilities, and credit spreads. In addition, adjustments may be required for the condition or location of the asset or the extent to which it relates to items that are comparable to the valued instrument. However, if such adjustments are based on unobservable inputs which are significant to the entire measurement, the Bank will classify the instruments as Level 3.
- Level 3 financial instruments - Those that include one or more unobservable input that is significant to the measurement as a whole.

### 48.1 Determination of Fair Value

The Bank periodically reviews its valuation techniques including the adopted methodologies and model calibrations. However, the base models may not fully capture all factors relevant to the valuation of the Bank's financial instruments such as credit risk. Therefore, the Bank applies various techniques to estimate the credit risk associated with its financial instruments measured at fair value, which include a portfolio-based approach that estimates the expected net exposure per counterparty over the full lifetime of the individual assets, in order to reflect the credit risk of the individual counterparties for those financial instruments.

The Bank evaluates the levelling at each reporting period on an instrument-by-instrument basis and reclassifies instruments when necessary based on the facts at the end of the reporting period.

## 48.2 Assets and Liabilities measured at fair value - Fair Value hierarchy

The following table shows an analysis of assets and liabilities recorded at fair value by level of the fair value hierarchy.

### Bank

| As At 31 December 2018   | Fair Value Measurement Using |                  |             |              |            |
|--|------------------------------|------------------|-------------|--------------|------------|
|  | Date of                      | Quoted Prices in | Significant | Significant  | Total      |
|  | Valuation                    | Active Markets   | Observable  | Unobservable |            |
|  |                              | (Level 1)        | Inputs      | Inputs       |            |
|  | LKR'000                      | (Level 2)        | (Level 3)   | LKR'000      |            |
|  |                              | LKR'000          | LKR'000     | LKR'000      | LKR'000    |
| Financial Assets Measured at Fair Value                              |                              |                  |             |              |            |
| Derivative Financial Instruments                                     |                              |                  |             |              |            |
| Forward Foreign Exchange Contracts and<br>Currency Swaps             | 31-Dec-18                    | -                | 2,403,787   | -            | 2,403,787  |
| Financial Assets - Recognised through Profit<br>or Loss              |                              |                  |             |              |            |
| Government Treasury Bonds  | 31-Dec-18                    | 463,892          | 204,920     | -            | 668,812    |
| Financial Assets at Fair Value through Other<br>Comprehensive Income |                              |                  |             |              |            |
| Debt Instruments   |                              |                  |             |              |            |
| Government Treasury Bills  | 31-Dec-18                    | 40,965,971       | -           | -            | 40,965,971 |
| Government Treasury Bonds  | 31-Dec-18                    | 14,025,916       | 2,457,970   | -            | 16,483,886 |
| Equity Instruments   |                              |                  |             |              |            |
| Unquoted Equity Shares   | 31-Dec-18                    | -                | -           | 13,974       | 13,974     |
| Total Financial Assets Measured at Fair<br>Value                     |                              |                  |             |              |            |
|  |                              | 55,455,780       | 5,066,677   | 13,974       | 60,536,431 |
| Non Financial Assets Measured at Fair Value                          |                              |                  |             |              |            |
| Freehold Land  | 30-Sep-17                    | -                | -           | 1,401,500    | 1,401,500  |
| Freehold Building  | 30-Sep-17                    | -                | -           | 168,966      | 168,966    |
| Total Non Financial Assets Measured at Fair<br>Value                 |                              |                  |             |              |            |
|  |                              | -                | -           | 1,570,466    | 1,570,466  |
| Financial Liabilities  |                              |                  |             |              |            |
| Derivative Financial Instruments                                     |                              |                  |             |              |            |
| Forward Foreign Exchange Contracts and<br>Currency Swaps             | 31-Dec-18                    | -                | 484,373     | -            | 484,373    |
| Total Financial Liabilities  |                              |                  |             |              |            |
|  |                              | -                | 484,373     |              | 484,373    |

# Notes to the Financial Statements

## 48. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTD.)

### 48.2 Assets and Liabilities measured at fair value - Fair Value hierarchy (Contd.)

Bank

| As At 31 December 2017 | Fair Value Measurement Using |                  |             |              |       |
|------------------------|------------------------------|------------------|-------------|--------------|-------|
|                        | Date of<br>Valuation         | Quoted Prices in | Significant | Significant  | Total |
|                        |                              | Active Markets   | Observable  | Unobservable |       |
|                        |                              |                  | Inputs      | Inputs       |       |
|                        |                              | (Level 1)        | (Level 2)   | (Level 3)    |       |
|                        | LKR'000                      | LKR'000          | LKR'000     | LKR'000      |       |

#### Financial Assets Measured at Fair Value

##### Derivative Financial Instruments

|  |           |   |         |   |         |
|--|-----------|---|---------|---|---------|
| Forward Foreign Exchange Contracts and<br>Currency Swaps | 31-Dec-17 | - | 230,217 | - | 230,217 |
|--|-----------|---|---------|---|---------|

##### Financial Assets - Recognised through Profit or Loss

|                           |           |         |         |   |         |
|---------------------------|-----------|---------|---------|---|---------|
| Government Treasury Bonds | 31-Dec-17 | 104,664 | 416,725 | - | 521,389 |
|---------------------------|-----------|---------|---------|---|---------|

##### Financial Assets Available for Sale

|                           |           |            |           |       |            |
|---------------------------|-----------|------------|-----------|-------|------------|
| Government Treasury Bills | 31-Dec-17 | 24,351,263 | -         | -     | 24,351,263 |
| Government Treasury Bonds | 31-Dec-17 | 12,230,879 | 2,263,967 | -     | 14,494,846 |
| Unquoted Equity Shares    | 31-Dec-17 | -          | -         | 5,937 | 5,937      |

|  |  |                   |                  |              |                   |
|--|--|-------------------|------------------|--------------|-------------------|
| <b>Total Financial Assets Measured at Fair<br/>Value</b> |  | <b>36,686,806</b> | <b>2,910,909</b> | <b>5,937</b> | <b>39,603,652</b> |
|--|--|-------------------|------------------|--------------|-------------------|

##### Non Financial Assets Measured at Fair Value

|  |           |          |          |                  |                  |
|--|-----------|----------|----------|------------------|------------------|
| Freehold Land  | 30-Sep-17 | -        | -        | 1,401,500        | 1,401,500        |
| Freehold Building  | 30-Sep-17 | -        | -        | 173,500          | 173,500          |
| <b>Total Non Financial Assets Measured at Fair<br/>Value</b> |           | <b>-</b> | <b>-</b> | <b>1,575,000</b> | <b>1,575,000</b> |

#### Financial Liabilities

##### Derivative Financial Instruments

|  |           |   |         |   |         |
|--|-----------|---|---------|---|---------|
| Forward Foreign Exchange Contracts and<br>Currency Swaps | 31-Dec-17 | - | 495,517 | - | 495,517 |
|--|-----------|---|---------|---|---------|

|                                    |  |          |                |          |                |
|------------------------------------|--|----------|----------------|----------|----------------|
| <b>Total Financial Liabilities</b> |  | <b>-</b> | <b>495,517</b> | <b>-</b> | <b>495,517</b> |
|------------------------------------|--|----------|----------------|----------|----------------|

The following table shows a reconciliation of the opening and closing amounts of Level 3 financial assets which are recorded at fair value.

| As at 31 December                                | Unquoted Equity Shares |          |
|--|------------------------|----------|
|  | Bank / Group           |          |
|  | 2018                   | 2017     |
|  | LKR '000               | LKR '000 |
| Balance as at 01 January                         | 5,937                  | 5,865    |
| Investments made during the year                 | 6,422                  | -        |
| Change in value due to exchange rate fluctuation | 1,615                  | 72       |
| Balance as at 31 December                        | 13,974                 | 5,937    |

Equity instruments at FVOCI ( 2017 - Financial Assets Available for sale ) , classified as "Level 3" in the fair value hierarchy comprises of Unquoted Equity Shares. Further details are given in Note 12.1.

Reconciliation of the non - financial assets " Freehold Land and Buildings" classified as level 3 in the fair value hierarchy;

| As at 31 December  | Non Financial Assets Measured at Level 3 |                    |               |                    |
|--|--|--------------------|---------------|--------------------|
|  | Freehold Land                            | Freehold Buildings | Freehold Land | Freehold Buildings |
|  | 2018                                     | 2018               | 2017          | 2017               |
|  | LKR '000                                 | LKR '000           | LKR '000      | LKR '000           |
| Balance as at 01 January                                 | 1,401,500                                | 173,500            | 559,440       | 78,726             |
| Additions during the year                                | -  | 677                | -             | 2,528              |
| Depreciation charge for the year                         | -  | (5,211)            | -             | (2,682)            |
| Fair value gain due to revaluation of land and buildings | -  | -                  | 842,060       | 94,928             |
| Balance as at 31 December                                | 1,401,500                                | 168,966            | 1,401,500     | 173,500            |

| As at 31 December  | Non Financial Assets Measured at Level 3 |                    |               |                    |
|--|--|--------------------|---------------|--------------------|
|  | Freehold Land                            | Freehold Buildings | Freehold Land | Freehold Buildings |
|  | 2018                                     | 2018               | 2017          | 2017               |
|  | LKR '000                                 | LKR '000           | LKR '000      | LKR '000           |
| Balance as at 01 January                                 | 1,401,500                                | 821,698            | 559,440       | 406,332            |
| Additions during the year                                | -  | 17,288             | -             | 3,799              |
| Depreciation charge for the year                         | -  | (28,798)           | -             | (14,000)           |
| Fair value gain due to revaluation of land and buildings | -  | -                  | 842,060       | 425,567            |
| Balance as at 31 December                                | 1,401,500                                | 810,188            | 1,401,500     | 821,698            |

Group adopted fair value model to freehold land and buildings in 2017. ( Note 20)



# Notes to the Financial Statements

## 48. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTD.)

### 48.2 Assets and Liabilities measured at fair value - Fair Value hierarchy (Contd.)

Group

| As At 31 December 2018   | Fair Value Measurement Using |                  |             |              |            | Total<br><br>LKR'000 |
|--|------------------------------|------------------|-------------|--------------|------------|----------------------|
|  | Date of<br>Valuation         | Quoted Prices in | Significant | Significant  |            |                      |
|  |                              | Active Markets   | Observable  | Unobservable |            |                      |
|  |                              | (Level 1)        | Inputs      | Inputs       |            |                      |
|  |                              | (Level 2)        | (Level 3)   |              |            |                      |
|  |                              | LKR'000          | LKR'000     | LKR'000      | LKR'000    |                      |
| Financial Assets Measured at Fair Value                              |                              |                  |             |              |            |                      |
| Derivative Financial Instruments                                     |                              |                  |             |              |            |                      |
| Forward Foreign Exchange Contracts and<br>Currency Swaps             | 31-Dec-18                    | -                | 2,403,787   | -            | 2,403,787  |                      |
| Financial Assets - Recognised through Profit<br>or Loss              |                              |                  |             |              |            |                      |
| Government Treasury Bonds  | 31-Dec-18                    | 463,892          | 204,920     | -            | 668,812    |                      |
| Financial Assets at Fair Value through Other<br>Comprehensive Income |                              |                  |             |              |            |                      |
| Debt Instruments   |                              |                  |             |              |            |                      |
| Government Treasury Bills  | 31-Dec-18                    | 40,965,971       | -           | -            | 40,965,971 |                      |
| Government Treasury Bonds  | 31-Dec-18                    | 14,025,916       | 2,457,970   | -            | 16,483,886 |                      |
| Equity Instruments   |                              |                  |             |              |            |                      |
| Unquoted Equity Shares   | 31-Dec-18                    | -                | -           | 13,974       | 13,974     |                      |
| Total Financial Assets Measured at Fair<br>Value                     |                              | 55,455,780       | 5,066,677   | 13,974       | 60,536,430 |                      |
| Non Financial Assets Measured at Fair Value                          |                              |                  |             |              |            |                      |
| Freehold Land  | 30-Sep-17                    | -                | -           | 1,401,500    | 1,401,500  |                      |
| Freehold Building  | 30-Sep-17                    | -                | -           | 810,188      | 810,188    |                      |
| Total Non Financial Assets Measured at Fair<br>Value                 |                              | -                | -           | 2,211,688    | 2,211,688  |                      |
| Financial Liabilities  |                              |                  |             |              |            |                      |
| Derivative Financial Instruments                                     |                              |                  |             |              |            |                      |
| Forward Foreign Exchange Contracts and<br>Currency Swaps             | 31-Dec-18                    | -                | 484,373     | -            | 484,373    |                      |
| Total Financial Liabilities  |                              | -                | 484,373     |              | 484,373    |                      |

## Group

| As At 31 December 2017                                   | Fair Value Measurement Using |                  |             |              |            | Total<br><br>LKR'000 |
|--|------------------------------|------------------|-------------|--------------|------------|----------------------|
|  | Date of<br>Valuation         | Quoted Prices in | Significant | Significant  |            |                      |
|  |                              | Active Markets   | Observable  | Unobservable |            |                      |
|  |                              | (Level 1)        | Inputs      | Inputs       |            |                      |
|  |                              | (Level 2)        | (Level 3)   |              |            |                      |
|  |                              | LKR'000          | LKR'000     | LKR'000      | LKR'000    |                      |
| Financial Assets Measured at Fair Value                  |                              |                  |             |              |            |                      |
| Derivative Financial Instruments                         |                              |                  |             |              |            |                      |
| Forward Foreign Exchange Contracts and<br>Currency Swaps | 31-Dec-17                    | -                | 230,217     | -            | 230,217    |                      |
| Financial Assets - Recognised through Profit<br>or Loss  |                              |                  |             |              |            |                      |
| Government Treasury Bonds                                | 31-Dec-17                    | 104,664          | 416,725     | -            | 521,389    |                      |
| Financial Assets Available for Sale                      |                              |                  |             |              |            |                      |
| Government Treasury Bills                                | 31-Dec-17                    | 24,351,263       | -           | -            | 24,351,263 |                      |
| Government Treasury Bonds                                | 31-Dec-17                    | 12,230,879       | 2,263,967   | -            | 14,494,846 |                      |
| Unquoted Equity Shares                                   | 31-Dec-17                    | -                | -           | 5,937        | 5,937      |                      |
| Total Financial Assets Measured at Fair<br>Value         |                              | 36,686,806       | 2,910,909   | 5,937        | 39,603,652 |                      |
| Non Financial Assets Measured at Fair Value              |                              |                  |             |              |            |                      |
| Freehold Land  | 30-Sep-17                    | -                | -           | 1,401,500    | 1,401,500  |                      |
| Freehold Building  | 30-Sep-17                    | -                | -           | 821,698      | 821,698    |                      |
| Total Non Financial Assets Measured at Fair<br>Value     |                              | -                | -           | 2,223,198    | 2,223,198  |                      |
| Financial Liabilities                                    |                              |                  |             |              |            |                      |
| Derivative Financial Instruments                         |                              |                  |             |              |            |                      |
| Forward Foreign Exchange Contracts and<br>Currency Swaps | 31-Dec-17                    | -                | 495,517     | -            | 495,517    |                      |
| Total Financial Liabilities                              |                              | -                | 495,517     | -            | 495,517    |                      |

Notes to the Financial Statements

48. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTD.)  
48.2 Assets and Liabilities measured at fair value - Fair Value hierarchy (Contd.)

Unobservable Inputs used in Measuring Fair Value

The table below sets out information about significant unobservable inputs used in measuring fair value of the assets categorised under Level 3 of the fair value hierarchy.

| Location                          | Type of Asset | Extent             | Bank                        |                             | Group                       |                             | Valuation Technique              | Significant Unobservable Inputs | Weighted Average Range of estimates for unobservable inputs (Level 3) | Fair Value measurement sensitivity to unobservable inputs |
|-----------------------------------|---------------|--------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|----------------------------------|---------------------------------|---|---|
|                                   |               |                    | Fair Value as at 31.12.2018 | Fair Value as at 31.12.2017 | Fair Value as at 31.12.2018 | Fair Value as at 31.12.2017 |                                  |                                 |   |   |
| No 76, York Street, Fort, Colombo | Land          | 10.82 P            | LKR '000                    | LKR '000                    | LKR '000                    | LKR '000                    | Direct Capital Comparison Method | Price per perch                 | Rs.17.5 Mn per perch and Rs. 11 Mn per perch (arcade)                 | positively correlated                                     |
|                                   |               |                    | 177,500                     | 177,500                     | 177,500                     | 177,500                     |                                  |                                 |   |   |
| No 242, Union Place, Colombo 2    | Buildings     | 8,660 Square feet  | 28,500                      | 28,500                      | 28,500                      | 28,500                      | Depreciated Replacement Cost     | Rate per square feet            | Rs. 3000 - Rs. 5000 per square feet                                   | positively correlated                                     |
|                                   |               |                    | 1,224,000                   | 1,224,000                   | 1,224,000                   | 1,224,000                   |                                  |                                 |   |   |
| 46/58, Nawam Mawatha, Colombo 2   | Buildings     | 772 P              | 145,000                     | 145,000                     | 145,000                     | 145,000                     | Direct Capital Comparison Method | Price per perch                 | Rs.16 Mn per perch  | positively correlated                                     |
|                                   |               |                    | 1,224,000                   | 1,224,000                   | 1,224,000                   | 1,224,000                   |                                  |                                 |   |   |
| 46/58, Nawam Mawatha, Colombo 2   | Buildings     | 27,772 square feet | 145,000                     | 145,000                     | 145,000                     | 145,000                     | Depreciated Replacement Cost     | Rate per square feet            | Rs. 1,000 per square feet   | positively correlated                                     |
|                                   |               |                    | 1,224,000                   | 1,224,000                   | 1,224,000                   | 1,224,000                   |                                  |                                 |   |   |
| 46/58, Nawam Mawatha, Colombo 2   | Buildings     | 61,300 square feet | -                           | -                           | 648,200                     | 648,200                     | Investment method                | Rate per square feet            | Rs. 115/- - Rs. 250/- monthly rental per square feet                  | positively correlated                                     |
|                                   |               |                    | 1,575,000                   | 1,575,000                   | 2,223,200                   | 2,223,200                   |                                  |                                 |   |   |

\* Significant increases/(decreases) in any of these inputs in isolation would result in a higher/(lower) fair value.

Set out below is a comparison, by class, of the carrying amounts and fair values of the Bank's /Group's financial instruments that are not measured at fair value in the Financial Statements. This table does not include the fair values of non-financial assets and non-financial liabilities.

| Bank                                   | As at 31 December 2018       |   |   |   |                    |  | As at 31 December 2017       |   |   |   |          |                    |
|--|------------------------------|---|---|---|--------------------|--|------------------------------|---|---|---|----------|--------------------|
|  | Fair Value Measurement Using |   |   |   |                    |  | Fair Value Measurement Using |   |   |   |          |                    |
|  | Carrying amount              | Quoted Prices in Active Markets (Level 1) | Significant Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total              |  | Carrying amount              | Quoted Prices in Active Markets (Level 1) | Significant Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total    |                    |
|  | LKR '000                     | LKR '000                                  | LKR '000                                | LKR '000                                  | LKR '000           |  | LKR '000                     | LKR '000                                  | LKR '000                                | LKR '000                                  | LKR '000 | LKR '000           |
| <b>Financial Assets</b>                |                              |   |   |   |                    |  |                              |   |   |   |          |                    |
| Financial Assets - Held to Maturity    | -                            | -   | -                                       | -   | -                  |  | 9,879,390                    | 3,710,799                                 | 6,444,980                               | -   | -        | 10,155,779         |
| Other Financial Assets - Debentures    | -                            | -   | -                                       | -   | -                  |  | 6,797,607                    | -   | 6,739,085                               | -   | -        | 6,739,085          |
| Financial Assets at Amortised Cost     | 15,941,247                   | 3,548,416                                 | 12,194,354                              | -   | 15,742,770         |  | -                            | -   | -                                       | -   | -        | -                  |
|  | 15,941,247                   | 3,548,416                                 | 12,194,354                              | -   | 15,742,770         |  | 16,676,997                   | 3,710,799                                 | 13,184,065                              | -   | -        | 16,894,864         |
| <b>Loans and Advances to Customers</b> |                              |   |   |   |                    |  |                              |   |   |   |          |                    |
| Corporate Loans                        | 64,416,421                   | -   | 64,576,583                              | -   | 64,576,583         |  | 45,767,388                   | -   | 45,497,375                              | -   | -        | 45,497,375         |
| Retail, SME and Consumer Lending       | 111,109,770                  | -   | 110,333,547                             | -   | 110,333,547        |  | 100,575,835                  | -   | 98,206,867                              | -   | -        | 98,206,867         |
| Housing Loans                          | 4,223,111                    | -   | 4,192,636                               | -   | 4,192,636          |  | 3,202,405                    | -   | 2,828,984                               | -   | -        | 2,828,984          |
| Leases                                 | 44,864,827                   | -   | 45,068,620                              | -   | 45,068,620         |  | 37,253,690                   | -   | 36,365,968                              | -   | -        | 36,365,968         |
| Staff Loans                            | 3,391,441                    | -   | 2,304,634                               | -   | 2,304,634          |  | 2,985,412                    | -   | 2,332,691                               | -   | -        | 2,332,691          |
|  | 228,005,569                  | -   | 226,476,020                             | -   | 226,476,020        |  | 189,784,730                  | -   | 185,231,885                             | -   | -        | 185,231,885        |
| <b>Total Financial Assets</b>          | <b>243,946,815</b>           | <b>3,548,416</b>                          | <b>238,670,374</b>                      | <b>-</b>                                  | <b>242,218,790</b> |  | <b>206,461,727</b>           | <b>3,710,799</b>                          | <b>198,415,950</b>                      | <b>-</b>                                  | <b>-</b> | <b>202,126,749</b> |
| <b>Financial Liabilities</b>           |                              |   |   |   |                    |  |                              |   |   |   |          |                    |
| Due to Customers                       | 231,936,769                  | -   | 231,206,477                             | -   | 231,206,477        |  | 194,296,718                  | -   | 194,470,869                             | -   | -        | 194,470,869        |
| Debt Issued and Other Borrowed Funds   | 8,745,611                    | -   | 9,024,163                               | -   | 9,024,163          |  | 19,737,574                   | -   | 23,130,177                              | -   | -        | 23,130,177         |
| <b>Total Financial Liabilities</b>     | <b>240,682,379</b>           | <b>-</b>                                  | <b>240,230,640</b>                      | <b>-</b>                                  | <b>240,230,640</b> |  | <b>214,034,292</b>           | <b>-</b>                                  | <b>217,601,046</b>                      | <b>-</b>                                  | <b>-</b> | <b>217,601,046</b> |

# Notes to the Financial Statements

## 48 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTD.)

### 48.2 Financial Assets and Financial Liabilities not carried at fair value (Contd.)

Set out below is a comparison, by class, of the carrying amounts and fair values of the Bank's /Group's financial instruments that are not measured at fair value in the Financial Statements. This table does not include the fair values of non-financial assets and non-financial liabilities.

| Group                                  | As at 31 December 2018       |   |   |   |                    |  | As at 31 December 2017       |   |   |   |          |                    |
|--|------------------------------|---|---|---|--------------------|--|------------------------------|---|---|---|----------|--------------------|
|  | Fair Value Measurement Using |   |   |   |                    |  | Fair Value Measurement Using |   |   |   |          |                    |
|  | Carrying amount              | Quoted Prices in Active Markets (Level 1) | Significant Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total              |  | Carrying amount              | Quoted Prices in Active Markets (Level 1) | Significant Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total    |                    |
|  | LKR '000                     | LKR '000                                  | LKR '000                                | LKR '000                                  | LKR '000           |  | LKR '000                     | LKR '000                                  | LKR '000                                | LKR '000                                  | LKR '000 | LKR '000           |
| <b>Financial Assets</b>                |                              |   |   |   |                    |  |                              |   |   |   |          |                    |
| Financial Assets - Held to Maturity    | -                            | -   | -                                       | -   | -                  |  | 9,950,433                    | 3,710,799                                 | 6,518,193                               | -   | -        | 10,228,992         |
| Other Financial Assets - Debentures    | -                            | -   | -                                       | -   | -                  |  | 6,797,607                    | -   | 6,739,085                               | -   | -        | 6,739,085          |
| Financial Assets at Amortised Cost     | 15,941,247                   | 3,548,416                                 | 12,194,354                              | -   | 15,742,770         |  | -                            | -   | -                                       | -   | -        | -                  |
|  | 15,941,247                   | 3,548,416                                 | 12,194,354                              | -   | 15,742,770         |  | 16,748,040                   | 3,710,799                                 | 13,257,278                              | -   | -        | 16,968,077         |
| <b>Loans and Advances to Customers</b> |                              |   |   |   |                    |  |                              |   |   |   |          |                    |
| Corporate Loans                        | 64,416,421                   | -   | 64,576,583                              | -   | 64,576,583         |  | 45,808,101                   | -   | 45,538,192                              | -   | -        | 45,538,192         |
| Retail, SME and Consumer Lending       | 111,114,675                  | -   | 110,338,452                             | -   | 110,338,452        |  | 100,743,992                  | -   | 98,374,947                              | -   | -        | 98,374,947         |
| Housing Loans                          | 4,223,111                    | -   | 4,192,636                               | -   | 4,192,636          |  | 3,202,405                    | -   | 2,828,984                               | -   | -        | 2,828,984          |
| Leases                                 | 44,864,827                   | -   | 45,068,620                              | -   | 45,068,620         |  | 37,253,690                   | -   | 36,365,968                              | -   | -        | 36,365,968         |
| Staff Loans                            | 3,391,441                    | -   | 2,304,634                               | -   | 2,304,634          |  | 2,985,412                    | -   | 2,332,691                               | -   | -        | 2,332,691          |
|  | 228,010,474                  | -   | 226,480,924                             | -   | 226,480,924        |  | 189,993,600                  | -   | 185,440,782                             | -   | -        | 185,440,782        |
| <b>Total Financial Assets</b>          | <b>243,951,721</b>           | <b>3,548,416</b>                          | <b>238,675,278</b>                      | <b>-</b>                                  | <b>242,223,694</b> |  | <b>206,741,640</b>           | <b>3,710,799</b>                          | <b>198,695,060</b>                      | <b>-</b>                                  | <b>-</b> | <b>202,408,859</b> |
| <b>Financial Liabilities</b>           |                              |   |   |   |                    |  |                              |   |   |   |          |                    |
| Due to Customers                       | 231,462,599                  | -   | 230,731,945                             | -   | 230,731,945        |  | 194,296,995                  | -   | 194,415,422                             | -   | -        | 194,415,422        |
| Debt Issued and Other Borrowed Funds   | 8,745,611                    | -   | 9,024,163                               | -   | 9,024,163          |  | 19,737,574                   | -   | 20,130,177                              | -   | -        | 20,130,177         |
| <b>Total Financial Liabilities</b>     | <b>240,208,210</b>           | <b>-</b>                                  | <b>239,756,108</b>                      | <b>-</b>                                  | <b>239,756,108</b> |  | <b>214,034,569</b>           | <b>-</b>                                  | <b>214,545,599</b>                      | <b>-</b>                                  | <b>-</b> | <b>214,545,599</b> |

### 48.3 Assets and Liabilities measured at fair value - Fair Value hierarchy

#### Fair Value of Financial Assets and Liabilities not carried at Fair Value

Below are the methodologies and assumptions used to determine fair values for the financial instruments which are not recorded and measured at fair value in the Bank's financial statements. These fair values were calculated for disclosure purposes only.

#### Assets for which Fair Value Approximates Carrying Value

For financial assets and financial liabilities that have a short term maturity (original maturities less than a year), it is assumed that the carrying amounts approximate their fair values.

The following is a list of financial instruments whose carrying amount is a reasonable approximation of fair value as they are short-term in nature to reprice to current market rates frequently;

#### Financial Assets

Cash and Cash Equivalents

Balances with Central Bank of Sri Lanka

Reverse Repurchase Agreements

Other Financial Assets-Sri Lanka Development Bonds

#### Financial Liabilities

Due to banks

Repurchase agreements

This assumption is also applied to demand deposits, call deposits and savings deposits which does not have a specific maturity. It is also assumed that the amortized cost of floating rate financial instruments approximate the fair value as the amortized cost represent most recent fair value. Long term deposits accepted from customers for which periodical interest is paid and loans and advances granted to customers with variable rate are also considered to be carried at fair value in the books.

#### Fixed Rate Financial Instruments

Carrying amounts are considered as fair values for short term credit facilities. There is a significant difference between carrying value and fair value of treasury bonds portfolio at amortised cost (before 01 January 2018 – HTM) where the original tenors exceeds one year. In fair valuing such securities, rates published by the CBSL for similar trading securities were used. Loans and Advances with fixed interest rates were fair valued using average market rates at which fresh loans were granted during the fourth quarter of the reporting year. Fixed deposits were discounted using current market rate offered to customers as at the reporting date. Interest rates based on Treasury Bond rates with similar tenors with an adjustment for premium have been used to arrive at the fair value of Debentures Issued and Invested.

For financial instruments not traded in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include the discounted cash flow method, comparison with similar instruments for which market observable prices exist and other relevant valuation models.

# Notes to the Financial Statements

## 49. FINANCIAL RISK MANAGEMENT

### 49.1 Introduction

Risks are inherent in the Bank's activities, but is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability. The Bank is primarily exposed to credit risk, liquidity risk, market risk and operational risks. In addition, Cyber security threats have emerged as a significant risk to the industry in recent times.

The objective of the Risk Management Framework at the Bank is to establish a process to effectively identify, measure, manage, control and monitor risks faced by the Bank. The goal is to manage these risks to enhance the risk-return profile of the Bank.

The Board of Directors is responsible for establishing the overall Risk Management Framework within the Bank. This consists of approval of a risk governance structure and approval of detailed risk management policies and procedures with risk appetite and tolerance limits.

The Board delegates specific oversight of all risk management activities in the Bank to the Board Integrated Risk Management Committee (BIRMC). It reviews risk goals, department risk grids and material risk issues highlighted by different executive risk committees. It also monitors compliance with Bank policies and regulations.

The Board has appointed the Executive Risk Management Committee (ERMC) which has the overall responsibility for overseeing the establishment and implementation of frameworks, policies and limits for various risk exposures. The ERMC is assisted by the Assets and Liability Management Committee (ALCO) which specifically focus on market risk management and liquidity risk management whilst Head Office Credit Committee focuses on the credit risk management.

The Integrated Risk Management Department (IRMD), headed by the Chief Risk Officer (CRO), is responsible for developing and implementing the Bank's Risk Management Framework. It acts as the second line of defense in managing risks. Responsibilities of the IRMD include the following:

#### Monitor

- Formulation of Risk policies & procedures
- Compliance with Risk policies & procedures
- Bank's overall risk profile & changes in overall risk positions
- Risks across business units and escalate risk and control issues to management

#### Develop and Report

- Risk management standards and measurement tools
- Aggregate risk profile of the Bank in relation to capital

#### Support

- Banks' risk culture through development of a common risk language and Bank wide training
- Interpretation of risk related regulations / leading practices to business units

#### Risk Measurement and Reporting Systems

The Bank uses appropriate risk measurement techniques, models and industry best practices to evaluate its various risk exposures. Such risks identified are managed through establishment of limits. These limits reflect the business strategy and the Bank's stance in the market environment as well as the level of risk that the Bank is willing to accept.

The Bank also carries out a detail stress testing exercise, which is a key component of the internal capital adequacy assessment process (ICAAP) as well as the risk management framework. This exercise measures the extent of risks the Bank is exposed to when variables associated with its risks are simulated considering plausible changes in the external/internal environment.

The risk so measured is presented to relevant board committees & heads of each business division at regular intervals.



### Risk Mitigation

As part of its overall risk management, the Bank uses derivatives to manage exposures resulting from changes in foreign currencies. The Bank also accepts various types of collateral as a credit risk mitigant whilst insurance is used to transfer operational types of risks.

### Excessive Risk Concentration

In order to avoid excessive concentrations of risk, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

## 49.2 Credit Risk

Credit risk is the risk that the Bank will incur a loss resulting from its customers or counterparties failing to or delaying meeting their contractual obligations. This arises from loans and receivables and investments in debt instruments forming direct funding exposures (on Balance Sheet exposure) or indirect liabilities such as Letters of Credit and guarantees (off Balance Sheet exposure).

The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for industry concentrations and by monitoring exposures in relation to such limits and by taking appropriate collateral.

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. A scientifically developed internal risk rating mechanism has been implemented via a work-flow based software covering various types of customer segments of the Bank excluding consumer products. Such 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. A score card-based model is used to evaluate credit risk of consumer products as these were not evaluated through the established internal risk rating system.

### Impairment Assessment

The references below show where the Bank's impairment assessment and measurement approach is set out in this report. It should be read in conjunction with the Summary of significant accounting policies.

### 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 due on its contractual payments or when classified as a Non Performing Loan (NPL) as per directions issued by the Central Bank of Sri Lanka (CBSL). 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.

### Individually Assessed Allowances

The Bank determines the allowances appropriate for each individually significant loan or advance on an individual basis above a predetermined threshold limit. 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 if bankruptcy happens, the availability of other financial support, the realizable value and timing of collateral and expected cash flows. Impairment allowances are evaluated at each reporting date, unless unforeseen circumstances require more careful attention. The Bank has currently set Individually Significant Threshold at Rupees Twenty-Five Million and every customer having an aggregate exposure above that limit is individually assessed for objective evidence of incurred loss (OEIL). The bank applies a risk-based approach or its corporate banking portfolio where exposures between Rupees Twenty-Five Million and Rupees Hundred Million are assessed against limited number of OEIL and exposures above Rupees Hundred Million are assessed against the total list of OEILs. If the Bank finds such customers are having OEIL, those customers are individually impaired taking in to account the estimated value of future cash flows.

### Collectively Assessed Allowances

Allowances are assessed collectively for losses on loans and advances that are not individually significant and for individually significant loans and advances that have been assessed individually and found to be not requiring an impairment provision at individual customer level.

The collective assessment is made for groups of assets with similar risk characteristics, in order to determine whether allowance should be made for expected credit losses (ECL). The collective assessment takes account of data from the loan portfolios such as utilization of sanctioned limits, levels of arrears, historical losses on the portfolio and expected receipts and recoveries once defaulted. The Bank uses SLFRS 9 based ECL model to assess impairment as detailed in note 16.4

## Notes to the Financial Statements

### 49. FINANCIAL RISK MANAGEMENT (CONTD.)

#### Probability of Default (PD) Estimation Process

The ECL model is based on historical delinquency levels and forward looking macro-economic factors to estimate PDs of its portfolios. These macro-economic factors include, depending on the characteristics of the individual or collective assessment: unemployment rates, Inflation, movements in Gross Domestic Product (GDP), macro environment stability in financial industry, revisions in the Interest rates, changes in regulatory environment and other available consumer data. The Bank uses aforementioned factors as appropriate to adjust the impairment allowances.

The Probability of Default only during next twelve months is estimated for a Stage 1 asset where credit risk has remained at same level from origination to the reporting date. For Stage 2 assets where credit risk has significantly increased compared to the level which was at the origination, Probability of Default during remaining total life time is estimated. Stage 3 assets are where the default event has occurred.

#### Exposure at Default (EAD)

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.

The Bank uses Credit Conversion Factors (CCF) which explains the historical utilization of defaulted facilities at the time of default to calculate EAD of revolving facilities in which customers have the ability to increase their exposure. For non-revolving facilities, already utilized amount plus any accrued interest over same is considered as the EAD.

In order to assess impairment provision at appropriate granular level, the Bank has stratified certain portfolios further reflecting grouping of similar risk customer profiles. Such stratification of the portfolios has helped the Bank to make reasonable assessment of required impairment provisions as it focuses on avoiding generalization of possible potential loss indicative parameters.

#### Loss given default (LGD)

In Loans and Receivable portfolios, The Bank assesses its LGDs using historical default data base. The Bank recovers the full amount or a portion of the defaulted amount using multiple options including legal means and realization of collateral. The total net cash flows from the date of default are discounted in order to assess the net loss incurred from the Defaulted amount. The LGD of a certain portfolio represent the actual loss incurred from its defaulted exposures.

#### Significant Increase in Credit Risk

The Bank continuously monitors all assets subject to ECL. In order to determine whether an instrument or a portfolio of instruments is subject to 12m ECL or Life Time ECL, the Bank assesses whether there has been a significant increase in credit risk since initial recognition. The Bank considers an exposure to have significantly increased in credit risk when the subject borrower or exposure becomes 30 days past due on its contractual payments. When estimating ECL on a collective basis for a group of similar financial assets, the Bank applies the same principal of assessing whether there has been a significant increase in credit risk since the origination.

#### Credit Quality by Class of Financial Assets

The Bank manages the credit quality of Corporate, Retail and SME customers through a credit rating mechanism. Customers in Consumer lending portfolio have not been rated.

Qualities of Financial Assets are categorized in to five categories as described below.

| Credit Quality Category                             | Definition       | Description   |
|---|------------------|---|
| High Grade  | Very High Safety | The exposure to the government, Banks and Reverse Repurchase transactions backed by Government Securities are identified as 'High Grade'. The external rating of the Banks has not been considered in this regard as these exposures are highly liquid and are of self liquidating nature. Chances of default are negligible and highly unlikely. The obligor/counterparty is likely to honour its commitments even under adverse business/market conditions. |
| Investment Grade (A+ & B-)                          | High Safety      | The ability to honour the terms of trade is high or fully secured by cash. The obligor/counterparty is likely to honour its commitments even under adverse business conditions. There would be insignificant likelihood of default associated with adverse economic events of significant scale.  |
| Intermediary Grade (C+ and C)                       | Moderate Safety  | The ability to honour the terms of trade is strong, but not as strong as in Investment Grade. The obligor/counterparty may take longer than anticipated/planned to honour its commitments under adverse business conditions. There is a moderate likelihood of default.   |
| Speculative Grade (C- and D)                        | Low Safety       | The ability to honor the terms of trade is low. Any adverse changes in the business/economic conditions may impair the obligor's/counterparty's ability to honour its commitments.  |
| Customers whose credit quality is not yet finalized | Safe             | The ability to honour the terms of trade is assumed acceptable but yet to be confirmed by way of a finalized rating.  |

#### Credit Risk exposure for each internal credit risk rating

| Bank's internal credit rating                   | Historical default rates | Amortized Cost   |                  |
|---|--------------------------|------------------|------------------|
|   | %                        | 2018<br>LKR '000 | 2017<br>LKR '000 |
| <b>Investment Grade</b>                         |                          |                  |                  |
| A   | Less than 1%             | 33,529,300       | 23,176,941       |
| B   | Less than 1.5%           | 57,703,241       | 49,648,951       |
| <b>Intermediary Grade</b>                       |                          |                  |                  |
| C + and C                                       | Less than 2.5%           | 8,653,499        | 5,552,830        |
| <b>Speculative Grade</b>                        |                          |                  |                  |
| C-  | Less than 5.5%           | 3,691,805        | 1,842,125        |
| D   | Minimum of 13%           | 1,379,313        | 22,380           |
| <b>Past Due - Rated Customers</b>               |                          |                  |                  |
|   | Less than 30 Days        | 13,437,122       | 14,359,115       |
|   | 30 - 90 Days             | 9,030,935        | 4,834,989        |
|   | More than 90 Days        | 2,668,370        | 832,107          |
| <b>Past Due - Fully secured by cash</b>         |                          | 2,645,846        | 2,147,903        |
| <b>Individually Impaired - Rated Customers</b>  |                          | 13,975,085       | 4,629,555        |
| <b>Sum of Amortized Cost of Rated Customers</b> |                          | 146,714,517      | 107,046,898      |

It is the Bank policy to maintain accurate and consistent risk ratings across the credit portfolio. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of Obligor Risk. All internal risk ratings are tailored to measure specific default characteristics and risks inherent in various business segments. Shown above is internal credit rating classification of the Corporate, Retail & SME portfolios of the Bank. The attributable risk ratings are assessed and updated regularly.

The exposures of which credit quality is not yet aligned to a bank wide single point indicator rating scale mainly consists of security backed lending and customers evaluated using risk scoring system. Leasing and cash secured lending are the significant security backed portfolios while consumer lending customers are assessed through a credit score system. The bank is in the process of aligning such portfolios under the coverage of the bank wide single point indicator rating scale.

# Notes to the Financial Statements

| Bank - 31 December 2018  | Neither past due nor individually impaired |                   |                     |                    | Customers whose credit rating is not yet finalized | Past due but not impaired | Individually impaired | Total              |
|--|--|-------------------|---------------------|--------------------|--|---------------------------|-----------------------|--------------------|
|  | High Grade                                 | Investment Grades | Intermediary Grades | Speculative Grades |  |                           |                       |                    |
|  | LKR'000                                    | LKR'000           | LKR'000             | LKR'000            | LKR'000  | LKR'000                   | LKR'000               | LKR'000            |
| Cash and Cash Equivalents  | 6,437,519                                  | -                 | -                   | -                  | -  | -                         | -                     | 6,437,519          |
| Balances with Central Bank of Sri Lanka                                  | 12,762,122                                 | -                 | -                   | -                  | -  | -                         | -                     | 12,762,122         |
| Reverse Repurchase Agreements  | 172,043                                    | -                 | -                   | -                  | 8,550  | -                         | -                     | 180,593            |
| <b>Derivative Financial Instruments</b>                                  |  |                   |                     |                    |  |                           |                       |                    |
| Forward Foreign Exchange Contracts and Currency Swaps                    | 2,391,591                                  | 12,196            | -                   | -                  | -  | -                         | -                     | 2,403,787          |
| <b>Financial Assets - Recognised through Profit or Loss</b>              |  |                   |                     |                    |  |                           |                       |                    |
| Government Treasury Bills and Bonds                                      | 668,812                                    | -                 | -                   | -                  | -  | -                         | -                     | 668,812            |
| <b>Financial Assets-Available for Sale</b>                               |  |                   |                     |                    |  |                           |                       |                    |
| Government Treasury Bills and Bonds                                      | -  | -                 | -                   | -                  | -  | -                         | -                     | -                  |
| Unquoted Equity Shares   | -  | -                 | -                   | -                  | -  | -                         | -                     | -                  |
| <b>Financial Assets at Fair Value through Other Comprehensive Income</b> |  |                   |                     |                    |  |                           |                       |                    |
| Government Treasury Bills and Bonds                                      | 57,449,857                                 | -                 | -                   | -                  | -  | -                         | -                     | 57,449,857         |
| Unquoted Equity Shares   | -  | -                 | -                   | -                  | 13,974   | -                         | -                     | 13,974             |
| <b>Financial Assets - Held to Maturity</b>                               |  |                   |                     |                    |  |                           |                       |                    |
| Government Treasury Bills and Bonds                                      | -  | -                 | -                   | -                  | -  | -                         | -                     | -                  |
| <b>Other Financial Assets</b>  |  |                   |                     |                    |  |                           |                       |                    |
| Sri Lanka Development Bonds  | -  | -                 | -                   | -                  | -  | -                         | -                     | -                  |
| Quoted Debentures  | -  | -                 | -                   | -                  | -  | -                         | -                     | -                  |
| <b>Financial Assets at Amortised Cost</b>                                |  |                   |                     |                    |  |                           |                       |                    |
| Government Treasury Bills and Bonds                                      | 10,208,371                                 | -                 | -                   | -                  | -  | -                         | -                     | 10,208,371         |
| Sri Lanka Development Bonds  | 3,914,439                                  | -                 | -                   | -                  | -  | -                         | -                     | 3,914,439          |
| Quoted Debentures  | 863,886                                    | 920,139           | -                   | -                  | -  | -                         | 104,932               | 1,888,957          |
| Impairment   |  |                   |                     |                    |  |                           |                       | (70,519)           |
| <b>Financial Assets at Amortised Cost – Loans and Advances (Gross)</b>   |  |                   |                     |                    |  |                           |                       |                    |
| Corporate Loans  | -  | 54,866,072        | 25,544              | 2,749,806          | -  | 3,284,184                 | 3,490,814             | 64,416,421         |
| Retail, SME and Consumer   | -  | 32,150,810        | 3,629,099           | 2,319,315          | 38,225,652   | 24,928,556                | 9,856,339             | 111,109,770        |
| Housing Loans  | -  | 238,180           | 76,356              | -                  | 3,143,056  | 720,114                   | 45,405                | 4,223,111          |
| Leases   | -  | 3,977,480         | 4,922,500           | 1,997              | 20,951,524   | 14,315,814                | 695,513               | 44,864,827         |
| Staff Loans  | -  | -                 | -                   | -                  | 3,391,441  | -                         | -                     | 3,391,441          |
| <b>Total</b>   | <b>94,868,639</b>                          | <b>92,164,877</b> | <b>8,653,499</b>    | <b>5,071,118</b>   | <b>65,734,196</b>                                  | <b>43,248,667</b>         | <b>14,193,003</b>     | <b>323,863,480</b> |

Note : All loans under “Neither past due nor individually impaired” are Stage 1 assets. Past Due loans include any loan that is in arrears for more than one day. Out of LKR 43.2Bn categorized under “past due but not individually impaired”, LKR 22.9Bn (25%) is in Stage 1, LKR 12.4Bn (29%) is in Stage 2 and LKR 7.9Bn (18%) is in Stage 3. All individually impaired loans are Stage 3 assets.

| Bank - 31 December 2017  | Neither past due nor individually impaired |                   |                     |                    | Customers whose credit rating is not yet finalized | Past due but not impaired | Individually impaired | Total              |
|--|--|-------------------|---------------------|--------------------|--|---------------------------|-----------------------|--------------------|
|  | High Grade                                 | Investment Grades | Intermediary Grades | Speculative Grades |  |                           |                       |                    |
|  | LKR'000                                    | LKR'000           | LKR'000             | LKR'000            | LKR'000  | LKR'000                   | LKR'000               | LKR'000            |
| Cash and Cash Equivalents  | 6,867,222                                  | -                 | -                   | -                  | -  | -                         | -                     | 6,867,222          |
| Balances with Central Bank of Sri Lanka                                  | 11,193,266                                 | -                 | -                   | -                  | -  | -                         | -                     | 11,193,266         |
| Reverse Repurchase Agreements  | -  | -                 | -                   | -                  | 10,798   | -                         | -                     | 10,798             |
| <b>Derivative Financial Instruments</b>                                  |  |                   |                     |                    |  |                           |                       |                    |
| Forward Foreign Exchange Contracts and Currency Swaps                    | 177,688                                    | 50,328            | -                   | -                  | 2,201  | -                         | -                     | 230,217            |
| <b>Financial Assets - Recognised through Profit or Loss</b>              |  |                   |                     |                    |  |                           |                       |                    |
| Government Treasury Bills and Bonds                                      | 521,389                                    | -                 | -                   | -                  | -  | -                         | -                     | 521,389            |
| <b>Financial Assets-Available for Sale</b>                               |  |                   |                     |                    |  |                           |                       |                    |
| Government Treasury Bills and Bonds                                      | 38,846,109                                 | -                 | -                   | -                  | -  | -                         | -                     | 38,846,109         |
| Unquoted Equity Shares   | -  | -                 | -                   | -                  | 5,937  | -                         | -                     | 5,937              |
| <b>Financial Assets at Fair Value through Other Comprehensive Income</b> |  |                   |                     |                    |  |                           |                       |                    |
| Government Treasury Bills and Bonds                                      | -  | -                 | -                   | -                  | -  | -                         | -                     | -                  |
| Unquoted Equity Shares   | -  | -                 | -                   | -                  | -  | -                         | -                     | -                  |
| <b>Financial Assets - Held to Maturity</b>                               |  |                   |                     |                    |  |                           |                       |                    |
| Government Treasury Bills and Bonds                                      | 9,879,390                                  | -                 | -                   | -                  | -  | -                         | -                     | 9,879,390          |
| <b>Other Financial Assets</b>  |  |                   |                     |                    |  |                           |                       |                    |
| Sri Lanka Development Bonds  | 4,053,665                                  | -                 | -                   | -                  | -  | -                         | -                     | 4,053,665          |
| Quoted Debentures  | 509,660                                    | 2,234,282         | -                   | -                  | -  | -                         | -                     | 2,743,942          |
| <b>Financial Assets at Amortised Cost</b>                                |  |                   |                     |                    |  |                           |                       |                    |
| Government Treasury Bills and Bonds                                      | -  | -                 | -                   | -                  | -  | -                         | -                     | -                  |
| Sri Lanka Development Bonds  | -  | -                 | -                   | -                  | -  | -                         | -                     | -                  |
| Quoted Debentures  | -  | -                 | -                   | -                  | -  | -                         | -                     | -                  |
| Impairment   | -  | -                 | -                   | -                  | -  | -                         | -                     | -                  |
| <b>Financial Assets at Amortised Cost – Loans and Advances (Gross)</b>   |  |                   |                     |                    |  |                           |                       |                    |
| Corporate Loans  | -  | 39,215,198        | 58,691              | 134,469            | -  | 4,862,352                 | 1,496,679             | 45,767,388         |
| Retail, SME and Consumer   | -  | 32,006,746        | 3,721,192           | 1,729,163          | 34,592,862   | 24,834,973                | 3,690,898             | 100,575,835        |
| Housing Loans  | -  | -                 | -                   | -                  | 2,668,317  | 534,088                   | -                     | 3,202,405          |
| Leases   | -  | 1,603,948         | 1,772,948           | 873                | 22,466,847   | 11,240,140                | 168,933               | 37,253,690         |
| Staff Loans  | -  | -                 | -                   | -                  | 2,985,412  | -                         | -                     | 2,985,412          |
| <b>Total</b>   | <b>72,048,389</b>                          | <b>75,110,502</b> | <b>5,552,830</b>    | <b>1,864,505</b>   | <b>62,732,374</b>                                  | <b>41,471,553</b>         | <b>5,356,511</b>      | <b>264,136,665</b> |

Note : Past Due loans include any loan that is in arrears for more than one day. Out of LKR 41.5Bn categorized under “past due but not impaired” category LKR 24.4Bn (59%) is in arrears for less than 30 days, LKR 14.7Bn (35%) is in arrears for more than 30 days but less than 90 days & LKR 2.4Bn (6%) is in arrears for more than 90 days.

# Notes to the Financial Statements

| Group - 31 December 2018   | Neither past due nor individually impaired |                   |                     |                    | Customers whose credit rating is not yet finalized | Past due but not impaired | Individually impaired | Total              |
|--|--|-------------------|---------------------|--------------------|--|---------------------------|-----------------------|--------------------|
|  | High Grade                                 | Investment Grades | Intermediary Grades | Speculative Grades |  |                           |                       |                    |
|  | LKR'000                                    | LKR'000           | LKR'000             | LKR'000            | LKR'000  | LKR'000                   | LKR'000               | LKR'000            |
| Cash and Cash Equivalents  | 6,437,573                                  | -                 | -                   | -                  | -  | -                         | -                     | 6,437,573          |
| Balances with Central Bank of Sri Lanka                                  | 12,762,122                                 | -                 | -                   | -                  | -  | -                         | -                     | 12,762,122         |
| Reverse Repurchase Agreements  | 172,043                                    | -                 | -                   | -                  | 8,550  | -                         | -                     | 180,593            |
| <b>Derivative Financial Instruments</b>                                  |  |                   |                     |                    |  |                           |                       |                    |
| Forward Foreign Exchange Contracts and Currency Swaps                    | 2,391,591                                  | 12,196            | -                   | -                  | -  | -                         | -                     | 2,403,787          |
| <b>Financial Assets - Recognised through Profit or Loss</b>              |  |                   |                     |                    |  |                           |                       |                    |
| Government Treasury Bills and Bonds                                      | 668,812                                    | -                 | -                   | -                  | -  | -                         | -                     | 668,812            |
| <b>Financial Assets-Available for Sale</b>                               |  |                   |                     |                    |  |                           |                       |                    |
| Government Treasury Bills and Bonds                                      | -  | -                 | -                   | -                  | -  | -                         | -                     | -                  |
| Unquoted Equity Shares   | -  | -                 | -                   | -                  | -  | -                         | -                     | -                  |
| <b>Financial Assets at Fair Value through Other Comprehensive Income</b> |  |                   |                     |                    |  |                           |                       |                    |
| Government Treasury Bills and Bonds                                      | 57,449,857                                 | -                 | -                   | -                  | -  | -                         | -                     | 57,449,857         |
| Unquoted Equity Shares   | -  | -                 | -                   | -                  | 13,974   | -                         | -                     | 13,974             |
| <b>Financial Assets - Held to Maturity</b>                               |  |                   |                     |                    |  |                           |                       |                    |
| Government Treasury Bills and Bonds                                      | -  | -                 | -                   | -                  | -  | -                         | -                     | -                  |
| <b>Other Financial Assets</b>  |  |                   |                     |                    |  |                           |                       |                    |
| Sri Lanka Development Bonds  | -  | -                 | -                   | -                  | -  | -                         | -                     | -                  |
| Quoted Debentures  | -  | -                 | -                   | -                  | -  | -                         | -                     | -                  |
| <b>Financial Assets at Amortised Cost</b>                                |  |                   |                     |                    |  |                           |                       |                    |
| Government Treasury Bills and Bonds                                      | 10,208,371                                 | -                 | -                   | -                  | -  | -                         | -                     | 10,208,371         |
| Sri Lanka Development Bonds  | 3,914,439                                  | -                 | -                   | -                  | -  | -                         | -                     | 3,914,439          |
| Quoted Debentures  | 863,886                                    | 920,139           | -                   | -                  | -  | -                         | 104,932               | 1,888,957          |
| Impairment   |  |                   |                     |                    |  |                           |                       | (70,519)           |
| <b>Financial Assets at Amortised Cost – Loans and Advances (Gross)</b>   |  |                   |                     |                    |  |                           |                       |                    |
| Corporate Loans  | -  | 54,866,072        | 25,544              | 2,749,806          | -  | 3,284,184                 | 3,490,814             | 64,416,421         |
| Retail, SME and Consumer   | -  | 32,155,715        | 3,629,099           | 2,319,315          | 38,225,652   | 24,928,556                | 9,856,339             | 111,114,675        |
| Housing Loans  | -  | 238,180           | 76,356              | -                  | 3,143,056  | 720,114                   | 45,405                | 4,223,111          |
| Leases   | -  | 3,977,480         | 4,922,500           | 1,997              | 20,951,524   | 14,315,814                | 695,513               | 44,864,827         |
| Staff Loans  | -  | -                 | -                   | -                  | 3,391,441  | -                         | -                     | 3,391,441          |
| <b>Total</b>   | <b>94,868,694</b>                          | <b>92,169,782</b> | <b>8,653,499</b>    | <b>5,071,118</b>   | <b>65,734,196</b>                                  | <b>43,248,667</b>         | <b>14,193,003</b>     | <b>323,868,440</b> |

Note : All loans under “Neither past due nor individually impaired” are Stage 1 assets. Past Due loans include any loan that is in arrears for more than one day. Out of LKR 43.2Bn categorized under “past due but not individually impaired”, LKR 22.9Bn (25%) is in Stage 1, LKR 12.4Bn (29%) is in Stage 2 and LKR 7.9Bn (18%) is in Stage 3. All individually impaired loans are Stage 3 assets.

| Group - 31 December 2017   | Neither past due nor individually impaired |                   |                     |                    | Customers whose credit rating is not yet finalized | Past due but not impaired | Individually impaired | Total              |
|--|--|-------------------|---------------------|--------------------|--|---------------------------|-----------------------|--------------------|
|  | High Grade                                 | Investment Grades | Intermediary Grades | Speculative Grades |  |                           |                       |                    |
|  | LKR'000                                    | LKR'000           | LKR'000             | LKR'000            | LKR'000  | LKR'000                   | LKR'000               | LKR'000            |
| Cash and Cash Equivalents  | 6,869,695                                  | -                 | -                   | -                  | -  | -                         | -                     | 6,869,695          |
| Balances with Central Bank of Sri Lanka                                  | 11,193,266                                 | -                 | -                   | -                  | -  | -                         | -                     | 11,193,266         |
| Reverse Repurchase Agreements  | -  | -                 | -                   | -                  | 10,798   | -                         | -                     | 10,798             |
| <b>Derivative Financial Instruments</b>                                  |  |                   |                     |                    |  |                           |                       |                    |
| Forward Foreign Exchange Contracts and Currency Swaps                    | 177,688                                    | 50,328            | -                   | -                  | 2,201  | -                         | -                     | 230,217            |
| <b>Financial Assets - Recognised through Profit or Loss</b>              |  |                   |                     |                    |  |                           |                       |                    |
| Government Treasury Bills and Bonds                                      | 521,389                                    | -                 | -                   | -                  | -  | -                         | -                     | 521,389            |
| <b>Financial Assets-Available for Sale</b>                               |  |                   |                     |                    |  |                           |                       |                    |
| Government Treasury Bills and Bonds                                      | 38,846,109                                 | -                 | -                   | -                  | -  | -                         | -                     | 38,846,109         |
| Unquoted Equity Shares   | -  | -                 | -                   | -                  | 5,937  | -                         | -                     | 5,937              |
| <b>Financial Assets at Fair Value through Other Comprehensive Income</b> |  |                   |                     |                    |  |                           |                       |                    |
| Government Treasury Bills and Bonds                                      | -  | -                 | -                   | -                  | -  | -                         | -                     | -                  |
| Unquoted Equity Shares   | -  | -                 | -                   | -                  | -  | -                         | -                     | -                  |
| <b>Financial Assets - Held to Maturity</b>                               |  |                   |                     |                    |  |                           |                       |                    |
| Government Treasury Bills and Bonds                                      | 9,950,433                                  | -                 | -                   | -                  | -  | -                         | -                     | 9,950,433          |
| <b>Other Financial Assets</b>  |  |                   |                     |                    |  |                           |                       |                    |
| Sri Lanka Development Bonds  | 4,053,665                                  | -                 | -                   | -                  | -  | -                         | -                     | 4,053,665          |
| Quoted Debentures  | 509,660                                    | 2,234,282         | -                   | -                  | -  | -                         | -                     | 2,743,942          |
| <b>Financial Assets at Amortised Cost</b>                                |  |                   |                     |                    |  |                           |                       |                    |
| Government Treasury Bills and Bonds                                      | -  | -                 | -                   | -                  | -  | -                         | -                     | -                  |
| Sri Lanka Development Bonds  | -  | -                 | -                   | -                  | -  | -                         | -                     | -                  |
| Quoted Debentures  | -  | -                 | -                   | -                  | -  | -                         | -                     | -                  |
| Impairment   | -  | -                 | -                   | -                  | -  | -                         | -                     | -                  |
| <b>Financial Assets at Amortised Cost – Loans and Advances (Gross)</b>   |  |                   |                     |                    |  |                           |                       |                    |
| Corporate Loans  | -  | 39,255,911        | 58,691              | 134,469            | -  | 4,862,352                 | 1,496,679             | 45,808,101         |
| Retail, SME and Consumer   | -  | 32,174,903        | 3,721,192           | 1,729,163          | 34,592,862   | 24,834,973                | 3,690,898             | 100,743,992        |
| Housing Loans  | -  | -                 | -                   | -                  | 2,668,317  | 534,088                   | -                     | 3,202,405          |
| Leases   | -  | 1,603,948         | 1,772,948           | 873                | 22,466,847   | 11,240,140                | 168,933               | 37,253,690         |
| Staff Loans  | -  | -                 | -                   | -                  | 2,985,412  | -                         | -                     | 2,985,412          |
| <b>Total</b>   | <b>72,121,905</b>                          | <b>75,319,372</b> | <b>5,552,830</b>    | <b>1,864,505</b>   | <b>62,732,374</b>                                  | <b>41,471,553</b>         | <b>5,356,511</b>      | <b>264,419,051</b> |

Note : Past Due loans include any loan that is in arrears for more than one day. Out of LKR 41.5Bn categorized under “past due but not impaired” category LKR 24.4Bn (59%) is in arrears for less than 30 days, LKR 14.7Bn (35%) is in arrears for more than 30 days but less than 90 days & LKR 2.4Bn (6%) is in arrears for more than 90 days.



## 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.

Management monitors the market value of collateral, and requests additional collateral in accordance with the underlying agreement. It is the Bank's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim.

| Bank - 31 December 2018   | Maximum Exposure to Credit Risk LKR '000 | Cash LKR '000 | Government Securities LKR '000 | Bank Guarantees LKR '000 | Immovable Property LKR '000 | Equity LKR '000 | Life Insurance LKR '000 | Gold LKR '000 | Other LKR '000 | Surplus Collateral LKR '000 | Net Collateral LKR '000 | Net Exposure LKR '000 |
|---|--|---------------|--------------------------------|--------------------------|-----------------------------|-----------------|-------------------------|---------------|----------------|-----------------------------|-------------------------|-----------------------|
| Cash and Cash Equivalents   | 6,437,519                                | -             | -                              | -                        | -                           | -               | -                       | -             | -              | -                           | -                       | 6,437,519             |
| Balances with Central Bank of Sri Lanka                           | 12,762,122                               | -             | -                              | -                        | -                           | -               | -                       | -             | -              | -                           | -                       | 12,762,122            |
| Reverse Repurchase Agreements                                     | 180,593                                  | -             | 199,253                        | -                        | -                           | -               | -                       | -             | -              | (18,660)                    | 180,593                 | -                     |
| Derivative Financial Instruments                                  | 2,403,787                                | -             | -                              | -                        | -                           | -               | -                       | -             | -              | -                           | -                       | 2,403,787             |
| Financial Assets - Recognised through Profit or Loss              | 668,812                                  | -             | -                              | -                        | -                           | -               | -                       | -             | -              | -                           | -                       | 668,812               |
| Financial Assets-Available for Sale                               | -  | -             | -                              | -                        | -                           | -               | -                       | -             | -              | -                           | -                       | -                     |
| Financial Assets at Fair Value through Other Comprehensive Income | 57,463,831                               | -             | -                              | -                        | -                           | -               | -                       | -             | -              | -                           | -                       | 57,463,831            |
| Financial Assets - Held to Maturity                               | -  | -             | -                              | -                        | -                           | -               | -                       | -             | -              | -                           | -                       | -                     |
| Other Financial Assets  | -  | -             | -                              | -                        | -                           | -               | -                       | -             | -              | -                           | -                       | -                     |
| Financial Assets at Amortised Cost                                | 15,941,247                               | -             | -                              | 110,300                  | -                           | -               | -                       | -             | -              | -                           | 110,300                 | 15,830,947            |
| Financial Assets at Amortised Cost - Loans and Advances (Gross)   | 228,005,570                              | 29,723,835    | -                              | -                        | 21,717,011                  | 2,529,937       | 1,000                   | 435,672       | 115,627,595    | (76,785,031)                | 93,250,019              | 134,755,550           |
| Financial Guarantees  | 908,258                                  | -             | -                              | 30,292                   | -                           | -               | -                       | -             | -              | -                           | 30,292                  | 877,966               |
| Letters of Credit   | 5,920,213                                | -             | -                              | -                        | -                           | -               | -                       | -             | 781,299        | -                           | 781,299                 | 5,138,914             |
| Other Commitments   | 183,770,836                              | -             | -                              | 346,211                  | -                           | -               | -                       | -             | -              | -                           | 8,091,967               | 175,678,869           |
|   | 514,462,789                              | 29,723,835    | 199,253                        | 486,803                  | 21,717,011                  | 2,529,937       | 1,000                   | 435,672       | 116,408,894    | (76,803,691)                | 102,444,469             | 412,018,319           |

Note: Any surplus collateral available above the utilized loan balance is considered as the collaterals against the unutilized loan commitments. Such surplus collateral is made of multiple types of collaterals.

| Bank - 31 December 2017   | Maximum Exposure to Credit Risk | Cash       | Government Securities | Bank Guarantees | Immovable Property | Equity    | Life Insurance | Gold     | Other      | Surplus Collateral | Net Collateral | Net Exposure |
|---|---------------------------------|------------|-----------------------|-----------------|--------------------|-----------|----------------|----------|------------|--------------------|----------------|--------------|
|   | LKR '000                        | LKR '000   | LKR '000              | LKR '000        | LKR '000           | LKR '000  | LKR '000       | LKR '000 | LKR '000   | LKR '000           | LKR '000       | LKR '000     |
| Cash and Cash Equivalents   | 6,867,222                       | -          | -                     | -               | -                  | -         | -              | -        | -          | -                  | -              | 6,867,222    |
| Balances with Central Bank of Sri Lanka                           | 11,193,266                      | -          | -                     | -               | -                  | -         | -              | -        | -          | -                  | -              | 11,193,266   |
| Reverse Repurchase Agreements                                     | 10,798                          | -          | 10,984                | -               | -                  | -         | -              | -        | -          | (186)              | 10,798         | -            |
| Derivative Financial Instruments                                  | 230,217                         | -          | -                     | -               | -                  | -         | -              | -        | -          | -                  | -              | 230,217      |
| Financial Assets - Recognised through Profit or Loss              | 521,389                         | -          | -                     | -               | -                  | -         | -              | -        | -          | -                  | -              | 521,389      |
| Financial Assets-Available for Sale                               | 38,852,046                      | -          | -                     | -               | -                  | -         | -              | -        | -          | -                  | -              | 38,852,046   |
| Financial Assets at Fair Value through Other Comprehensive Income | -                               | -          | -                     | -               | -                  | -         | -              | -        | -          | -                  | -              | -            |
| Financial Assets - Held to Maturity                               | 9,879,390                       | -          | -                     | -               | -                  | -         | -              | -        | -          | -                  | -              | 9,879,390    |
| Other Financial Assets  | 6,797,607                       | -          | -                     | 526,114         | -                  | -         | -              | -        | -          | -                  | 526,114        | 6,271,493    |
| Financial Assets at Amortised Cost                                | -                               | -          | -                     | -               | -                  | -         | -              | -        | -          | -                  | -              | -            |
| Financial Assets at Amortised Cost - Loans and Advances (Gross)   | 189,784,730                     | 26,579,325 | -                     | -               | 25,886,328         | 1,251,678 | 1,680          | 397,095  | 91,228,648 | (62,374,245)       | 82,970,510     | 106,814,219  |
| Financial Guarantees  | 273,149                         | -          | -                     | 51,798          | -                  | -         | -              | -        | -          | -                  | 51,798         | 221,351      |
| Letters of Credit   | 6,753,029                       | -          | -                     | -               | -                  | -         | -              | -        | 59,010     | -                  | 59,010         | 6,694,019    |
| Other Commitments   | 166,104,818                     | -          | -                     | 142,585         | -                  | -         | -              | -        | -          | -                  | 7,337,958      | 158,766,860  |
|   | 437,267,661                     | 26,579,325 | 10,984                | 720,497         | 25,886,328         | 1,251,678 | 1,680          | 397,095  | 91,287,658 | (62,374,431)       | 90,956,188     | 346,311,472  |

Note: Any surplus collateral available above the utilized loan balance is considered as the collaterals against the unutilized loan commitments. Such surplus collateral is made of multiple types of collaterals.

# Notes to the Financial Statements

| Group - 31 December 2018  | Maximum Exposure to Credit Risk | Cash       | Government Securities | Bank Guarantees | Immovable Property | Equity    | Life Insurance | Gold     | Other       | Surplus Collateral | Net Collateral | Net Exposure |
|---|---------------------------------|------------|-----------------------|-----------------|--------------------|-----------|----------------|----------|-------------|--------------------|----------------|--------------|
|   | LKR '000                        | LKR '000   | LKR '000              | LKR '000        | LKR '000           | LKR '000  | LKR '000       | LKR '000 | LKR '000    | LKR '000           | LKR '000       | LKR '000     |
| Cash and Cash Equivalents   | 6,437,573                       | -          | -                     | -               | -                  | -         | -              | -        | -           | -                  | -              | 6,437,573    |
| Balances with Central Bank of Sri Lanka                           | 12,762,122                      | -          | -                     | -               | -                  | -         | -              | -        | -           | -                  | -              | 12,762,122   |
| Reverse Repurchase Agreements                                     | 180,593                         | -          | 199,253               | -               | -                  | -         | -              | -        | -           | (18,660)           | 180,593        | -            |
| Derivative Financial Instruments                                  | 2,403,787                       | -          | -                     | -               | -                  | -         | -              | -        | -           | -                  | -              | 2,403,787    |
| Financial Assets - Recognised through Profit or Loss              | 668,812                         | -          | -                     | -               | -                  | -         | -              | -        | -           | -                  | -              | 668,812      |
| Financial Assets-Available for Sale                               | -                               | -          | -                     | -               | -                  | -         | -              | -        | -           | -                  | -              | -            |
| Financial Assets at Fair Value through Other Comprehensive Income | 57,463,831                      | -          | -                     | -               | -                  | -         | -              | -        | -           | -                  | -              | 57,463,831   |
| Financial Assets - Held to Maturity                               | -                               | -          | -                     | -               | -                  | -         | -              | -        | -           | -                  | -              | -            |
| Other Financial Assets  | -                               | -          | -                     | -               | -                  | -         | -              | -        | -           | -                  | -              | -            |
| Financial Assets at Amortised Cost                                | 15,941,247                      | -          | -                     | 110,300         | -                  | -         | -              | -        | -           | -                  | 110,300        | 15,830,947   |
| Financial Assets at Amortised Cost – Loans and Advances (Gross)   | 228,010,474                     | 29,723,835 | -                     | -               | 21,717,011         | 2,546,060 | 1,000          | 435,672  | 139,900,954 | (93,056,951)       | 101,267,580    | 126,773,467  |
| Financial Guarantees  | 908,258                         | -          | -                     | 30,292          | -                  | -         | -              | -        | -           | -                  | 30,292         | 877,966      |
| Letters of Credit   | 5,920,213                       | -          | -                     | -               | -                  | -         | -              | -        | 781,299     | -                  | 781,299        | 5,138,914    |
| Other Commitments   | 183,773,993                     | -          | -                     | 346,211         | -                  | -         | -              | -        | -           | -                  | 8,092,749      | 175,681,244  |
|   | 514,470,904                     | 29,723,835 | 199,253               | 486,803         | 21,717,011         | 2,546,060 | 1,000          | 435,672  | 140,682,252 | (93,075,611)       | 110,462,813    | 404,038,665  |

Note: Any surplus collateral available above the utilized loan balance is considered as the collaterals against the unutilized loan commitments. Such surplus collateral is made of multiple types of collaterals.

| Group - 31 December 2017  | Maximum Exposure to Credit Risk | Cash       | Government Securities | Bank Guarantees | Immovable Property | Equity    | Life Insurance | Gold     | Other      | Surplus Collateral | Net Collateral | Net Exposure |
|---|---------------------------------|------------|-----------------------|-----------------|--------------------|-----------|----------------|----------|------------|--------------------|----------------|--------------|
|   | LKR '000                        | LKR '000   | LKR '000              | LKR '000        | LKR '000           | LKR '000  | LKR '000       | LKR '000 | LKR '000   | LKR '000           | LKR '000       | LKR '000     |
| Cash and Cash Equivalents   | 6,869,695                       | -          | -                     | -               | -                  | -         | -              | -        | -          | -                  | -              | 6,869,695    |
| Balances with Central Bank of Sri Lanka                           | 11,193,266                      | -          | -                     | -               | -                  | -         | -              | -        | -          | -                  | -              | 11,193,266   |
| Reverse Repurchase Agreements                                     | 10,798                          | -          | 10,984                | -               | -                  | -         | -              | -        | -          | (186)              | 10,798         | -            |
| Derivative Financial Instruments                                  | 230,217                         | -          | -                     | -               | -                  | -         | -              | -        | -          | -                  | -              | 230,217      |
| Financial Assets - Recognised through Profit or Loss              | 521,389                         | -          | -                     | -               | -                  | -         | -              | -        | -          | -                  | -              | 521,389      |
| Financial Assets-Available for Sale                               | 38,852,046                      | -          | -                     | -               | -                  | -         | -              | -        | -          | -                  | -              | 38,852,046   |
| Financial Assets at Fair Value through Other Comprehensive Income | -                               | -          | -                     | -               | -                  | -         | -              | -        | -          | -                  | -              | -            |
| Financial Assets - Held to Maturity                               | 9,950,433                       | -          | -                     | -               | -                  | -         | -              | -        | -          | -                  | -              | 9,950,433    |
| Other Financial Assets  | 6,797,607                       | -          | -                     | 526,114         | -                  | -         | -              | -        | -          | -                  | 526,114        | 6,271,493    |
| Financial Assets at Amortised Cost                                | -                               | -          | -                     | -               | -                  | -         | -              | -        | -          | -                  | -              | -            |
| Financial Assets at Amortised Cost - Loans and Advances (Gross)   | 189,993,599                     | 26,579,325 | -                     | -               | 25,886,328         | 1,861,236 | 1,680          | 397,095  | 91,228,648 | (62,774,932)       | 83,179,380     | 106,814,219  |
| Financial Guarantees  | 273,149                         | -          | -                     | 51,798          | -                  | -         | -              | -        | -          | -                  | 51,798         | 221,351      |
| Letters of Credit   | 6,753,029                       | -          | -                     | -               | -                  | -         | -              | -        | 59,010     | -                  | 59,010         | 6,694,019    |
| Other Commitments   | 164,560,989                     | -          | -                     | 142,585         | -                  | -         | -              | -        | -          | -                  | 7,437,749      | 157,123,240  |
|   | 436,006,218                     | 26,579,325 | 10,984                | 720,497         | 25,886,328         | 1,861,236 | 1,680          | 397,095  | 91,287,658 | (62,775,118)       | 91,264,849     | 344,741,369  |

Note: Any surplus collateral available above the utilized loan balance is considered as the collaterals against the unutilized loan commitments. Such surplus collateral is made of multiple types of collaterals.

### Analysis of Risk Concentration

The Bank's concentrations of risk are managed by industry sector. The following table shows the risk concentration by industry for the components of the Statement of Financial Position. Assets concentrated as "Other" include Consumer Loans, Credit Cards and Leases. A major portion of the leases consist of leases granted to individuals for the purpose of facilitating their small/micro level business activities which cannot be directly attributable to a single identified sector, hence classified under "Other".

# Notes to the Financial Statements

| Bank - 31 December 2018  | Agriculture<br>LKR'000 | Consumer<br>Discretionary<br>LKR'000 | Consumer<br>Staples<br>LKR'000 | Energy<br>LKR'000 | Financials<br>LKR'000 | Health Care<br>LKR'000 | Information<br>Technology<br>LKR'000 |
|--|------------------------|--------------------------------------|--------------------------------|-------------------|-----------------------|------------------------|--------------------------------------|
| Cash and Cash Equivalents  | -                      | -                                    | -                              | -                 | 6,437,519             | -                      | -                                    |
| Balances with Central Bank of Sri Lanka                                      | -                      | -                                    | -                              | -                 | -                     | -                      | -                                    |
| Reverse Repurchase Agreements  | -                      | -                                    | -                              | -                 | 172,043               | -                      | -                                    |
| <b>Derivative Financial Instruments</b>                                      |                        |                                      |                                |                   |                       |                        |                                      |
| Forward Foreign Exchange Contracts and<br>Currency Swaps                     | -                      | -                                    | -                              | -                 | 2,342,150             | -                      | -                                    |
| <b>Financial Assets - Recognized through<br/>Profit or Loss</b>              |                        |                                      |                                |                   |                       |                        |                                      |
| Government Treasury Bills and Bonds  | -                      | -                                    | -                              | -                 | -                     | -                      | -                                    |
| <b>Financial Assets-Available for Sale</b>                                   |                        |                                      |                                |                   |                       |                        |                                      |
| Government Treasury Bills and Bonds  | -                      | -                                    | -                              | -                 | -                     | -                      | -                                    |
| Unquoted Equity Shares   | -                      | -                                    | -                              | -                 | -                     | -                      | -                                    |
| <b>Financial Assets at Fair Value through<br/>Other Comprehensive Income</b> |                        |                                      |                                |                   |                       |                        |                                      |
| Government Treasury Bills and Bonds  | -                      | -                                    | -                              | -                 | -                     | -                      | -                                    |
| Unquoted Equity Shares   | -                      | -                                    | -                              | -                 | -                     | -                      | -                                    |
| <b>Financial Assets - Held to Maturity</b>                                   |                        |                                      |                                |                   |                       |                        |                                      |
| Government Treasury Bills and Bonds  | -                      | -                                    | -                              | -                 | -                     | -                      | -                                    |
| <b>Other Financial Assets</b>  |                        |                                      |                                |                   |                       |                        |                                      |
| Sri Lanka Development Bonds  | -                      | -                                    | -                              | -                 | -                     | -                      | -                                    |
| Quoted Debentures  | -                      | -                                    | -                              | -                 | -                     | -                      | -                                    |
| <b>Financial Assets at Amortised Cost</b>                                    |                        |                                      |                                |                   |                       |                        |                                      |
| Government Treasury Bills and Bonds  | -                      | -                                    | -                              | -                 | -                     | -                      | -                                    |
| Sri Lanka Development Bonds  | -                      | -                                    | -                              | -                 | -                     | -                      | -                                    |
| Quoted Debentures  | -                      | 23,011                               | 171,936                        | -                 | 1,234,852             | -                      | -                                    |
| Impairment   | -                      | -                                    | -                              | -                 | -                     | -                      | -                                    |
| <b>Financial Assets at Amortized Cost -<br/>Loans and Advances</b>           |                        |                                      |                                |                   |                       |                        |                                      |
| Corporate Loans  | 11,179,440             | 23,862,681                           | 3,422,298                      | 528,810           | 15,975,891            | 1,135,827              | 1,001,948                            |
| Retail, SME and Consumer   | 8,677,925              | 27,222,509                           | 6,972,640                      | 229,392           | 3,427,999             | 1,538,111              | 2,392,465                            |
| Housing Loans  | 5,544                  | 346,162                              | 42,700                         | -                 | 332,303               | 12,888                 | 127,182                              |
| Leases   | 6,329,423              | 9,386,166                            | 5,801,427                      | 249,893           | 1,616,662             | 1,635,316              | 1,360,813                            |
| Staff loans  | -                      | -                                    | -                              | -                 | 2,644,584             | -                      | -                                    |
| Impairment for Loans and Advances  | -                      | -                                    | -                              | -                 | -                     | -                      | -                                    |
| Net Loans and Advances   | -                      | -                                    | -                              | -                 | -                     | -                      | -                                    |
|  | 26,192,333             | 60,840,528                           | 16,411,000                     | 1,008,095         | 34,184,001            | 4,322,142              | 4,882,409                            |

| Industrials | Materials | Real Estate | Telecommunication<br>Services | Utilities | Other      | Zero Risk  | Total       |
|-------------|-----------|-------------|-------------------------------|-----------|------------|------------|-------------|
| LKR'000     | LKR'000   | LKR'000     | LKR'000                       | LKR'000   | LKR'000    | LKR'000    | LKR'000     |
| -           | -         | -           | -                             | -         | -          | -          | 6,437,519   |
| -           | -         | -           | -                             | -         | -          | 12,762,122 | 12,762,122  |
| -           | -         | -           | -                             | -         | 8,550      | -          | 180,593     |
| -           | -         | -           | -                             | -         | 61,637     | -          | 2,403,787   |
| -           | -         | -           | -                             | -         | -          | 668,812    | 668,812     |
| -           | -         | -           | -                             | -         | -          | -          | -           |
| -           | -         | -           | -                             | -         | -          | -          | -           |
| -           | -         | -           | -                             | -         | -          | 57,449,857 | 57,449,857  |
| -           | -         | -           | -                             | -         | 13,974     | -          | 13,974      |
| -           | -         | -           | -                             | -         | -          | -          | -           |
| -           | -         | -           | -                             | -         | -          | -          | -           |
| -           | -         | -           | -                             | -         | -          | -          | -           |
| -           | -         | -           | -                             | -         | -          | 10,208,371 | 10,208,371  |
| -           | -         | -           | -                             | -         | -          | 3,914,439  | 3,914,439   |
| 459,158     | -         | -           | -                             | -         | -          | -          | 1,888,957   |
| -           | -         | -           | -                             | -         | -          | -          | (70,519)    |
| 5,363,383   | 1,679,372 | -           | -                             | -         | 158,503    | 108,269    | 64,416,421  |
| 17,305,748  | 2,900,536 | 2,542,190   | 289,435                       | 185,665   | 23,997,251 | 13,427,905 | 111,109,770 |
| 2,322,015   | 14,124    | -           | 13,011                        | -         | 1,007,182  | -          | 4,223,111   |
| 16,175,098  | 1,716,204 | 340,896     | 111,607                       | 141,322   | -          | -          | 44,864,827  |
| -           | -         | -           | -                             | -         | -          | -          | 2,644,584   |
| -           | -         | -           | -                             | -         | -          | -          | (5,758,056) |
| -           | -         | -           | -                             | -         | -          | -          | 221,500,656 |
| 41,625,402  | 6,310,236 | 2,883,086   | 414,053                       | 326,987   | 25,247,097 | 98,539,775 | 317,358,568 |

# Notes to the Financial Statements

| Bank - 31 December 2017  | Agriculture<br>LKR'000 | Consumer<br>Discretionary<br>LKR'000 | Consumer<br>Staples<br>LKR'000 | Energy<br>LKR'000 | Financials<br>LKR'000 | Health Care<br>LKR'000 | Information<br>Technology<br>LKR'000 |
|--|------------------------|--------------------------------------|--------------------------------|-------------------|-----------------------|------------------------|--------------------------------------|
| Cash and Cash Equivalents  | -                      | -                                    | -                              | -                 | 6,867,222             | -                      | -                                    |
| Balances with Central Bank of Sri Lanka                                      | -                      | -                                    | -                              | -                 | -                     | -                      | -                                    |
| Reverse Repurchase Agreements  | -                      | -                                    | -                              | -                 | -                     | -                      | -                                    |
| <b>Derivative Financial Instruments</b>                                      |                        |                                      |                                |                   |                       |                        |                                      |
| Forward Foreign Exchange Contracts and<br>Currency Swaps                     | -                      | -                                    | -                              | -                 | 228,016               | -                      | -                                    |
| <b>Financial Assets - Recognized through Profit<br/>or Loss</b>              |                        |                                      |                                |                   |                       |                        |                                      |
| Government Treasury Bills and Bonds  | -                      | -                                    | -                              | -                 | -                     | -                      | -                                    |
| <b>Financial Assets-Available for Sale</b>                                   |                        |                                      |                                |                   |                       |                        |                                      |
| Government Treasury Bills and Bonds  | -                      | -                                    | -                              | -                 | -                     | -                      | -                                    |
| Unquoted Equity Shares   | -                      | -                                    | -                              | -                 | -                     | -                      | -                                    |
| <b>Financial Assets at Fair Value through<br/>Other Comprehensive Income</b> |                        |                                      |                                |                   |                       |                        |                                      |
| Government Treasury Bills and Bonds  | -                      | -                                    | -                              | -                 | -                     | -                      | -                                    |
| Unquoted Equity Shares   | -                      | -                                    | -                              | -                 | -                     | -                      | -                                    |
| <b>Financial Assets - Held to Maturity</b>                                   |                        |                                      |                                |                   |                       |                        |                                      |
| Government Treasury Bills and Bonds  | -                      | -                                    | -                              | -                 | -                     | -                      | -                                    |
| <b>Other Financial Assets</b>  |                        |                                      |                                |                   |                       |                        |                                      |
| Sri Lanka Development Bonds  | -                      | -                                    | -                              | -                 | -                     | -                      | -                                    |
| Quoted Debentures  | -                      | 231,681                              | 171,936                        | -                 | 1,781,130             | -                      | -                                    |
| <b>Financial Assets at Amortised Cost</b>                                    |                        |                                      |                                |                   |                       |                        |                                      |
| Government Treasury Bills and Bonds  | -                      | -                                    | -                              | -                 | -                     | -                      | -                                    |
| Sri Lanka Development Bonds  | -                      | -                                    | -                              | -                 | -                     | -                      | -                                    |
| Quoted Debentures  | -                      | -                                    | -                              | -                 | -                     | -                      | -                                    |
| Impairment   | -                      | -                                    | -                              | -                 | -                     | -                      | -                                    |
| <b>Financial Assets at Amortized Cost -<br/>Loans and Advances</b>           |                        |                                      |                                |                   |                       |                        |                                      |
| Corporate Loans  | 6,823,793              | 17,135,200                           | 2,855,024                      | 508,935           | 11,414,398            | 793,210                | 445,953                              |
| Retail, SME and Consumer   | 7,983,097              | 25,494,012                           | 6,419,568                      | 131,035           | 3,732,670             | 1,286,998              | 1,427,831                            |
| Housing Loans  | 5,302                  | 36,080                               | 14,901                         | -                 | 35,011                | 2,018                  | 6,847                                |
| Leases   | 4,262,226              | 8,024,863                            | 4,992,409                      | 204,848           | 1,442,386             | 1,541,461              | 818,151                              |
| Staff loans  | -                      | -                                    | -                              | -                 | 2,346,309             | -                      | -                                    |
| Impairment for Loans and Advances  | -                      | -                                    | -                              | -                 | -                     | -                      | -                                    |
| Net Loans and Advances   | -                      | -                                    | -                              | -                 | -                     | -                      | -                                    |
|  | 19,074,418             | 50,921,837                           | 14,453,839                     | 844,818           | 27,847,140            | 3,623,687              | 2,698,781                            |



| Industrials | Materials | Real Estate | Telecommunication Services | Utilities | Other      | Zero Risk  | Total       |
|-------------|-----------|-------------|----------------------------|-----------|------------|------------|-------------|
| LKR'000     | LKR'000   | LKR'000     | LKR'000                    | LKR'000   | LKR'000    | LKR'000    | LKR'000     |
| -           | -         | -           | -                          | -         | -          | -          | 6,867,222   |
| -           | -         | -           | -                          | -         | -          | 11,193,266 | 11,193,266  |
| -           | -         | -           | -                          | -         | 10,798     | -          | 10,798      |
| -           | -         | -           | -                          | -         | 2,201      | -          | 230,217     |
| -           | -         | -           | -                          | -         | -          | 521,389    | 521,389     |
| -           | -         | -           | -                          | -         | -          | 38,846,109 | 38,846,109  |
| -           | -         | -           | -                          | -         | 5,937      | -          | 5,937       |
| -           | -         | -           | -                          | -         | -          | -          | -           |
| -           | -         | -           | -                          | -         | -          | -          | -           |
| -           | -         | -           | -                          | -         | -          | 9,879,390  | 9,879,390   |
| -           | -         | -           | -                          | -         | -          | 4,053,665  | 4,053,665   |
| 559,195     | -         | -           | -                          | -         | -          | -          | 2,743,942   |
| -           | -         | -           | -                          | -         | -          | -          | -           |
| -           | -         | -           | -                          | -         | -          | -          | -           |
| -           | -         | -           | -                          | -         | -          | -          | -           |
| -           | -         | -           | -                          | -         | -          | -          | -           |
| 2,788,815   | 1,219,461 | 1,153,788   | 415,100                    | -         | 2,153      | 211,559    | 45,767,388  |
| 16,748,099  | 2,641,022 | 2,602,630   | 776,115                    | 123,304   | 20,787,292 | 10,422,162 | 100,575,835 |
| 3,095,448   | 3,807     | -           | 2,991                      | -         | -          | -          | 3,202,405   |
| 13,512,088  | 1,525,060 | 330,941     | 475,228                    | 124,030   | -          | -          | 37,253,690  |
| -           | -         | -           | -                          | -         | -          | -          | 2,346,309   |
| -           | -         | -           | -                          | -         | -          | -          | (2,608,915) |
| -           | -         | -           | -                          | -         | -          | -          | 186,536,711 |
| 36,703,643  | 5,389,350 | 4,087,359   | 1,669,433                  | 247,334   | 20,808,381 | 75,127,541 | 260,888,646 |

# Notes to the Financial Statements

| Group - 31 December 2018   | Agriculture<br>LKR'000 | Consumer<br>Discretionary<br>LKR'000 | Consumer<br>Staples<br>LKR'000 | Energy<br>LKR'000 | Financials<br>LKR'000 | Health Care<br>LKR'000 | Information<br>Technology<br>LKR'000 |
|--|------------------------|--------------------------------------|--------------------------------|-------------------|-----------------------|------------------------|--------------------------------------|
| Cash and Cash Equivalents  | -                      | -                                    | -                              | -                 | 6,437,573             | -                      | -                                    |
| Balances with Central Bank of Sri Lanka                                      | -                      | -                                    | -                              | -                 | -                     | -                      | -                                    |
| Reverse Repurchase Agreements  | -                      | -                                    | -                              | -                 | 172,043               | -                      | -                                    |
| <b>Derivative Financial Instruments</b>                                      |                        |                                      |                                |                   |                       |                        |                                      |
| Forward Foreign Exchange Contracts and<br>Currency Swaps                     | -                      | -                                    | -                              | -                 | 2,342,150             | -                      | -                                    |
| <b>Financial Assets - Recognized through<br/>Profit or Loss</b>              |                        |                                      |                                |                   |                       |                        |                                      |
| Government Treasury Bills and Bonds  | -                      | -                                    | -                              | -                 | -                     | -                      | -                                    |
| <b>Financial Assets-Available for Sale</b>                                   |                        |                                      |                                |                   |                       |                        |                                      |
| Government Treasury Bills and Bonds  | -                      | -                                    | -                              | -                 | -                     | -                      | -                                    |
| Unquoted Equity Shares   | -                      | -                                    | -                              | -                 | -                     | -                      | -                                    |
| <b>Financial Assets at Fair Value through<br/>Other Comprehensive Income</b> |                        |                                      |                                |                   |                       |                        |                                      |
| Government Treasury Bills and Bonds  | -                      | -                                    | -                              | -                 | -                     | -                      | -                                    |
| Unquoted Equity Shares   | -                      | -                                    | -                              | -                 | -                     | -                      | -                                    |
| <b>Financial Assets - Held to Maturity</b>                                   |                        |                                      |                                |                   |                       |                        |                                      |
| Government Treasury Bills and Bonds  | -                      | -                                    | -                              | -                 | -                     | -                      | -                                    |
| <b>Other Financial Assets</b>  |                        |                                      |                                |                   |                       |                        |                                      |
| Sri Lanka Development Bonds  | -                      | -                                    | -                              | -                 | -                     | -                      | -                                    |
| Quoted Debentures  | -                      | -                                    | -                              | -                 | -                     | -                      | -                                    |
| <b>Financial Assets at Amortised Cost</b>                                    |                        |                                      |                                |                   |                       |                        |                                      |
| Government Treasury Bills and Bonds  | -                      | -                                    | -                              | -                 | -                     | -                      | -                                    |
| Sri Lanka Development Bonds  | -                      | -                                    | -                              | -                 | -                     | -                      | -                                    |
| Quoted Debentures  | -                      | 23,011                               | 171,936                        | -                 | 1,234,852             | -                      | -                                    |
| Impairment   | -                      | -                                    | -                              | -                 | -                     | -                      | -                                    |
| <b>Financial Assets at Amortized Cost -<br/>Loans and Advances</b>           |                        |                                      |                                |                   |                       |                        |                                      |
| Corporate Loans  | 11,179,440             | 23,862,681                           | 3,422,298                      | 528,810           | 15,975,891            | 1,135,827              | 1,001,948                            |
| Retail, SME and Consumer   | 8,677,925              | 27,222,509                           | 6,972,640                      | 229,392           | 3,432,904             | 1,538,111              | 2,392,465                            |
| Housing Loans  | 5,544                  | 346,162                              | 42,700                         | -                 | 332,303               | 12,888                 | 127,182                              |
| Leases   | 6,329,423              | 9,386,166                            | 5,801,427                      | 249,893           | 1,616,662             | 1,635,316              | 1,360,813                            |
| Staff loans  | -                      | -                                    | -                              | -                 | 2,644,584             | -                      | -                                    |
| Impairment for Loans and Advances  | -                      | -                                    | -                              | -                 | -                     | -                      | -                                    |
| Net Loans and Advances   | -                      | -                                    | -                              | -                 | -                     | -                      | -                                    |
|  | 26,192,333             | 60,840,528                           | 16,411,000                     | 1,008,095         | 34,188,960            | 4,322,142              | 4,882,409                            |

| Industrials | Materials | Real Estate | Telecommunication<br>Services | Utilities | Other      | Zero Risk  | Total       |
|-------------|-----------|-------------|-------------------------------|-----------|------------|------------|-------------|
| LKR'000     | LKR'000   | LKR'000     | LKR'000                       | LKR'000   | LKR'000    | LKR'000    | LKR'000     |
| -           | -         | -           | -                             | -         | -          | -          | 6,437,573   |
| -           | -         | -           | -                             | -         | -          | 12,762,122 | 12,762,122  |
| -           | -         | -           | -                             | -         | 8,550      | -          | 180,593     |
| -           | -         | -           | -                             | -         | 61,637     | -          | 2,403,787   |
| -           | -         | -           | -                             | -         | -          | 668,812    | 668,812     |
| -           | -         | -           | -                             | -         | -          | -          | -           |
| -           | -         | -           | -                             | -         | -          | -          | -           |
| -           | -         | -           | -                             | -         | -          | 57,449,857 | 57,449,857  |
| -           | -         | -           | -                             | -         | 13,974     | -          | 13,974      |
| -           | -         | -           | -                             | -         | -          | -          | -           |
| -           | -         | -           | -                             | -         | -          | -          | -           |
| -           | -         | -           | -                             | -         | -          | -          | -           |
| -           | -         | -           | -                             | -         | -          | 10,208,371 | 10,208,371  |
| -           | -         | -           | -                             | -         | -          | 3,914,439  | 3,914,439   |
| 459,158     | -         | -           | -                             | -         | -          | -          | 1,888,957   |
| -           | -         | -           | -                             | -         | -          | -          | (70,519)    |
| 5,363,383   | 1,679,372 | -           | -                             | -         | 158,503    | 108,269    | 64,416,421  |
| 17,305,748  | 2,900,536 | 2,542,190   | 289,435                       | 185,665   | 23,997,251 | 13,427,905 | 111,114,675 |
| 2,322,015   | 14,124    | -           | 13,011                        | -         | 1,007,182  | -          | 4,223,111   |
| 16,175,098  | 1,716,204 | 340,896     | 111,607                       | 141,322   | -          | -          | 44,864,827  |
| -           | -         | -           | -                             | -         | -          | -          | 2,644,584   |
| -           | -         | -           | -                             | -         | -          | -          | (5,757,926) |
| -           | -         | -           | -                             | -         | -          | -          | 221,505,692 |
| 41,625,402  | 6,310,236 | 2,883,086   | 414,053                       | 326,987   | 25,247,097 | 98,539,775 | 317,363,658 |

# Notes to the Financial Statements

| Group - 31 December 2017   | Agriculture<br>LKR'000 | Consumer<br>Discretionary<br>LKR'000 | Consumer<br>Staples<br>LKR'000 | Energy<br>LKR'000 | Financials<br>LKR'000 | Health Care<br>LKR'000 | Information<br>Technology<br>LKR'000 |
|--|------------------------|--------------------------------------|--------------------------------|-------------------|-----------------------|------------------------|--------------------------------------|
| Cash and Cash Equivalents  | -                      | -                                    | -                              | -                 | 6,869,695             | -                      | -                                    |
| Balances with Central Bank of Sri Lanka                                      | -                      | -                                    | -                              | -                 | -                     | -                      | -                                    |
| Reverse Repurchase Agreements  | -                      | -                                    | -                              | -                 | -                     | -                      | -                                    |
| <b>Derivative Financial Instruments</b>                                      |                        |                                      |                                |                   |                       |                        |                                      |
| Forward Foreign Exchange Contracts and<br>Currency Swaps                     | -                      | -                                    | -                              | -                 | 228,016               | -                      | -                                    |
| <b>Financial Assets - Recognized through<br/>Profit or Loss</b>              |                        |                                      |                                |                   |                       |                        |                                      |
| Government Treasury Bills and Bonds  | -                      | -                                    | -                              | -                 | -                     | -                      | -                                    |
| <b>Financial Assets-Available for Sale</b>                                   |                        |                                      |                                |                   |                       |                        |                                      |
| Government Treasury Bills and Bonds  | -                      | -                                    | -                              | -                 | -                     | -                      | -                                    |
| Unquoted Equity Shares   | -                      | -                                    | -                              | -                 | -                     | -                      | -                                    |
| <b>Financial Assets at Fair Value through<br/>Other Comprehensive Income</b> |                        |                                      |                                |                   |                       |                        |                                      |
| Government Treasury Bills and Bonds  | -                      | -                                    | -                              | -                 | -                     | -                      | -                                    |
| Unquoted Equity Shares   | -                      | -                                    | -                              | -                 | -                     | -                      | -                                    |
| <b>Financial Assets - Held to Maturity</b>                                   |                        |                                      |                                |                   |                       |                        |                                      |
| Government Treasury Bills and Bonds  | -                      | -                                    | -                              | -                 | -                     | -                      | -                                    |
| <b>Other Financial Assets</b>  |                        |                                      |                                |                   |                       |                        |                                      |
| Sri Lanka Development Bonds  | -                      | -                                    | -                              | -                 | -                     | -                      | -                                    |
| Quoted Debentures  | -                      | 231,681                              | 171,936                        | -                 | 1,781,130             | -                      | -                                    |
| <b>Financial Assets at Amortised Cost</b>                                    |                        |                                      |                                |                   |                       |                        |                                      |
| Government Treasury Bills and Bonds  | -                      | -                                    | -                              | -                 | -                     | -                      | -                                    |
| Sri Lanka Development Bonds  | -                      | -                                    | -                              | -                 | -                     | -                      | -                                    |
| Quoted Debentures  | -                      | -                                    | -                              | -                 | -                     | -                      | -                                    |
| Impairment   | -                      | -                                    | -                              | -                 | -                     | -                      | -                                    |
| <b>Financial Assets at Amortized Cost -<br/>Loans and Advances</b>           |                        |                                      |                                |                   |                       |                        |                                      |
| Corporate Loans  | 6,823,793              | 17,175,912                           | 2,855,024                      | 508,935           | 11,414,398            | 793,210                | 445,953                              |
| Retail, SME and Consumer   | 7,983,097              | 25,494,012                           | 6,419,568                      | 131,035           | 3,733,617             | 1,286,998              | 1,427,831                            |
| Housing Loans  | 5,302                  | 36,080                               | 14,901                         | -                 | 35,011                | 2,018                  | 6,847                                |
| Leases   | 4,262,226              | 8,024,863                            | 4,992,409                      | 204,848           | 1,442,386             | 1,541,461              | 818,151                              |
| Staff loans  | -                      | -                                    | -                              | -                 | 2,346,309             | -                      | -                                    |
| Impairment for Loans and Advances  | -                      | -                                    | -                              | -                 | -                     | -                      | -                                    |
| Net Loans and Advances   | -                      | -                                    | -                              | -                 | -                     | -                      | -                                    |
|  | 19,074,418             | 50,962,549                           | 14,453,839                     | 844,818           | 27,850,560            | 3,623,687              | 2,698,781                            |

| Industrials | Materials | Real Estate | Telecommunication Services | Utilities | Other      | Zero Risk  | Total       |
|-------------|-----------|-------------|----------------------------|-----------|------------|------------|-------------|
| LKR'000     | LKR'000   | LKR'000     | LKR'000                    | LKR'000   | LKR'000    | LKR'000    | LKR'000     |
| -           | -         | -           | -                          | -         | -          | -          | 6,869,695   |
| -           | -         | -           | -                          | -         | -          | 11,193,266 | 11,193,266  |
| -           | -         | -           | -                          | -         | 10,798     | -          | 10,798      |
| -           | -         | -           | -                          | -         | 2,201      | -          | 230,217     |
| -           | -         | -           | -                          | -         | -          | 521,389    | 521,389     |
| -           | -         | -           | -                          | -         | -          | 38,846,109 | 38,846,109  |
| -           | -         | -           | -                          | -         | 5,937      | -          | 5,937       |
| -           | -         | -           | -                          | -         | -          | -          | -           |
| -           | -         | -           | -                          | -         | -          | -          | -           |
| -           | -         | -           | -                          | -         | -          | 9,950,433  | 9,950,433   |
| -           | -         | -           | -                          | -         | -          | 4,053,665  | 4,053,665   |
| 559,195     | -         | -           | -                          | -         | -          | -          | 2,743,942   |
| -           | -         | -           | -                          | -         | -          | -          | -           |
| -           | -         | -           | -                          | -         | -          | -          | -           |
| -           | -         | -           | -                          | -         | -          | -          | -           |
| -           | -         | -           | -                          | -         | -          | -          | -           |
| 2,788,815   | 1,219,461 | 1,153,788   | 415,100                    | -         | 2,153      | 211,559    | 45,808,101  |
| 16,748,099  | 2,641,022 | 2,602,630   | 776,115                    | 123,304   | 20,954,503 | 10,422,162 | 100,743,992 |
| 3,095,448   | 3,807     | -           | 2,991                      | -         | -          | -          | 3,202,405   |
| 13,512,088  | 1,525,060 | 330,941     | 475,228                    | 124,030   | -          | -          | 37,253,690  |
| -           | -         | -           | -                          | -         | -          | -          | 2,346,309   |
| -           | -         | -           | -                          | -         | -          | -          | (2,608,786) |
| -           | -         | -           | -                          | -         | -          | -          | 186,745,710 |
| 36,703,643  | 5,389,350 | 4,087,359   | 1,669,433                  | 247,334   | 20,975,591 | 75,198,584 | 261,171,161 |

## Notes to the Financial Statements

### Commitments and Guarantees

To meet the financial needs of customers, the Bank enters into various commitments and contingent liabilities. Even though these obligations may not be recognized on the Statement of Financial Position, they do contain credit risk and are therefore part of the overall risk of the Bank.

The table below shows the Group/Bank's maximum credit risk exposure for commitments and guarantees.

| As at 31st December                     | 2018               |                    | 2017               |                    |
|---|--------------------|--------------------|--------------------|--------------------|
|   | Bank<br>LKR'000    | Group<br>LKR'000   | Bank<br>LKR'000    | Group<br>LKR'000   |
| Bonds                                   | 14,771,258         | 14,771,258         | 13,020,279         | 13,020,279         |
| Acceptance                              | 3,876,005          | 3,876,005          | 4,440,615          | 4,440,615          |
| Guarantees                              | 908,258            | 908,258            | 273,149            | 273,149            |
| Letters of Credit                       | 5,920,213          | 5,920,213          | 6,753,029          | 6,753,029          |
| Foreign Exchange Contracts **           | 45,047,225         | 45,047,225         | 38,198,470         | 38,198,470         |
| Undrawn Commitments                     |                    |                    |                    |                    |
| Credit Cards                            | 35,952,592         | 35,952,592         | 37,084,877         | 37,084,877         |
| Other                                   | 84,123,758         | 84,126,914         | 73,360,578         | 71,816,749         |
|   | 120,076,350        | 120,079,506        | 110,445,455        | 108,901,626        |
| <b>Total Commitments and Guarantees</b> | <b>190,599,308</b> | <b>190,602,464</b> | <b>173,130,996</b> | <b>171,587,167</b> |

\*\* Forward Exchange Contract amounts shown above are the total of gross purchase and sales contracts with the counter parties. However, the net exposure on these contracts are estimated at LKR 706Mn as at end of 2018 and LKR 540Mn as at end of 2017 based on a 2.5% price premium movement on 6 month forward exchange rate as at end of each year.

The maximum exposure to credit risk relating to a financial guarantee is the maximum amount the Bank would have to pay if the guarantee is called upon. Undrawn commitments mainly consist of unutilized credit card limits and facilities granted to corporate customers where the Bank reserves the right to unconditionally cancel or recall the facility at its discretion.

### 49.3 Liquidity Risk and Funding Management

Liquidity risk is the inability to meet the financial obligations of the Bank in a timely and cost effective manner. Liquidity risk arises from various factors including those outside the Bank's control. The Bank manages liquidity risk according to the liquidity risk management policy. In accordance with the Bank's policy, the liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Bank. Maturity gap analysis is one of the techniques used by the management to monitor liquidity risk.

The Bank performs liquidity stress testing on a regular basis, to evaluate the effect of both industry-wide and Bank-specific stress events on the Bank's liquidity position.

The Bank maintains a liquidity contingency plan that specifies an approach for analyzing and responding to potential liquidity crisis events. In order to manage the same, the Bank is having a standard liquidity facility agreement amounting to LKR 1Bn (Reciprocal agreement). The plan outlines an appropriate governance structure for the management and monitoring of liquidity events, processes for effective internal and external communication and identifies potential counter measures to be considered at various stages of an event.

The Bank actively manages the diversification of its deposit liabilities by source and type of deposit.

The Bank maintains a pool of highly liquid, unencumbered assets that can be readily sold or pledged to secure borrowings under stressed market conditions or due to Bank-specific events.

| For the year ended 31st December | 2018  |       | 2017  |       |
|----------------------------------|-------|-------|-------|-------|
|                                  | DBU   | FCBU  | DBU   | FCBU  |
| Liquid assets Ratio              | 22.3% | 22.3% | 21.1% | 21.8% |

Liquid assets mainly consist of cash, short-term Bank deposits, standing deposit facilities and government securities. In addition, the Bank maintains a statutory deposit with the Central Bank of Sri Lanka equal to 6% (2017 – 7.5%) of Sri Lanka Rupee customer deposits.

While the general market risk is monitored according to the board approved risk parameters on daily basis (some of the parameters are monitored online), the market risk management unit perform stress testing on the trading book periodically. Probable adverse macro-economic scenarios are considered while designing the stress testing framework and the results of the stress testing are presented to Integrated Risk Management Committee of the Bank.

#### Analysis of Financial Assets and Liabilities by Remaining Contractual Maturities

The table below summarizes the maturity profile of the undiscounted cash flows of the Bank's financial assets and liabilities as at 31 December 2018 under the flow approach.



## Notes to the Financial Statements

| Bank - As at 31 December 2018   | On demand<br>(Less than<br>15 days)<br>LKR'000 | 16 days to<br>3 months<br>LKR'000 | 3 to 12<br>months<br>LKR'000 | 1 to 5 years<br>LKR'000 | Over 5 years<br>LKR'000 | Total<br>LKR'000   |
|---|--|-----------------------------------|------------------------------|-------------------------|-------------------------|--------------------|
| <b>Financial Assets</b>   |  |                                   |                              |                         |                         |                    |
| Cash and Cash Equivalents   | 6,437,790                                      | -                                 | -                            | -                       | -                       | 6,437,790          |
| Balances with Central Bank of Sri Lanka   | 3,932,452                                      | 3,165,745                         | 5,303,155                    | 360,452                 | 318                     | 12,762,122         |
| Reverse Repurchase Agreements   | 172,043  | 8,655                             | -                            | -                       | -                       | 180,698            |
| <b>Financial Assets - Recognised through Profit or Loss</b>                     |  |                                   |                              |                         |                         |                    |
| Government Debt Securities - Treasury Bills and Bonds                           | 54,063   | 24,375                            | 338,650                      | 247,093                 | 205,030                 | 869,210            |
| <b>Financial Assets at Fair Value through Other Comprehensive Income</b>        |  |                                   |                              |                         |                         |                    |
| Government Debt Securities - Treasury Bills and Bonds                           | 4,054,050                                      | 8,866,156                         | 40,708,973                   | 8,002,209               | 799,419                 | 62,430,807         |
| Unquoted Equity Shares  | -  | -                                 | -                            | -                       | 13,974                  | 13,974             |
| <b>Financial Assets - Held to Maturity</b>                                      |  |                                   |                              |                         |                         |                    |
| Government Debt Securities - Treasury Bills and Bonds                           | -  | -                                 | -                            | -                       | -                       | -                  |
| Other Financial Assets  | -  | -                                 | -                            | -                       | -                       | -                  |
| <b>Financial Assets at Amortised Cost</b>                                       |  |                                   |                              |                         |                         |                    |
| Government Debt Securities - Treasury Bills and Bonds                           | 131,136  | 213,742                           | 1,422,071                    | 9,274,732               | 3,825,466               | 14,867,147         |
| Other Financial Assets  | -  | 678,290                           | 893,667                      | 5,220,960               | -                       | 6,792,917          |
| Financial Assets at Amortised Cost – Loans and Advances                         | 91,032,164                                     | 29,855,189                        | 40,358,081                   | 89,334,561              | 14,902,784              | 265,482,778        |
| <b>Total Undiscounted Financial Assets</b>                                      | <b>105,813,696</b>                             | <b>42,812,152</b>                 | <b>89,024,596</b>            | <b>112,440,007</b>      | <b>19,746,992</b>       | <b>369,837,444</b> |
| <b>Financial Liabilities</b>  |  |                                   |                              |                         |                         |                    |
| Due to Banks  | 14,456,181                                     | 4,048,419                         | -                            | -                       | -                       | 18,504,600         |
| <b>Financial liabilities at amortised cost</b>                                  |  |                                   |                              |                         |                         |                    |
| Due to Depositors   | 72,734,426                                     | 61,202,250                        | 98,314,436                   | 7,538,812               | 6,215                   | 239,796,140        |
| Repurchase Agreements   | 5,361,034                                      | 2,288,653                         | 184,405                      | -                       | -                       | 7,834,092          |
| Due to Other Borrowers  | 28,960   | 351,531                           | 3,996,394                    | 17,951,876              | 1,722,307               | 24,051,068         |
| Debt Securities Issued  | -  | -                                 | 1,081,388                    | 11,417,991              | -                       | 12,499,379         |
| <b>Total Undiscounted Financial Liabilities</b>                                 | <b>92,580,601</b>                              | <b>67,890,854</b>                 | <b>103,576,624</b>           | <b>36,908,679</b>       | <b>1,728,522</b>        | <b>302,685,280</b> |
| <b>Net Undiscounted Financial Assets/ (Liabilities)</b>                         | <b>13,233,095</b>                              | <b>(25,078,702)</b>               | <b>(14,552,027)</b>          | <b>75,531,328</b>       | <b>18,018,470</b>       | <b>67,152,164</b>  |
| <b>Gross Settled Derivatives not Held for Trading</b>                           |  |                                   |                              |                         |                         |                    |
| <b>Financial Assets</b>   |  |                                   |                              |                         |                         |                    |
| Contractual Amounts Receivable  | 7,963,642                                      | 13,754,739                        | 13,389,086                   | -                       | -                       | 35,107,468         |
| Contractual Amounts Payable   | (7,963,642)                                    | (13,754,739)                      | (13,389,086)                 | -                       | -                       | (35,107,468)       |
|   | -  | -                                 | -                            | -                       | -                       | -                  |
| <b>Financial Liabilities</b>  |  |                                   |                              |                         |                         |                    |
| Contractual Amounts Receivable  | 2,819,499                                      | 4,283,439                         | 2,836,819                    | -                       | -                       | 9,939,757          |
| Contractual Amounts Payable   | (2,819,499)                                    | (4,283,439)                       | (2,836,819)                  | -                       | -                       | (9,939,757)        |
|   | -  | -                                 | -                            | -                       | -                       | -                  |
| <b>Total Gross Settled Derivative Assets/(Liabilities) not Held for Trading</b> | <b>-</b>                                       | <b>-</b>                          | <b>-</b>                     | <b>-</b>                | <b>-</b>                | <b>-</b>           |
| <b>Total Net Financial Assets/ (Liabilities)</b>                                | <b>13,233,095</b>                              | <b>(25,078,702)</b>               | <b>(14,552,027)</b>          | <b>75,531,328</b>       | <b>18,018,470</b>       | <b>67,152,164</b>  |

| Bank - As at 31 December 2017   | On demand<br>(Less than<br>15 days)<br>LKR'000 | 16 days to<br>3 months<br>LKR'000 | 3 to 12<br>months<br>LKR'000 | 1 to 5 years<br>LKR'000 | Over 5 years<br>LKR'000 | Total<br>LKR'000   |
|---|--|-----------------------------------|------------------------------|-------------------------|-------------------------|--------------------|
| <b>Financial Assets</b>   |  |                                   |                              |                         |                         |                    |
| Cash and Cash Equivalents   | 6,867,226                                      | -                                 | -                            | -                       | -                       | 6,867,226          |
| Balances with Central Bank of Sri Lanka   | 3,532,895                                      | 2,740,464                         | 4,474,723                    | 437,951                 | 7,234                   | 11,193,266         |
| Reverse Repurchase Agreements   | -  | 10,879                            | -                            | -                       | -                       | 10,879             |
| <b>Financial Assets - Recognised through Profit or Loss</b>                         |  |                                   |                              |                         |                         |                    |
| Government Debt Securities - Treasury Bills and Bonds                               | 14,688   | 3,956                             | 426,269                      | 106,713                 | -                       | 551,625            |
| <b>Financial Assets at Fair Value through Other<br/>Comprehensive Income</b>        |  |                                   |                              |                         |                         |                    |
| Government Debt Securities - Treasury Bills and Bonds                               | 1,091,219                                      | 10,408,544                        | 22,351,368                   | 6,730,201               | -                       | 40,581,332         |
| Unquoted Equity Shares  | -  | -                                 | -                            | -                       | 5,937                   | 5,937              |
| <b>Financial Assets - Held to Maturity</b>  |  |                                   |                              |                         |                         |                    |
| Government Debt Securities - Treasury Bills and Bonds                               | 119,990  | 197,400                           | 2,610,557                    | 7,758,272               | 3,443,000               | 14,129,218         |
| Other Financial Assets  | -  | 413,565                           | 2,020,481                    | 5,480,386               | -                       | 7,914,431          |
| <b>Financial Assets at Amortised Cost</b>   |  |                                   |                              |                         |                         |                    |
| Government Debt Securities - Treasury Bills and Bonds                               | -  | -                                 | -                            | -                       | -                       | -                  |
| Other Financial Assets  | -  | -                                 | -                            | -                       | -                       | -                  |
| Financial Assets at Amortised Cost – Loans and Advances                             | 69,543,814                                     | 27,988,830                        | 34,027,230                   | 78,354,823              | 13,603,563              | 223,518,260        |
| <b>Total Undiscounted Financial Assets</b>  | <b>81,169,830</b>                              | <b>41,763,638</b>                 | <b>65,910,627</b>            | <b>98,868,345</b>       | <b>17,059,734</b>       | <b>304,772,175</b> |
| <b>Financial Liabilities</b>  |  |                                   |                              |                         |                         |                    |
| Due to Banks  | 5,506,972                                      | 6,833,590                         | -                            | -                       | -                       | 12,340,562         |
| <b>Financial liabilities at amortised cost</b>                                      |  |                                   |                              |                         |                         |                    |
| Due to Depositors   | 63,507,876                                     | 49,263,017                        | 80,438,330                   | 7,872,668               | 130,039                 | 201,211,930        |
| Repurchase Agreements   | 6,018,872                                      | 3,094,924                         | 1,685,133                    | -                       | -                       | 10,798,929         |
| Due to Other Borrowers  | -  | 503,197                           | 2,744,185                    | 9,821,429               | 872,768                 | 13,941,579         |
| Debt Securities Issued  | -  | -                                 | 4,010,252                    | 6,903,105               | -                       | 10,913,357         |
| <b>Total Undiscounted Financial Liabilities</b>                                     | <b>75,033,721</b>                              | <b>59,694,729</b>                 | <b>88,877,900</b>            | <b>24,597,202</b>       | <b>1,002,807</b>        | <b>249,206,358</b> |
| <b>Net Undiscounted Financial Assets/ (Liabilities)</b>                             | <b>6,136,110</b>                               | <b>(17,931,091)</b>               | <b>(22,967,272)</b>          | <b>74,271,143</b>       | <b>16,056,927</b>       | <b>55,565,817</b>  |
| <b>Gross Settled Derivatives not Held for Trading</b>                               |  |                                   |                              |                         |                         |                    |
| <b>Financial Assets</b>   |  |                                   |                              |                         |                         |                    |
| Contractual Amounts Receivable  | 1,095,406                                      | 4,004,638                         | 6,705,626                    | -                       | -                       | 11,805,671         |
| Contractual Amounts Payable   | (1,095,406)                                    | (4,004,638)                       | (6,705,626)                  | -                       | -                       | (11,805,671)       |
|   | -  | -                                 | -                            | -                       | -                       | -                  |
| <b>Financial Liabilities</b>  |  |                                   |                              |                         |                         |                    |
| Contractual Amounts Receivable  | 2,180,031                                      | 7,297,166                         | 16,915,602                   | -                       | -                       | 26,392,799         |
| Contractual Amounts Payable   | (2,180,031)                                    | (7,297,166)                       | (16,915,602)                 | -                       | -                       | (26,392,799)       |
|   | -  | -                                 | -                            | -                       | -                       | -                  |
| <b>Total Gross Settled Derivative Assets/(Liabilities) not Held<br/>for Trading</b> | <b>-</b>                                       | <b>-</b>                          | <b>-</b>                     | <b>-</b>                | <b>-</b>                | <b>-</b>           |
| <b>Total Net Financial Assets/ (Liabilities)</b>                                    | <b>6,136,110</b>                               | <b>(17,931,091)</b>               | <b>(22,967,272)</b>          | <b>74,271,143</b>       | <b>16,056,927</b>       | <b>55,565,817</b>  |

# Notes to the Financial Statements

| Group - As at 31 December 2018  | On demand<br>(Less than<br>15 days)<br>LKR'000 | 16 days to<br>3 months<br>LKR'000 | 3 to 12<br>months<br>LKR'000 | 1 to 5 years<br>LKR'000 | Over 5 years<br>LKR'000 | Total<br>LKR'000   |
|---|--|-----------------------------------|------------------------------|-------------------------|-------------------------|--------------------|
| <b>Financial Assets</b>   |  |                                   |                              |                         |                         |                    |
| Cash and Cash Equivalents   | 6,437,844                                      | -                                 | -                            | -                       | -                       | 6,437,844          |
| Balances with Central Bank of Sri Lanka   | 3,932,452                                      | 3,165,745                         | 5,303,155                    | 360,452                 | 318                     | 12,762,122         |
| Reverse Repurchase Agreements   | 172,043  | 8,655                             | -                            | -                       | -                       | 180,698            |
| <b>Financial Assets - Recognised through Profit or Loss</b>                     |  |                                   |                              |                         |                         |                    |
| Government Debt Securities - Treasury Bills and Bonds                           | 54,063   | 24,375                            | 338,650                      | 247,093                 | 205,030                 | 869,210            |
| <b>Financial Assets at Fair Value through Other Comprehensive Income</b>        |  |                                   |                              |                         |                         |                    |
| Government Debt Securities - Treasury Bills and Bonds                           | 4,054,050                                      | 8,866,156                         | 40,708,973                   | 8,002,209               | 799,419                 | 62,430,807         |
| Unquoted Equity Shares  | -  | -                                 | -                            | -                       | 13,974                  | 13,974             |
| <b>Financial Assets - Held to Maturity</b>                                      |  |                                   |                              |                         |                         |                    |
| Government Debt Securities - Treasury Bills and Bonds                           | -  | -                                 | -                            | -                       | -                       | -                  |
| Other Financial Assets  | -  | -                                 | -                            | -                       | -                       | -                  |
| <b>Financial Assets at Amortised Cost</b>                                       |  |                                   |                              |                         |                         |                    |
| Government Debt Securities - Treasury Bills and Bonds                           | 131,136  | 213,742                           | 1,422,071                    | 9,274,732               | 3,825,466               | 14,867,147         |
| Other Financial Assets  | -  | 678,290                           | 893,667                      | 5,220,960               | -                       | 6,792,917          |
| Financial Assets at Amortised Cost - Loans and Advances                         | 91,037,071                                     | 29,855,189                        | 40,358,081                   | 89,334,561              | 14,902,784              | 265,487,686        |
| <b>Total Undiscounted Financial Assets</b>                                      | <b>105,818,658</b>                             | <b>42,812,152</b>                 | <b>89,024,596</b>            | <b>112,440,007</b>      | <b>19,746,992</b>       | <b>369,842,406</b> |
| <b>Financial Liabilities</b>  |  |                                   |                              |                         |                         |                    |
| Due to Banks  | 14,456,181                                     | 4,048,419                         | -                            | -                       | -                       | 18,504,600         |
| <b>Financial liabilities at amortised cost</b>                                  |  |                                   |                              |                         |                         |                    |
| Due to Depositors   | 72,723,133                                     | 60,735,756                        | 98,314,436                   | 7,538,812               | 6,215                   | 239,318,353        |
| Repurchase Agreements   | 5,258,686                                      | 2,288,653                         | 184,405                      | -                       | -                       | 7,731,744          |
| Due to Other Borrowers  | 28,960   | 351,531                           | 3,996,394                    | 17,951,876              | 1,722,307               | 24,051,068         |
| Debt Securities Issued  | -  | -                                 | 1,081,388                    | 11,417,991              | -                       | 12,499,379         |
| <b>Total Undiscounted Financial Liabilities</b>                                 | <b>92,466,959</b>                              | <b>67,424,361</b>                 | <b>103,576,624</b>           | <b>36,908,679</b>       | <b>1,728,522</b>        | <b>302,105,145</b> |
| <b>Net Undiscounted Financial Assets/ (Liabilities)</b>                         | <b>13,351,699</b>                              | <b>(24,612,208)</b>               | <b>(14,552,027)</b>          | <b>75,531,328</b>       | <b>18,018,470</b>       | <b>67,737,261</b>  |
| <b>Gross Settled Derivatives not Held for Trading</b>                           |  |                                   |                              |                         |                         |                    |
| <b>Financial Assets</b>   |  |                                   |                              |                         |                         |                    |
| Contractual Amounts Receivable  | 7,963,642                                      | 13,754,739                        | 13,389,086                   | -                       | -                       | 35,107,468         |
| Contractual Amounts Payable   | (7,963,642)                                    | (13,754,739)                      | (13,389,086)                 | -                       | -                       | (35,107,468)       |
|   | -  | -                                 | -                            | -                       | -                       | -                  |
| <b>Financial Liabilities</b>  |  |                                   |                              |                         |                         |                    |
| Contractual Amounts Receivable  | 2,819,499                                      | 4,283,439                         | 2,836,819                    | -                       | -                       | 9,939,757          |
| Contractual Amounts Payable   | (2,819,499)                                    | (4,283,439)                       | (2,836,819)                  | -                       | -                       | (9,939,757)        |
|   | -  | -                                 | -                            | -                       | -                       | -                  |
| <b>Total Gross Settled Derivative Assets/(Liabilities) not Held for Trading</b> | <b>-</b>                                       | <b>-</b>                          | <b>-</b>                     | <b>-</b>                | <b>-</b>                | <b>-</b>           |
| <b>Total Net Financial Assets/ (Liabilities)</b>                                | <b>13,351,699</b>                              | <b>(24,612,208)</b>               | <b>(14,552,027)</b>          | <b>75,531,328</b>       | <b>18,018,470</b>       | <b>67,737,261</b>  |

| Group - As at 31 December 2017  | On demand<br>(Less than<br>15 days)<br>LKR'000 | 16 days to<br>3 months<br>LKR'000 | 3 to 12<br>months<br>LKR'000 | 1 to 5 years<br>LKR'000 | Over 5 years<br>LKR'000 | Total<br>LKR'000   |
|---|--|-----------------------------------|------------------------------|-------------------------|-------------------------|--------------------|
| <b>Financial Assets</b>   |  |                                   |                              |                         |                         |                    |
| Cash and Cash Equivalents   | 6,869,699                                      | -                                 | -                            | -                       | -                       | 6,869,699          |
| Balances with Central Bank of Sri Lanka   | 3,531,839                                      | 2,740,842                         | 4,475,340                    | 438,011                 | 7,235                   | 11,193,266         |
| Reverse Repurchase Agreements   | -  | 10,879                            | -                            | -                       | -                       | 10,879             |
| <b>Financial Assets - Recognised through Profit or Loss</b>                     |  |                                   |                              |                         |                         |                    |
| Government Debt Securities - Treasury Bills and Bonds                           | 14,688   | 3,956                             | 426,269                      | 106,713                 | -                       | 551,625            |
| <b>Financial Assets at Fair Value through Other Comprehensive Income</b>        |  |                                   |                              |                         |                         |                    |
| Government Debt Securities - Treasury Bills and Bonds                           | 1,091,219                                      | 10,408,544                        | 22,351,368                   | 6,730,201               | -                       | 40,581,332         |
| Unquoted Equity Shares  | -  | -                                 | -                            | -                       | 5,937                   | 5,937              |
| <b>Financial Assets - Held to Maturity</b>                                      |  |                                   |                              |                         |                         |                    |
| Government Debt Securities - Treasury Bills and Bonds                           | 120,086  | 197,617                           | 2,616,283                    | 7,844,445               | 3,443,000               | 14,221,431         |
| Other Financial Assets  | -  | 413,565                           | 2,020,481                    | 5,480,386               | -                       | 7,914,431          |
| <b>Financial Assets at Amortised Cost</b>                                       |  |                                   |                              |                         |                         |                    |
| Government Debt Securities - Treasury Bills and Bonds                           | -  | -                                 | -                            | -                       | -                       | -                  |
| Other Financial Assets  | -  | -                                 | -                            | -                       | -                       | -                  |
| Financial Assets at Amortised Cost – Loans and Advances                         | 69,752,770                                     | 27,988,830                        | 34,027,230                   | 78,354,823              | 13,603,563              | 223,727,216        |
| <b>Total Undiscounted Financial Assets</b>                                      | <b>81,380,300</b>                              | <b>41,764,233</b>                 | <b>65,916,970</b>            | <b>98,954,579</b>       | <b>17,059,735</b>       | <b>305,075,817</b> |
| <b>Financial Liabilities</b>  |  |                                   |                              |                         |                         |                    |
| Due to Banks  | 5,506,972                                      | 6,833,590                         | -                            | -                       | -                       | 12,340,562         |
| <b>Financial liabilities at amortised cost</b>                                  |  |                                   |                              |                         |                         |                    |
| Due to Depositors   | 63,480,153                                     | 49,263,017                        | 80,438,330                   | 7,872,668               | 130,039                 | 201,184,206        |
| Repurchase Agreements   | 5,955,707                                      | 2,777,672                         | 1,685,133                    | -                       | -                       | 10,418,511         |
| Due to Other Borrowers  | -  | 503,197                           | 2,744,185                    | 9,821,429               | 872,768                 | 13,941,579         |
| Debt Securities Issued  | -  | -                                 | 4,010,252                    | 6,903,105               | -                       | 10,913,357         |
| <b>Total Undiscounted Financial Liabilities</b>                                 | <b>74,942,831</b>                              | <b>59,377,476</b>                 | <b>88,877,900</b>            | <b>24,597,202</b>       | <b>1,002,807</b>        | <b>248,798,216</b> |
| <b>Net Undiscounted Financial Assets/ (Liabilities)</b>                         | <b>6,437,469</b>                               | <b>(17,613,244)</b>               | <b>(22,960,929)</b>          | <b>74,357,377</b>       | <b>16,056,928</b>       | <b>56,277,601</b>  |
| <b>Gross Settled Derivatives not Held for Trading</b>                           |  |                                   |                              |                         |                         |                    |
| <b>Financial Assets</b>   |  |                                   |                              |                         |                         |                    |
| Contractual Amounts Receivable  | 1,095,406                                      | 4,004,638                         | 6,705,626                    | -                       | -                       | 11,805,671         |
| Contractual Amounts Payable   | (1,095,406)                                    | (4,004,638)                       | (6,705,626)                  | -                       | -                       | (11,805,671)       |
|   | -  | -                                 | -                            | -                       | -                       | -                  |
| <b>Financial Liabilities</b>  |  |                                   |                              |                         |                         |                    |
| Contractual Amounts Receivable  | 2,180,031                                      | 7,297,166                         | 16,915,602                   | -                       | -                       | 26,392,799         |
| Contractual Amounts Payable   | (2,180,031)                                    | (7,297,166)                       | (16,915,602)                 | -                       | -                       | (26,392,799)       |
|   | -  | -                                 | -                            | -                       | -                       | -                  |
| <b>Total Gross Settled Derivative Assets/(Liabilities) not Held for Trading</b> | <b>-</b>                                       | <b>-</b>                          | <b>-</b>                     | <b>-</b>                | <b>-</b>                | <b>-</b>           |
| <b>Total Net Financial Assets/ (Liabilities)</b>                                | <b>6,437,469</b>                               | <b>(17,613,244)</b>               | <b>(22,960,929)</b>          | <b>74,357,377</b>       | <b>16,056,928</b>       | <b>56,277,601</b>  |

## Notes to the Financial Statements

Whilst the management understands above contractual mature gaps, more emphasis is given for the behavioural nature of these cash flows when managing the overall liquidity profile. Management has arranged diversified funding sources in addition to its core deposit base, and adopted a policy of managing asset growth with liquidity in mind whilst monitoring future cash flows and liquidity.

In accordance with the Bank's policy, the liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Bank. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The table below shows the contractual expiry by maturity of the Bank's contingent liabilities and commitments. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

| Bank                                    | On demand          | Less than 3 months | 3 to 12 months    | 1 to 5 years     | Over 5 years | Total              |
|---|--------------------|--------------------|-------------------|------------------|--------------|--------------------|
| 31 December 2018                        | LKR'000            | LKR'000            | LKR'000           | LKR'000          | LKR'000      | LKR'000            |
| Bonds                                   | 1,051,230          | 3,075,481          | 8,603,341         | 2,041,205        | -            | 14,771,258         |
| Acceptance                              | 959,459            | 2,492,680          | 423,865           | -                | -            | 3,876,005          |
| Guarantees                              | 908,258            | -                  | -                 | -                | -            | 908,258            |
| Letters of Credit                       | 529,636            | 4,617,130          | 773,447           | -                | -            | 5,920,213          |
| Foreign Exchange Contracts              | 10,783,141         | 18,038,178         | 16,225,905        | -                | -            | 45,047,225         |
| Undrawn Commitments                     | 120,076,350        | -                  | -                 | -                | -            | 120,076,350        |
| <b>Total Commitments and Guarantees</b> | <b>134,308,074</b> | <b>28,223,470</b>  | <b>26,026,559</b> | <b>2,041,205</b> | <b>-</b>     | <b>190,599,308</b> |

| Bank                                    | On demand          | Less than 3 months | 3 to 12 months    | 1 to 5 years     | Over 5 years | Total              |
|---|--------------------|--------------------|-------------------|------------------|--------------|--------------------|
| 31 December 2017                        | LKR'000            | LKR'000            | LKR'000           | LKR'000          | LKR'000      | LKR'000            |
| Bonds                                   | 855,624            | 2,947,080          | 7,274,789         | 1,933,198        | 9,588        | 13,020,279         |
| Acceptance                              | 867,291            | 2,573,867          | 999,457           | -                | -            | 4,440,615          |
| Guarantees                              | 273,149            | -                  | -                 | -                | -            | 273,149            |
| Letters of Credit                       | 609,792            | 5,439,918          | 703,319           | -                | -            | 6,753,029          |
| Foreign Exchange Contracts              | 3,275,437          | 11,301,804         | 23,621,228        | -                | -            | 38,198,470         |
| Undrawn Commitments                     | 110,445,455        | -                  | -                 | -                | -            | 110,445,455        |
| <b>Total Commitments and Guarantees</b> | <b>116,326,747</b> | <b>22,262,669</b>  | <b>32,598,794</b> | <b>1,933,198</b> | <b>9,588</b> | <b>173,130,996</b> |

| Group                                   | On demand          | Less than 3 months | 3 to 12 months    | 1 to 5 years     | Over 5 years | Total              |
|---|--------------------|--------------------|-------------------|------------------|--------------|--------------------|
| 31 December 2018                        | LKR'000            | LKR'000            | LKR'000           | LKR'000          | LKR'000      | LKR'000            |
| Bonds                                   | 1,051,230          | 3,075,481          | 8,603,341         | 2,041,205        | -            | 14,771,258         |
| Acceptance                              | 959,459            | 2,492,680          | 423,865           | -                | -            | 3,876,005          |
| Guarantees                              | 908,258            | -                  | -                 | -                | -            | 908,258            |
| Letters of Credit                       | 529,636            | 4,617,130          | 773,447           | -                | -            | 5,920,213          |
| Foreign Exchange Contracts              | 10,783,141         | 18,038,178         | 16,225,905        | -                | -            | 45,047,225         |
| Undrawn Commitments                     | 120,079,506        | -                  | -                 | -                | -            | 120,079,506        |
| <b>Total Commitments and Guarantees</b> | <b>134,311,230</b> | <b>28,223,470</b>  | <b>26,026,559</b> | <b>2,041,205</b> | <b>-</b>     | <b>190,602,464</b> |

| Group                                   | On demand          | Less than 3 months | 3 to 12 months    | 1 to 5 years     | Over 5 years | Total              |
|---|--------------------|--------------------|-------------------|------------------|--------------|--------------------|
| 31 December 2017                        | LKR'000            | LKR'000            | LKR'000           | LKR'000          | LKR'000      | LKR'000            |
| Bonds                                   | 855,624            | 2,947,080          | 7,274,789         | 1,933,198        | 9,588        | 13,020,279         |
| Acceptance                              | 867,291            | 2,573,867          | 999,457           | -                | -            | 4,440,615          |
| Guarantees                              | 273,149            | -                  | -                 | -                | -            | 273,149            |
| Letters of Credit                       | 609,792            | 5,439,918          | 703,319           | -                | -            | 6,753,029          |
| Foreign Exchange Contracts              | 3,275,437          | 11,301,804         | 23,621,228        | -                | -            | 38,198,470         |
| Undrawn Commitments                     | 108,901,626        | -                  | -                 | -                | -            | 108,901,626        |
| <b>Total Commitments and Guarantees</b> | <b>114,782,918</b> | <b>22,262,669</b>  | <b>32,598,794</b> | <b>1,933,198</b> | <b>9,588</b> | <b>171,587,167</b> |

## Notes to the Financial Statements

### 49.4 Market Risk

Market Risk denotes the risk of losses in the banking book as a result of unfavourable movements in market indices such as interest rates, foreign exchange rates, credit spreads, equity prices and commodity prices. The values of these indices are set in public market and the risk cannot be eliminated through diversification.

The Bank manages the market risk on both trading and non-trading portfolios through a comprehensive market risk management framework. The objective of such framework is to reduce the exposure to the aforementioned unfavourable movements and mitigate the impact on the economic income and cash flows.

The Bank sets market risk limits for both trading and non-trading portfolios which carries the concurrence of the Board of Directors. These limits are reviewed periodically and all revisions and amendments are subject to Board approval. A daily report summarizes the Bank's market risk exposure against approved limits and same being scrutinized by the relevant members in the management team which includes the Chief Executive Officer as well.

#### Types of Market Risk

Both trading and non-trading activities of the Bank are exposed to unfavourable movements in the market indices which reflect in the profit and losses. Bank identifies two types of market risks which directly influence the banking book.

- Interest Rate Risk
- Currency Risk

#### Interest Rate Risk

Interest rate risk (IRR) arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. Any mismatches in the cash flows (fixed rate assets or liabilities) or re-pricing dates (floating rate assets or liabilities) expose the Banks' Net Interest Income to variations. The Board has established limits on the interest rate gaps. The Bank's policy is to monitor positions on a monthly basis and to ensure positions are maintained within the established limits.

IRR exposure is primarily managed with Repricing Gap analysis that distributes interest rate sensitive assets, liabilities and off-balance sheet positions at carrying amount into a number of pre-defined time-bands according to their residual term to maturity (fixed rate) or residual term for their next re-pricing (floating rate).



| Bank - As at 31 December 2018 | Total<br>LKR'000 | On demand<br>(Less than<br>15 days)<br>LKR'000 | 16 days to<br>3 months<br>LKR'000 | 3 to 12<br>months<br>LKR'000 | 1 to 5 years<br>LKR'000 | Over<br>5 years<br>LKR'000 | Non-interest<br>bearing<br>LKR'000 |
|-------------------------------|------------------|--|-----------------------------------|------------------------------|-------------------------|----------------------------|------------------------------------|
|-------------------------------|------------------|--|-----------------------------------|------------------------------|-------------------------|----------------------------|------------------------------------|

**Assets**

|  |                    |                    |                   |                   |                   |                  |                   |
|--|--------------------|--------------------|-------------------|-------------------|-------------------|------------------|-------------------|
| Cash and Balances with Central Bank of Sri Lanka | 19,071,884         | -                  | -                 | -                 | -                 | -                | 19,071,884        |
| Loans and Advances                               | 220,370,911        | 88,280,424         | 36,654,207        | 37,936,864        | 45,971,593        | 3,741,868        | 7,785,955         |
| Investments                                      | 74,895,298         | 4,021,551          | 11,894,997        | 39,966,495        | 14,114,794        | 3,581,818        | 1,315,644         |
| Other  | 59,843,299         | 11,226,043         | 18,661,935        | 17,049,096        | -                 | -                | 12,906,225        |
| <b>Total Assets</b>                              | <b>374,181,392</b> | <b>103,528,018</b> | <b>67,211,139</b> | <b>94,952,455</b> | <b>60,086,387</b> | <b>7,323,686</b> | <b>41,079,708</b> |

**Liabilities**

|  |                    |                   |                   |                    |                   |                  |                   |
|--|--------------------|-------------------|-------------------|--------------------|-------------------|------------------|-------------------|
| Deposits                                       | 226,537,358        | 54,909,102        | 58,021,120        | 90,621,342         | 5,524,127         | 4,880            | 17,456,787        |
| Borrowings                                     | 54,712,237         | 19,644,099        | 16,878,876        | 8,319,029          | 8,589,900         | 1,280,333        | -                 |
| Other  | 92,931,797         | 10,968,370        | 18,109,214        | 16,382,388         | -                 | -                | 47,471,826        |
| <b>Total Shareholder Funds and Liabilities</b> | <b>374,181,392</b> | <b>85,521,571</b> | <b>93,009,210</b> | <b>115,322,758</b> | <b>14,114,027</b> | <b>1,285,213</b> | <b>64,928,613</b> |

|                                       |                   |                     |                     |                   |                  |                     |
|---------------------------------------|-------------------|---------------------|---------------------|-------------------|------------------|---------------------|
| <b>Total Interest Sensitivity Gap</b> | <b>18,006,446</b> | <b>(25,798,071)</b> | <b>(20,370,303)</b> | <b>45,972,360</b> | <b>6,038,473</b> | <b>(23,848,905)</b> |
|---------------------------------------|-------------------|---------------------|---------------------|-------------------|------------------|---------------------|

\*\* The Classifications are based on the basis agreed at ALCO for monitoring of repricing gaps.

| Bank - As at 31 December 2017 | Total<br>LKR'000 | On demand<br>(Less than<br>15 days)<br>LKR'000 | 16 days to<br>3 months<br>LKR'000 | 3 to 12<br>months<br>LKR'000 | 1 to 5 years<br>LKR'000 | Over<br>5 years<br>LKR'000 | Non-interest<br>bearing<br>LKR'000 |
|-------------------------------|------------------|--|-----------------------------------|------------------------------|-------------------------|----------------------------|------------------------------------|
|-------------------------------|------------------|--|-----------------------------------|------------------------------|-------------------------|----------------------------|------------------------------------|

**Assets**

|  |                    |                   |                   |                   |                   |                  |                   |
|--|--------------------|-------------------|-------------------|-------------------|-------------------|------------------|-------------------|
| Cash and Balances with Central Bank of Sri Lanka | 18,040,058         | -                 | -                 | -                 | -                 | -                | 18,040,058        |
| Loans and Advances                               | 186,151,375        | 71,332,504        | 35,751,156        | 31,842,642        | 38,694,327        | 3,303,634        | 5,227,113         |
| Investments                                      | 56,599,755         | 900,000           | 13,508,370        | 25,688,829        | 13,178,950        | 2,500,000        | 823,607           |
| Other  | 47,330,833         | 5,142,123         | 11,251,178        | 22,808,006        | -                 | -                | 8,129,526         |
| <b>Total Assets</b>                              | <b>308,122,022</b> | <b>77,374,627</b> | <b>60,510,703</b> | <b>80,339,476</b> | <b>51,873,277</b> | <b>5,803,634</b> | <b>32,220,304</b> |

**Liabilities**

|  |                    |                   |                   |                    |                   |                |                   |
|--|--------------------|-------------------|-------------------|--------------------|-------------------|----------------|-------------------|
| Deposits                                       | 189,846,729        | 45,016,900        | 46,668,592        | 74,250,699         | 5,805,864         | 73,716         | 18,030,959        |
| Borrowings                                     | 42,347,478         | 11,353,365        | 12,017,580        | 13,294,319         | 5,042,590         | 639,625        | -                 |
| Other  | 75,927,815         | 5,288,757         | 11,357,663        | 23,548,805         | -                 | -              | 35,732,590        |
| <b>Total Shareholder Funds and Liabilities</b> | <b>308,122,022</b> | <b>61,659,021</b> | <b>70,043,835</b> | <b>111,093,823</b> | <b>10,848,454</b> | <b>713,341</b> | <b>53,763,549</b> |

|                                       |                   |                    |                     |                   |                  |                     |
|---------------------------------------|-------------------|--------------------|---------------------|-------------------|------------------|---------------------|
| <b>Total Interest Sensitivity Gap</b> | <b>15,715,606</b> | <b>(9,533,131)</b> | <b>(30,754,347)</b> | <b>41,024,824</b> | <b>5,090,293</b> | <b>(21,543,245)</b> |
|---------------------------------------|-------------------|--------------------|---------------------|-------------------|------------------|---------------------|

\*\* The Classifications are based on the basis agreed at ALCO for monitoring of repricing gaps.

## Notes to the Financial Statements

| Group - As at 31 December 2018 | Total   | On demand<br>(Less than<br>15 days) | 16 days to<br>3 months | 3 to 12<br>months | 1 to 5 years | Over<br>5 years | Non-interest<br>bearing |
|--------------------------------|---------|-------------------------------------|------------------------|-------------------|--------------|-----------------|-------------------------|
|                                | LKR'000 | LKR'000                             | LKR'000                | LKR'000           | LKR'000      | LKR'000         | LKR'000                 |

### Assets

|  |                    |                    |                   |                   |                   |                  |                   |
|--|--------------------|--------------------|-------------------|-------------------|-------------------|------------------|-------------------|
| Cash and Balances with Central Bank of Sri Lanka | 19,078,802         | -                  | -                 | -                 | -                 | -                | 19,078,802        |
| Loans and Advances                               | 220,375,816        | 88,285,329         | 36,654,207        | 37,936,864        | 45,971,593        | 3,741,868        | 7,785,955         |
| Investments                                      | 74,869,496         | 4,021,551          | 11,894,997        | 39,966,495        | 14,114,794        | 3,581,818        | 1,289,841         |
| Other  | 60,122,775         | 11,226,043         | 18,661,935        | 17,049,096        | -                 | -                | 13,185,701        |
| <b>Total Assets</b>                              | <b>374,446,888</b> | <b>103,532,923</b> | <b>67,211,139</b> | <b>94,952,455</b> | <b>60,086,387</b> | <b>7,323,686</b> | <b>41,340,299</b> |

### Liabilities

|  |                    |                   |                   |                    |                   |                  |                   |
|--|--------------------|-------------------|-------------------|--------------------|-------------------|------------------|-------------------|
| Deposits                                       | 226,370,776        | 54,909,102        | 57,854,538        | 90,621,342         | 5,524,127         | 4,880            | 17,456,787        |
| Borrowings                                     | 54,609,913         | 19,541,775        | 16,878,876        | 8,319,029          | 8,589,900         | 1,280,333        | -                 |
| Other  | 93,466,199         | 10,968,370        | 18,109,214        | 16,382,388         | -                 | -                | 48,006,228        |
| <b>Total Shareholder Funds and Liabilities</b> | <b>374,446,888</b> | <b>85,419,247</b> | <b>92,842,628</b> | <b>115,322,758</b> | <b>14,114,027</b> | <b>1,285,213</b> | <b>65,463,015</b> |

|                                       |                   |                     |                     |                   |                  |                     |
|---------------------------------------|-------------------|---------------------|---------------------|-------------------|------------------|---------------------|
| <b>Total Interest Sensitivity Gap</b> | <b>18,113,675</b> | <b>(25,631,490)</b> | <b>(20,370,303)</b> | <b>45,972,360</b> | <b>6,038,473</b> | <b>(24,122,716)</b> |
|---------------------------------------|-------------------|---------------------|---------------------|-------------------|------------------|---------------------|

\*\* The Classifications are based on the basis agreed at ALCO for monitoring of repricing gaps.

| Group - As at 31 December 2017 | Total   | On demand<br>(Less than<br>15 days) | 16 days to<br>3 months | 3 to 12<br>months | 1 to 5 years | Over<br>5 years | Non-interest<br>bearing |
|--------------------------------|---------|-------------------------------------|------------------------|-------------------|--------------|-----------------|-------------------------|
|                                | LKR'000 | LKR'000                             | LKR'000                | LKR'000           | LKR'000      | LKR'000         | LKR'000                 |

### Assets

|  |                    |                   |                   |                   |                   |                  |                   |
|--|--------------------|-------------------|-------------------|-------------------|-------------------|------------------|-------------------|
| Cash and Balances with Central Bank of Sri Lanka | 18,052,834         | -                 | -                 | -                 | -                 | -                | 18,052,834        |
| Loans and Advances                               | 186,360,245        | 71,541,374        | 35,751,156        | 31,842,642        | 38,694,327        | 3,303,634        | 5,227,113         |
| Investments                                      | 55,992,088         | 900,000           | 13,508,370        | 25,688,829        | 13,254,051        | 2,500,000        | 140,838           |
| Other  | 47,364,784         | 5,142,123         | 11,251,178        | 22,808,006        | -                 | -                | 8,163,477         |
| <b>Total Assets</b>                              | <b>307,769,952</b> | <b>77,583,497</b> | <b>60,510,703</b> | <b>80,339,476</b> | <b>51,948,378</b> | <b>5,803,634</b> | <b>31,584,263</b> |

### Liabilities

|  |                    |                   |                   |                    |                   |                |                   |
|--|--------------------|-------------------|-------------------|--------------------|-------------------|----------------|-------------------|
| Deposits                                       | 189,846,729        | 45,016,900        | 46,668,592        | 74,250,699         | 5,805,864         | 73,716         | 18,030,959        |
| Borrowings                                     | 42,206,287         | 11,290,251        | 11,939,503        | 13,294,319         | 5,042,590         | 639,625        | -                 |
| Other  | 75,716,936         | 5,288,757         | 11,357,663        | 23,548,805         | -                 | -              | 35,521,711        |
| <b>Total Shareholder Funds and Liabilities</b> | <b>307,769,952</b> | <b>61,595,907</b> | <b>69,965,758</b> | <b>111,093,823</b> | <b>10,848,454</b> | <b>713,341</b> | <b>53,552,670</b> |

|                                       |                   |                    |                     |                   |                  |                     |
|---------------------------------------|-------------------|--------------------|---------------------|-------------------|------------------|---------------------|
| <b>Total Interest Sensitivity Gap</b> | <b>15,987,590</b> | <b>(9,455,054)</b> | <b>(30,754,347)</b> | <b>41,099,925</b> | <b>5,090,293</b> | <b>(21,968,407)</b> |
|---------------------------------------|-------------------|--------------------|---------------------|-------------------|------------------|---------------------|

\*\* The Classifications are based on the basis agreed at ALCO for monitoring of repricing gaps.

The ALCO monitors the above gaps and the sensitivity on the Profit or Loss and equity for Sri Lanka Rupee and US Dollar denominated assets and liabilities on a Bank and Group basis against the set limits. The sensitivity of the Profit or Loss and equity is measured by calculating the change in the present value of above interest rate sensitive gaps, based on assumed changes in interest rates along the yield curve.

The following table demonstrates the sensitivity of the Bank's Profit or Loss to a reasonably possible parallel shift in the interest rate yield curve, with all other variables held constant.

| Bank              | Increase /<br>(Decrease)<br>in basis points<br>2018 | Sensitivity to<br>Profit after Tax<br>2018<br>LKR'000 | Sensitivity to<br>Equity after Tax<br>2018<br>LKR'000 |
|-------------------|---|---|---|
| Asset/Liabilities |   |   |   |
| LKR               | +100/-100   | +103,030/-104,333                                     | -561,853/+590,974                                     |
| USD               | +50/-50   | -6,160/+6,192   | -8,887/+8,981   |

| Bank              | Increase /<br>(Decrease)<br>in basis points<br>2017 | Sensitivity to<br>Profit after Tax<br>2017<br>LKR'000 | Sensitivity to<br>Equity after Tax<br>2017<br>LKR'000 |
|-------------------|---|---|---|
| Asset/Liabilities |   |   |   |
| LKR               | +100/-100   | +148,572/-150,779                                     | -427,837/+451,684                                     |
| USD               | +50/-50   | -8,358/+8,408   | -10,545/+10,645                                       |

| Group             | Increase /<br>(Decrease)<br>in basis points<br>2018 | Sensitivity to<br>Profit after Tax<br>2018<br>LKR'000 | Sensitivity to<br>Equity after Tax<br>2018<br>LKR'000 |
|-------------------|---|---|---|
| Asset/Liabilities |   |   |   |
| LKR               | +100/-100   | +103,032/-104,335                                     | -561,851/+590,972                                     |
| USD               | +50/-50   | -6,160/+6,192   | -8,887/+8,981   |

| Group             | Increase /<br>(Decrease)<br>in basis points<br>2017 | Sensitivity to<br>Profit after Tax<br>2017<br>LKR'000 | Sensitivity to<br>Equity after Tax<br>2017<br>LKR'000 |
|-------------------|---|---|---|
| Asset/Liabilities |   |   |   |
| LKR               | +100/-100   | +148,559/-150,765                                     | -428,869/+452,756                                     |
| USD               | +50/-50   | -8,358/+8,408   | -10,545/+10,645                                       |

## Notes to the Financial Statements

Exposure to market risk in the trading book is separately monitored and measured by setting limits on products, maturity profile of the portfolio, cut-loss limits and by setting sub-limits within above interest rate sensitive gap analysis.

### Currency Risk

Currency risk is the potential risk of loss due to unfavourable movements in foreign exchange rates when the Bank has foreign currency denominated assets, liabilities or trading positions. Exposure to each currency is arrived at by calculating the Net Asset or Liability position including the spot and forward contracts of the relevant currency.

The Board has set following limits to mitigate against currency risk exposures;

- Exposure on currencies on individual and an aggregate basis
- Exposure for each currency by maturity for forward currency contracts
- Dealer and counter-party Limits
- Overnight and Intra-day Limits
- Stop-loss limits

Treasury Middle Office (TMO) monitors the above positions on a daily basis to ensure positions are maintained within established limits.

The table below indicates the currencies to which the Bank had material exposures at 31 December 2018. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Sri Lankan Rupee, with all other variables held constant, on the Profit or Loss. A negative amount in the table reflects a potential net reduction in Profit or Loss, while a positive amount reflects a net potential increase. An equivalent decrease in each of the below currencies against the Sri Lankan Rupee would have resulted in an equivalent but opposite impact. The sensitivity related to trading position in the Domestic Banking Unit is given below.

| Currency | Change in Currency<br>Rate in %<br>2018 | Change in Currency<br>Rate in %<br>2017 | Effect on Profit<br>after tax<br>2018<br>LKR'000 | Effect on Profit<br>after tax<br>2017<br>LKR'000 |
|----------|---|---|--|--|
| USD      | +5                                      | +5                                      | 1,332.3  | (5,820.3)  |
| GBP      | +5                                      | +5                                      | (422.7)  | (136.2)  |
| EUR      | +5                                      | +5                                      | 113.9  | 50.7   |
| AUD      | +5                                      | +5                                      | (157.0)  | (161.0)  |
| JPY      | +5                                      | +5                                      | 142.3  | 17.0   |
| Other    | +5                                      | +5                                      | 632.7  | 397.4  |

In addition to above trading exposures, the Bank carries a structural position arising from the negative US dollar reserves accumulated in Foreign Currency Banking Unit books. The sensitivity to Profit or Loss from this exposure is as follows;

| Currency | Change in Currency<br>Rate in %<br>2018 | Change in Currency<br>Rate in %<br>2017 | Effect on Profit<br>after tax<br>2018<br>LKR'000 | Effect on Profit<br>after tax<br>2017<br>LKR'000 |
|----------|---|---|--|--|
| USD      | +5                                      | +5                                      | (678.2)  | (2,568.8)  |

## 50 CONTINGENT LIABILITIES, COMMITMENTS AND LEASING ARRANGEMENTS

To meet the financial needs of customers, the Bank enters into various irrevocable commitments and contingent liabilities. These consist of financial guarantees, letters of credit and other undrawn commitments to lend.

Even though these obligations may not be recognized on the Statement of Financial Position, they do contain credit risk and are therefore part of the overall risk of the Bank. (Note 49)

Letters of credit and guarantees commit the Bank to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Guarantees and standby letters of credit carry a credit risk to similar loans.

### 50.1 Legal claims

Litigation is a common occurrence in the banking industry due to the nature of the business undertaken. The Bank has formal controls and policies for managing legal claims. Once professional advice has been obtained and the amount of loss is reasonably estimated, the Bank makes adjustments to account for any adverse effects which the claims may have on its financial standing.

There have been no significant legal claims against the Bank/Group as at reporting date. (2017 - Nil)

### 50.2 Capital Commitments

The commitment for acquisition of Property, Plant and Equipment and Intangible Assets incidental to the ordinary course of business as at 31 December are as follows;

|   | Group           |                 |
|---|-----------------|-----------------|
|   | 2018<br>LKR'000 | 2017<br>LKR'000 |
| Capital Commitments for Property, Plant and Equipment |                 |                 |
| Approved and Contracted for                           | 61,152          | 135,748         |
| Approved but not Contracted for                       | 110,730         | 5,319           |
|   | 171,882         | 141,067         |
| Capital Commitments for Intangible Assets             |                 |                 |
| Approved and Contracted for                           | 242,379         | 252,787         |
| Approved but not Contracted for                       | 434,679         | 5,261           |
|   | 677,058         | 258,048         |
|   | 848,941         | 399,115         |

### 50.3 Lease Arrangements

#### Group as a lessor

Leases where the Bank does not transfer substantially all of the risk and benefits of ownership of the asset are classified as operating leases. Rental income is recorded as earned based on the contractual terms of the lease in Other operating income. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

#### Group as a lessee

Leases that do not transfer to the Bank substantially all of the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term. Contingent rental payable is recognised as an expense in the period in which they it is incurred.

## Notes to the Financial Statements

### 50 CONTINGENT LIABILITIES, COMMITMENTS AND LEASING ARRANGEMENTS (CONTD.)

#### 50.3 Lease Arrangements (Contd.)

##### 50.3.1 Operating Lease Commitments – Group as Lessee

The Group has entered into commercial leases for premises. These leases have an average life of three years with no renewal option included in the contracts. There are no restrictions placed upon the lessee by entering into these leases. Future minimum lease payments under non-cancellable operating leases as at 31 December are, as follows:

|   | Group     |         |
|---|-----------|---------|
|   | 2018      | 2017    |
|   | LKR'000   | LKR'000 |
| Within one year                             | 339,935   | 187,649 |
| After one year but not more than five years | 1,007,706 | 369,760 |
| More than five years                        | 674,576   | 63,489  |
|   | 2,022,217 | 620,899 |

##### 50.3.2 Operating Lease Receivable – Group as Lessor

The table below provides an analysis of operating lease receivables for leases of certain property in which the Group is the lessor.

|   | Group   |         |
|---|---------|---------|
|   | 2018    | 2017    |
|   | LKR'000 | LKR'000 |
| Within one year                             | 135,360 | 26,270  |
| After one year but not more than five years | 148,906 | 30,681  |
|   | 284,266 | 56,951  |

### 51 CAPITAL

The Bank maintains an actively managed capital base to cover risks inherent in the business and meet the capital adequacy requirements of the Central Bank of Sri Lanka. The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision (BIS) and adopted by the Central Bank of Sri Lanka in supervising the Bank.

#### 51.1 Capital Management

The primary objectives of the Bank's capital management policy are to ensure that the bank complies with externally imposed capital requirements and maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholder value.

Regulatory capital consists of Tier 1 Capital, which comprises share capital, share premium, retained earnings including current year profit. The other component of regulatory capital is Tier II Capital, which includes subordinated long term debt.

## 51.2 Net Assets Value per Ordinary Share

Net Assets Value per Ordinary Share is calculated by dividing the Equity Attributable to Equity Holders of the Parent by the number of Ordinary Shares in issue as at the reporting date.

|   | Bank         |              | Group        |              |
|---|--------------|--------------|--------------|--------------|
|   | 2018         | 2017         | 2018         | 2017         |
|   | LKR'000      | LKR'000      | LKR'000      | LKR'000      |
| <b>Amount Used as the Numerator:</b>                                |              |              |              |              |
| Net Assets Attributable to Equity Holders of the Parent             | 26,462,102   | 20,807,735   | 27,058,710   | 21,470,041   |
| <b>Number of Ordinary Shares Used as the Denominator:</b>           |              |              |              |              |
| Number of Ordinary Shares in Issue at the End of the Year (Note 28) | 277,747,136  | 230,607,283  | 277,747,136  | 230,607,283  |
| <b>Net Assets Value per Ordinary Share (LKR)</b>                    | <b>95.27</b> | <b>90.23</b> | <b>97.42</b> | <b>93.10</b> |

## 52 EVENTS AFTER THE REPORTING DATE

No material events have taken place since 31 December 2018 that require disclosure or/and adjustments in these accounts, except for the following;

### a) Dividends Declared (Note 44.2)

A dividend of Rs. 2.10 per share in respect of year 2018 is declared by the Board of Directors to be paid in the form of a Scrip issue in the proportion of 01 share for every 46.10018487 voting shares amounting to a total of 5,179,011 new voting shares and 01 share for every 42.00693871 convertible non-voting shares, amounting to a total of 928,270 new convertible non-voting shares. Fractions in shares will be paid in cash.

### b) Debenture Issue

The Bank intends to raise LKR 3.5 Bn BASEL III Compliant, Tier 2, Listed Rated Unsecured Subordinated Redeemable Debentures with non - viability conversion to ordinary shares. The Debentures are expected to be listed on the Colombo Stock Exchange by way of an offer for subscription.



# Notes to the Financial Statements

## 53 TRANSITION DISCLOSURES

The following pages set out the impact of adopting SLFRS 9 on the statement of financial position, and retained earnings including the effect of replacing LKAS 39's incurred credit loss calculations with SLFRS 9's ECLs.

A reconciliation between the carrying amounts under LKAS 39 to the balances reported under SLFRS 9 as of 1 January 2018 is, as follows:

### 53.1 Bank

|   | Ref | LKAS 39 Measurement |             |                   | Re-measurement |           | SLFRS 9     |                     |
|---|-----|---------------------|-------------|-------------------|----------------|-----------|-------------|---------------------|
|   |     | Category            | Amount      | Re-classification | ECL            | Other     | Amount      | Category            |
|   |     |                     | LKR '000    | LKR '000          | LKR '000       | LKR '000  | LKR '000    |                     |
| Financial Assets                          |     |                     |             |                   |                |           |             |                     |
| Cash and Cash Equivalents                 | D   | L&R                 | 6,847,210   | -                 | (228)          | -         | 6,846,982   | AC                  |
| Balances with Central Bank of Sri Lanka   |     | L&R                 | 11,213,278  | -                 | -              | -         | 11,213,278  | AC                  |
| Reverse Repurchase Agreements             |     | L&R                 | 10,798      | -                 | -              | -         | 10,798      | AC                  |
| Derivative Financial Instruments          |     | FVPL                | 230,217     | -                 | -              | -         | 230,217     | FVPL<br>(Mandatory) |
| Financial Assets - Held for Trading       |     | FVPL                | 521,389     | -                 | -              | -         | 521,389     | FVPL<br>(Mandatory) |
| Financial Assets-Available for Sale       |     | AFS                 | 38,852,046  | (38,852,046)      | -              | -         | N/A         |                     |
| To: Debt Instruments at FVOCI             | A   |                     | -           | (38,846,109)      | -              | -         |             |                     |
| To: Equity Instruments at FVOCI           | B   |                     | -           | (5,937)           | -              | -         |             |                     |
| Financial Assets - Held to Maturity       |     | HTM                 | 9,879,390   | (9,879,390)       |                |           | N/A         |                     |
| To: Financial Assets at Amortised Cost    | C   |                     |             | (9,879,390)       |                |           |             |                     |
| Other Financial Assets                    |     | L&R                 | 6,797,607   | (6,797,607)       |                |           | N/A         |                     |
| To: Financial Assets at Amortised Cost    | C   |                     |             | (6,797,607)       | -              | -         |             |                     |
| Debt Instruments at FVOCI                 |     |                     | N/A         | 38,846,109        | -              | -         | 38,846,109  | FVOCI               |
| From: Financial Assets - AFS              | A   |                     |             | 38,846,109        | -              | -         |             |                     |
| Equity Instruments at FVOCI               |     |                     | N/A         | 5,937             | -              | -         | 5,937       | FVOCI               |
| From: Financial Assets - AFS              | B   |                     |             | 5,937             | -              | -         |             |                     |
| Financial Assets at Amortised Cost        | D   |                     | N/A         | 16,676,997        | (20,785)       | -         | 16,656,212  | AC                  |
| From: Financial Assets - Held to Maturity | C   |                     |             | 9,879,390         | -              | -         |             |                     |
| From: Other Financial Assets              | C   |                     |             | 6,797,607         | (20,785)       |           |             |                     |
| Loans and Advances to Customers           | D   | L&R                 | 186,536,712 | -                 | (972,575)      |           | 185,564,137 | AC                  |
| Other Assets                              | D   | L&R                 | 1,893,474   | -                 | (584)          |           | 1,892,890   | AC                  |
| Total Assets                              |     |                     | 262,782,121 | -                 | (994,172)      | -         | 261,787,949 |                     |
| Financial Liabilities                     |     |                     |             |                   |                |           |             |                     |
| Due to Banks                              |     | AC                  | 12,314,853  | -                 | -              | -         | 12,314,853  | AC                  |
| Repurchase Agreements                     |     | AC                  | 10,718,199  | -                 | -              | -         | 10,718,199  | AC                  |
| Derivative Financial Instruments          |     | FVPL                | 495,517     | -                 | -              | -         | 495,517     | FVPL<br>(Mandatory) |
| Due to Customers                          |     | AC                  | 194,296,718 | -                 | -              | -         | 194,296,718 | AC                  |
| Other Borrowed Funds                      |     | AC                  | 11,662,223  | -                 | -              | -         | 11,662,223  | AC                  |
| Debt Securities Issued                    |     | AC                  | 8,075,351   | -                 | -              | -         | 8,075,351   | AC                  |
| Other Liabilities                         | D   | AC                  | 5,795,524   | -                 | 424,236        | -         | 6,219,760   | AC                  |
| Non-Financial Liabilities                 |     |                     |             |                   |                |           |             |                     |
| Deferred Tax Liabilities                  | E   | N/A                 | 1,737,512   | -                 |                | (397,154) | 1,340,358   | N/A                 |
| Total Liabilities                         |     |                     | 245,582,794 | -                 | 424,236        | (397,154) | 245,122,949 |                     |
| Equity                                    |     |                     |             |                   |                |           |             |                     |
| Retained Earning (Note 53.3)              |     | N/A                 | 13,813,403  | -                 | (1,418,408)    | 397,154   | 12,792,150  | N/A                 |

The following pages set out the impact of adopting SLFRS 9 on the statement of financial position, and retained earnings including the effect of replacing LKAS 39's incurred credit loss calculations with SLFRS 9's ECLs.

A reconciliation between the carrying amounts under LKAS 39 to the balances reported under SLFRS 9 as of 1 January 2018 is, as follows:

## 53.2 Group

|   | Ref | LKAS 39 Measurement |             | Re-measurement    |             | SLFRS 9   |             |                     |
|---|-----|---------------------|-------------|-------------------|-------------|-----------|-------------|---------------------|
|   |     | Category            | Amount      | Re-classification | ECL         | Other     | Amount      | Category            |
|   |     |                     | LKR '000    | LKR '000          | LKR '000    | LKR '000  | LKR '000    |                     |
| Financial Assets                          |     |                     |             |                   |             |           |             |                     |
| Cash and Cash Equivalents                 | D   | L&R                 | 6,849,683   | -                 | (228)       | -         | 6,849,455   | AC                  |
| Balances with Central Bank of Sri Lanka   |     | L&R                 | 11,213,278  | -                 | -           | -         | 11,213,278  | AC                  |
| Reverse Repurchase Agreements             |     | L&R                 | 10,798      | -                 | -           | -         | 10,798      | AC                  |
| Derivative Financial Instruments          |     | FVPL                | 230,217     | -                 | -           | -         | 230,217     | FVPL<br>(Mandatory) |
| Financial Assets - Held for Trading       |     | FVPL                | 521,389     | -                 | -           | -         | 521,389     | FVPL<br>(Mandatory) |
|   |     |                     |             |                   |             |           |             |                     |
| Financial Assets-Available for Sale       |     | AFS                 | 38,852,046  | (38,852,046)      | -           | -         | N/A         |                     |
| To: Debt Instruments at FVOCI             | A   |                     | -           | (38,846,109)      | -           | -         |             |                     |
| To: Equity Instruments at FVOCI           | B   |                     | -           | (5,937)           | -           | -         |             |                     |
|   |     |                     |             |                   |             |           |             |                     |
| Financial Assets - Held to Maturity       |     | HTM                 | 9,950,433   | (9,950,433)       |             |           | N/A         |                     |
| To: Financial Assets at Amortised Cost    | C   |                     |             | (9,950,433)       |             |           |             |                     |
|   |     |                     |             |                   |             |           |             |                     |
| Other Financial Assets                    |     | L&R                 | 6,797,607   | (6,797,607)       |             |           | N/A         |                     |
| To: Financial Assets at Amortised Cost    | C   |                     |             | (6,797,607)       | -           | -         |             |                     |
|   |     |                     |             |                   |             |           |             |                     |
| Debt Instruments at FVOCI                 |     |                     | N/A         | 38,846,109        | -           | -         | 38,846,109  | FVOCI               |
| From: Financial Assets - AFS              | A   |                     |             | 38,846,109        | -           | -         |             |                     |
|   |     |                     |             |                   |             |           |             |                     |
| Equity Instruments at FVOCI               |     |                     | N/A         | 5,937             | -           | -         | 5,937       | FVOCI               |
| From: Financial Assets - AFS              | B   |                     |             | 5,937             | -           | -         |             |                     |
|   |     |                     |             |                   |             |           |             |                     |
| Financial Assets at Amortised Cost        | D   |                     | N/A         | 16,748,040        | (20,785)    | -         | 16,727,255  | AC                  |
| From: Financial Assets - Held to Maturity | C   |                     |             | 9,950,433         | -           | -         |             |                     |
| From: Other Financial Assets              | C   |                     |             | 6,797,607         | (20,785)    |           |             |                     |
|   |     |                     |             |                   |             |           |             |                     |
| Loans and Advances to Customers           | D   | L&R                 | 186,745,711 | -                 | (972,575)   | -         | 185,773,136 | AC                  |
| Other Assets                              | D   | AC                  | 1,940,988   | -                 | (584)       | -         | 1,940,404   | AC                  |
| Total Assets                              |     |                     | 263,112,150 | -                 | (994,172)   | -         | 262,117,978 |                     |
|   |     |                     |             |                   |             |           |             |                     |
| Financial Liabilities                     |     |                     |             |                   |             |           |             |                     |
| Due to Banks                              |     | AC                  | 12,314,853  | -                 | -           | -         | 12,314,853  | AC                  |
| Repurchase Agreements                     |     | AC                  | 10,339,794  | -                 | -           | -         | 10,339,794  | AC                  |
| Derivative Financial Instruments          |     | FVPL                | 495,517     | -                 | -           | -         | 495,517     | FVPL<br>(Mandatory) |
| Due to Customers                          |     | AC                  | 194,268,995 | -                 | -           | -         | 194,268,995 | AC                  |
| Other Borrowed Funds                      |     | AC                  | 11,662,223  | -                 | -           | -         | 11,662,223  | AC                  |
| Debt Securities Issued                    |     | AC                  | 8,075,351   | -                 | -           | -         | 8,075,351   | AC                  |
| Other Liabilities                         | D   | AC                  | 5,834,246   | -                 | 424,236     | -         | 6,258,482   | AC                  |
|   |     |                     |             |                   |             |           |             |                     |
| Non-Financial Liabilities                 |     |                     |             |                   |             |           |             |                     |
| Deferred Tax Liabilities                  | E   | N/A                 | 1,827,929   | -                 | -           | (397,154) | 1,430,775   | N/A                 |
| Total Liabilities                         |     |                     | 244,818,908 | -                 | 424,236     | (397,154) | 244,845,990 |                     |
|   |     |                     |             |                   |             |           |             |                     |
| Equity                                    |     |                     |             |                   |             |           |             |                     |
| Retained Earning (Note 53.3)              |     | N/A                 | 14,237,649  | -                 | (1,418,408) | 397,154   | 13,216,396  | N/A                 |

L&R - Loans and Receivables AC - Amortised Cost FVPL - Fair Value through Profit or Loss AFS - Available for Sale  
HTM - Held to Maturity FVOCI - Fair Value through Other Comprehensive Income

# Notes to the Financial Statements

## 53. TRANSITION DISCLOSURES (CONTD.)

- A As of 1 January 2018, the Bank has assessed its liquid assets which had previously been classified as AFS debt instruments. The Bank concluded that apart from the equity instruments as described in Note B below, all government debt instruments are managed within a business model of collecting contractual cash flows and selling the financial assets. Accordingly, the Bank has classified these investments as debt instruments measured at FVOCI.
- B The Bank has elected the option to irrevocably designate some of its previous AFS equity instruments as Equity instruments at FVOCI.
- C As of 1 January 2018, the Bank did not have any debt instruments that did not meet the SPPI and business model testing criterion within its held-to-maturity portfolio. Therefore, it elected to classify all of these instruments as debt instruments measured at amortised cost.
- D The impact of replacing LKAS 39 incurred loss model on impairment with the SLFRS 9 expected credit loss model on impairment reflected in Loans and Advances including Financial Guarantees, Letters of Credit and Other Commitments, Due from Banks balances and debt instruments at amortised cost.
- E The impact of adopting SLFRS 9 on deferred tax.

### 53.3 The impact of transition to SLFRS 9 on retained earnings is, as follows:

|   | Bank<br>Reserves and<br>retained earnings<br>LKR'000 | Group<br>Reserves and<br>retained earnings<br>LKR'000 |
|---|--|---|
| Retained Earnings   |  |   |
| Closing balance under LKAS 39 (31 December 2017)                        | 13,813,403   | 14,237,649  |
| Recognition of SLFRS 9 ECLs (Note 53.1 & 53.2)                          | (1,418,408)  | (1,418,408)   |
| Deferred tax in relation to the above                                   | 397,154  | 397,154   |
| Opening balance under SLFRS 9 (1 January 2018) (Note 27.2, 53.1 & 53.2) | 12,792,150   | 13,216,396  |
| <b>Total change in equity due to adopting SLFRS 9 (Note 30)</b>         | <b>(1,021,253)</b>                                   | <b>(1,021,253)</b>                                    |

**53.3.1** The following table reconciles the aggregate opening allowance impact under LKAS 39 to the ECL allowance under SLFRS 9. Further details are disclosed in Notes 16 & 38.

|  | Bank   |                                       |   | Group  |                                       |   |
|--|--|---------------------------------------|---|--|---------------------------------------|---|
|  | Loan loss<br>provision under<br>LKAS 39<br>as at<br>31 December<br>2017<br>LKR'000 | 2018<br>Re-<br>measurement<br>LKR'000 | ECLs under<br>SLFRS 9 at<br>1 January 2018<br>LKR'000 | Loan loss<br>provision under<br>LKAS 39<br>as at<br>31 December<br>2017<br>LKR'000 | 2018<br>Re-<br>measurement<br>LKR'000 | ECLs under<br>SLFRS 9 at<br>1 January 2018<br>LKR'000 |
| <b>Impairment allowance for;</b>                       |  |                                       |   |  |                                       |   |
| Financial asset at Amortised cost - Loans and Advances | 2,608,915  | 972,575                               | 3,581,490   | 2,608,785  | 972,575                               | 3,581,360   |
| Financial asset at Amortised cost - Debt Instruments   | -  | 20,785                                | 20,785  | -  | 20,785                                | 20,785  |
| Lease Receivables                                      | 4,074  | 584                                   | 4,658   | 4,074  | 584                                   | 4,658   |
| Cash & Cash Equivalents                                | -  | 228                                   | 228   | -  | 228                                   | 228   |
|  | 2,612,989  | 994,172                               | 3,607,161   | 2,612,859  | 994,172                               | 3,607,031   |
| Financial guarantees                                   | -  | 64,607                                | 64,607  | -  | 64,607                                | 64,607  |
| Letters of credit for customers                        | -  | 7,680                                 | 7,680   | -  | 7,680                                 | 7,680   |
| Other commitments                                      | -  | 351,949                               | 351,949   | -  | 351,949                               | 351,949   |
|  | -  | 424,236                               | 424,236   | -  | 424,236                               | 424,236   |
|  | 2,612,989  | 1,418,408                             | 4,031,397   | 2,612,859  | 1,418,408                             | 4,031,267   |

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# Investor Information

## STOCK EXCHANGE LISTING

The ordinary shares of the bank are all listed in the Colombo Stock Exchange. The audited Income Statement for the year ended 31 December 2018, and the Statement of Financial Position as at that date will be submitted to the Colombo Stock Exchange within two months of the reporting date.

## DISTRIBUTION OF ORDINARY SHAREHOLDERS - VOTING

| As at 31st December 2018 | Resident            |               |       | Non - Resident      |               |       | Total               |               |        |
|--------------------------|---------------------|---------------|-------|---------------------|---------------|-------|---------------------|---------------|--------|
|                          | No. of Shareholders | No. of Shares | %     | No. of Shareholders | No. of Shares | %     | No. of Shareholders | No. of Shares | %      |
| 1 - 1000                 | 3,329               | 974,019       | 0.42  | 27                  | 9,917         | 0.00  | 3,356               | 983,936       | 0.42   |
| 1001 - 10,000            | 1,937               | 5,182,820     | 2.17  | 35                  | 107,088       | 0.04  | 1,972               | 5,289,908     | 2.21   |
| 10,001 - 100,000         | 325                 | 8,445,315     | 3.54  | 6                   | 197,064       | 0.08  | 331                 | 8,642,379     | 3.62   |
| 100,001 - 1,000,000      | 42                  | 9,363,439     | 3.92  | 5                   | 2,312,038     | 0.97  | 47                  | 11,675,477    | 4.89   |
| Over 1,000,000           | 13                  | 155,151,055   | 65.01 | 5                   | 56,921,918    | 23.85 | 18                  | 212,072,973   | 88.86  |
|                          | 5,646               | 179,116,648   | 75.06 | 78                  | 59,548,025    | 24.94 | 5,724               | 238,664,673   | 100.00 |

There were 5,646 Resident and 78 Non - Resident voting shareholders as at 31 December 2018

## DISTRIBUTION OF ORDINARY SHAREHOLDERS - NON VOTING

| As at 31st December 2018 | Resident            |               |       | Non - Resident      |               |       | Total               |               |        |
|--------------------------|---------------------|---------------|-------|---------------------|---------------|-------|---------------------|---------------|--------|
|                          | No. of Shareholders | No. of Shares | %     | No. of Shareholders | No. of Shares | %     | No. of Shareholders | No. of Shares | %      |
| 1 - 1000                 | 210                 | 49,451        | 0.12  | -                   | -             | -     | 210                 | 49,451        | 0.12   |
| 1001 - 10,000            | 36                  | 97,674        | 0.25  | -                   | -             | -     | 36                  | 97,674        | 0.25   |
| 10,001 - 100,000         | 9                   | 182,075       | 0.47  | -                   | -             | -     | 9                   | 182,075       | 0.47   |
| 100,001 - 1,000,000      | 5                   | 928,633       | 2.38  | 1                   | 128,249       | 0.33  | 6                   | 1,056,882     | 2.71   |
| Over 1,000,000           | 5                   | 29,887,540    | 76.47 | 2                   | 7,808,841     | 19.98 | 7                   | 37,696,381    | 96.45  |
|                          | 265                 | 31,145,373    | 79.69 | 3                   | 7,937,090     | 20.31 | 268                 | 39,082,463    | 100.00 |

There were 265 Resident and 3 Non - Resident non voting shareholders as at 31 December 2018

## ANALYSIS OF SHAREHOLDERS - VOTING

|               | 31 December 2018    |               |        | 31 December 2017    |               |        |
|---------------|---------------------|---------------|--------|---------------------|---------------|--------|
|               | No. of Shareholders | No. of Shares | %      | No. of Shareholders | No. of Shares | %      |
| Individual    | 5,432               | 24,376,755    | 10.21  | 5,754               | 24,276,376    | 10.53  |
| Institutional | 292                 | 214,287,918   | 89.79  | 330                 | 206,330,907   | 89.47  |
|               | 5,724               | 238,664,673   | 100.00 | 6,084               | 230,607,283   | 100.00 |

## ANALYSIS OF SHAREHOLDERS - NON VOTING

|               | 31 December 2018    |               |        | 31 December 2017    |               |   |
|---------------|---------------------|---------------|--------|---------------------|---------------|---|
|               | No. of Shareholders | No. of Shares | %      | No. of Shareholders | No. of Shares | % |
| Individual    | 235                 | 1,253,612     | 3.21   | -                   | -             | - |
| Institutional | 33                  | 37,828,851    | 96.79  | -                   | -             | - |
|               | 268                 | 39,082,463    | 100.00 | -                   | -             | - |

## FLOAT ADJUSTED MARKET CAPITALISATION

As per the Rule No. 7.6 (iv) of the Colombo Stock Exchange, the float adjusted market capitalisation is as follows.

|   | 31.12.2018  |        |
|---|-------------|--------|
|   | Number      | %      |
| Number of shareholders representing the public holding (Voting)     | 5,711       | 35.28% |
| Number of shareholders representing the public holding (Non Voting) | 258         | 8.15%  |
| Compliant under Option 2 - Float Adjusted Market Capitalization     | Rs. 7.77 Bn |        |

## MARKET INFORMATION ON ORDINARY SHARES OF THE COMPANY

|                                 | Voting    |           | Non-Voting |      |
|---------------------------------|-----------|-----------|------------|------|
|                                 | 2018      | 2017      | 2018       | 2017 |
| <b>Market value</b>             |           |           |            |      |
| Highest Value (LKR)             | 93.00     | 87.00     | 100.00     | -    |
| Lowest Value (LKR)              | 77.00     | 77.50     | 77.20      | -    |
| Value at end of year (LKR)      | 89.20     | 78.00     | 82.10      | -    |
| <b>Trading Statistics</b>       |           |           |            |      |
| No. of Transactions             | 3,194     | 2,661     | 53         | -    |
| No. of shares Traded (Mn)       | 27.52     | 8.28      | 0.51       | -    |
| Value of shares Traded (LKR Mn) | 2,255.62  | 660.08    | 41.45      | -    |
| <b>Market Capitalization</b>    |           |           |            |      |
| Market Capitalization (LKR Mn)  | 21,288.89 | 17,987.37 | 3,208.67   | -    |

## TWENTY LARGEST VOTING SHAREHOLDERS AS AT 31ST DECEMBER 2018

| Name of the Shareholder  | 2018               |               | 2017*              |               |
|--|--------------------|---------------|--------------------|---------------|
|  | No. of Shares      | %             | No. of Shares      | %             |
| John Keells Holdings PLC   | 47,320,605         | 19.83         | 46,121,536         | 20.00         |
| HWIC Asia Fund   | 35,799,700         | 15.00         | 34,591,092         | 15.00         |
| Central Finance Company PLC A/C No 03  | 23,612,729         | 9.89          | 23,014,400         | 9.98          |
| Mackinnons Keells Limited  | 23,423,698         | 9.81          | 22,830,159         | 9.90          |
| Janashakthi General Insurance Limited  | 19,065,795         | 7.99          | 18,582,682         | 8.06          |
| Bnymansv Re-First State Investments ICVC - Stewart Investors Asia Pacific Fund | 16,588,969         | 6.95          | 15,388,889         | 6.67          |
| CF Insurance Brokers (Pvt) Ltd   | 11,894,248         | 4.98          | 11,592,857         | 5.03          |
| CF Growth Fund Ltd A/C No.01   | 11,813,621         | 4.95          | 11,514,273         | 4.99          |
| Janashakthi Insurance PLC (Policy Holders)                                     | 4,197,467          | 1.76          | 4,091,107          | 1.77          |
| Hatton National Bank PLC A/C No 1  | 3,799,827          | 1.59          | 3,703,543          | 1.61          |
| Rubber Investment Trust Limited A/C # 01                                       | 2,887,165          | 1.21          | 2,263,764          | 0.98          |
| Mr. M.F. Hashim  | 2,668,324          | 1.12          | 2,600,711          | 1.13          |
| Citi Bank New York S/A Norges Bank Account 2                                   | 2,152,294          | 0.90          | -                  | -             |
| Mr. Premalal Brahammanage  | 2,105,399          | 0.88          | -                  | -             |
| Mr. N.R. Somaiya   | 1,354,957          | 0.57          | 1,320,624          | 0.57          |
| Timex Garments (Pvt) Ltd   | 1,270,662          | 0.53          | 1,238,465          | 0.54          |
| Malship Ceylon Ltd   | 1,091,515          | 0.46          | 1,063,857          | 0.46          |
| Mr. D.J.M. Blackler  | 1,025,998          | 0.43          | 1,000,000          | 0.43          |
| SSBT - Parametric Tax-Managed Emerging Markets Fund                            | 958,472            | 0.40          | -                  | -             |
| E.W. Balasuriya & Co. (Pvt) Ltd  | 602,215            | 0.25          | -                  | -             |
|  | <b>213,633,660</b> | <b>89.51</b>  | <b>201,417,959</b> | <b>87.34</b>  |
| Others   | 25,031,013         | 10.49         | 29,189,324         | 12.66         |
| <b>Total</b>   | <b>238,664,673</b> | <b>100.00</b> | <b>230,607,283</b> | <b>100.00</b> |

\*Shareholding as at 31st December 2017 of the top twenty shareholders as at 31st December 2018

The Director of Bank Supervision of the Central Bank of Sri Lanka (CBSL) has by letter dated 12th October 2017 informed the Bank that the Monetary Board of the CBSL has permitted the John Keells Group and Central Finance Group to retain their respective current shareholdings in the Bank till 31st December 2020 and to reduce it to 15% each with effect from that date. The Monetary Board has also required the Bank to limit the voting rights of the John Keells Group and Central Finance Group to 10% each with effect from 31st March 2018.

## Investor Information

### TWENTY LARGEST NON VOTING SHAREHOLDERS AS AT 31ST DECEMBER 2018

| Name of the Shareholder  | 2018              |               | 2017          |   |
|--|-------------------|---------------|---------------|---|
|  | No. of Shares     | %             | No. of Shares | % |
| John Keells Holdings PLC   | 14,506,193        | 37.12         | -             | - |
| Central Finance Company PLC A/C No 03  | 7,184,555         | 18.38         | -             | - |
| HWIC Asia Fund   | 5,862,934         | 15.00         | -             | - |
| Mackinnons Keells Limited  | 4,073,686         | 10.42         | -             | - |
| CF Insurance Brokers (Pvt) Ltd   | 2,068,564         | 5.29          | -             | - |
| CF Growth Fund Ltd A/C No.01   | 2,054,542         | 5.26          | -             | - |
| Bnymsanv Re-First State Investments ICVC-Stewart Investors Asia Pacific Fund | 1,945,907         | 4.98          | -             | - |
| Mr. Esufally Husein Nuruddin   | 311,066           | 0.80          | -             | - |
| Mr. Esufally Murtaza Ali Abidhussen Hassanaly                                | 205,199           | 0.53          | -             | - |
| Mr. Jafferjee Saifuddin Gulzar Hussien Ibrahim                               | 138,769           | 0.36          | -             | - |
| Mr. Jafferjee Murtaza Ali  | 136,800           | 0.35          | -             | - |
| Mr. Jafferjee Mufaddal Gulzar Hussein Ibrahim                                | 136,799           | 0.35          | -             | - |
| Mr. D.J.M. Blackler  | 128,249           | 0.33          | -             | - |
| J. B. Cocoshell (Pvt) Ltd  | 56,827            | 0.15          | -             | - |
| The Incorporated Trustees of the Church of Ceylon                            | 24,534            | 0.06          | -             | - |
| Mr. Balendra Krishan Niraj Jayasekara  | 19,216            | 0.05          | -             | - |
| Mr. Hirdaramani Siddharth Janak  | 17,843            | 0.05          | -             | - |
| Mr. Hirdaramani Anil Kumar Lalchand  | 15,502            | 0.04          | -             | - |
| Mr. Fernando Dilhan Crishantha   | 15,181            | 0.04          | -             | - |
| Vinik (Pvt) Ltd  | 12,489            | 0.03          | -             | - |
|  | 38,914,855        | 99.57         | -             | - |
| Others   | 167,608           | 0.43          | -             | - |
| <b>Total</b>   | <b>39,082,463</b> | <b>100.00</b> | -             | - |

## DEBENTURE INFORMATION

The rated unsecured subordinated redeemable debentures 2016/21 and 2018/23 of the bank are listed in the Colombo Stock Exchange

| Debenture Categories | CSE listing                 | Interest Payable Frequency | Face Value |           | Market Values 2018                   |        |         | Interest Rates 2018 |                        |       | Interest Rate of Comparable Government security |                                      | Other Ratios as at Date of Last Trade |   |   |
|----------------------|-----------------------------|----------------------------|------------|-----------|--------------------------------------|--------|---------|---------------------|------------------------|-------|---|--------------------------------------|---------------------------------------|---|---|
|                      |                             |                            | 2018       | 2017      | Highest                              | Lowest | Yearend | Coupon Rate         | Effective Annual yield |       | 31.12.2018                                      | 31.12.2017                           |                                       |   |   |
|                      |                             |                            |            |           |                                      |        |         |                     | %                      | %     |   |                                      |                                       |   |   |
|                      |                             |                            | LKR'000    | LKR'000   | LKR                                  | LKR    | LKR     | %                   | %                      | %     | %   | Interest Yield                       | Yield to Maturity                     | % | % |
| Fixed Rate           | NTB/BC/19/12/18A13          | Semi -Annually             | -          | 3,000,000 | 99.30                                | 99.30  | -       | 13.00               | 13.42                  | -     | 8.90  | 13.10                                | 13.90                                 |   |   |
| Floating             | NTB-BD-08/11/21-C2363       | Semi -Annually             | 2,410      | 2,410     | Not traded during the current period |        |         | 11.25               | 11.57                  | 11.49 | 9.84  | Not traded during the current period |                                       |   |   |
| Fixed Rate           | NTB-BD-08/11/21-C2365-12.65 | Semi -Annually             | 3,885,800  | 3,885,800 | 100.00                               | 94.60  | 94.60   | 12.65               | 13.05                  | 11.49 | 9.84  | 13.37                                | 15.01                                 |   |   |
| Fixed Rate           | NTB-BD-08/11/21-C2364-12.8  | Annually                   | 1,111,790  | 1,111,790 | Not traded during the current period |        |         | 12.80               | 12.80                  | 11.49 | 9.84  | Not traded during the current period |                                       |   |   |
| Fixed Rate           | NTB-BD-20/04/23-C2402-12.65 | Semi -Annually             | 2,213,000  | -         | Not traded during the current period |        |         | 12.65               | 13.05                  | 11.54 | -   | Not traded during the current period |                                       |   |   |
| Fixed Rate           | NTB-BD-20/04/23-C2401-13    | Annually                   | 1,287,000  | -         | Not traded during the current period |        |         | 13.00               | 13.00                  | 11.54 | -   | Not traded during the current period |                                       |   |   |
|                      |                             |                            | 8,500,000  | 8,000,000 |                                      |        |         |                     |                        |       |   |                                      |                                       |   |   |

| Ratios of Debt            |  | 2018  | 2017  |
|---------------------------|--|-------|-------|
| * Debt / Equity Ratio (%) |  | 99.75 | 78.48 |
| Interest Cover (Times)    |  | 3.76  | 6.31  |
| Quick Asset Ratio (%)     |  | 11.5  | 11.2  |

\* Borrowings over five years original maturity are considered for debt



# Corporate Governance Annexure

## ANNEXURE I: BOARD COMMITTEES

| Board Sub-Committee                         | Mandate and areas of oversight   | Composition as at 27th February 2019   |
|---|--|--|
| Audit Review Committee                      | Review the financial reporting process, internal controls and audit function to ensure the integrity of the financial statements.                  | Ms. Rachini Rajapaksa (Chairperson)<br>Mr. Suran Wijesinghe<br>Mr. Savanth Sebastian<br>Ms. Sherin Cader<br>Mr. Arjun Fernando |
| Board Supervisory Committee                 | Review the Bank's performance to ensure that all business units are focused towards achieving the Bank's strategic objectives                      | Mr. Suran Wijesinghe (Chairman)<br>Mr. Murtaza Jafferjee<br>Mr. Prasanna de Silva<br>Mr. Savanth Sebastian<br>Ms. Sherin Cader |
| HR and Remuneration Committee               | Assist the Board in the establishment of remuneration policies and practices   | Mr. Gihan Cooray (Chairman)<br>Mr. Murtaza Jafferjee<br>Mr. Suran Wijesinghe<br>Mr. Prasanna De Silva                          |
| Nomination Committee                        | Appointing new directors and implementing the procedure to select and appoint key management personnel   | Mr. Murtaza Jafferjee (Chairman)<br>Mr. Gihan Cooray<br>Mr. Prasanna De Silva  |
| Credit Committee                            | Ensuring an optimal balance between the Bank's growth and risk objectives  | Mr. Gihan Cooray (Chairman)<br>Mr. Prasanna De Silva<br>Mr. Russel De Mel<br>Mr. Chanaka Wickramasuriya                        |
| Integrated Risk Management Committee        | Ensuring that the Bank has a comprehensive and effective risk management framework   | Mr. Suran Wijesinghe (Chairman)<br>Ms. Rachini Rajapaksha<br>Ms. Sherin Cader<br>Mr. Arjun Fernando                            |
| Related Party Transactions Review Committee | Ensuring that related party transactions are reviewed in accordance with the Listing Rules and other rules and regulations applicable to the Bank. | Mr. Russell De Mel (Chairman)<br>Mr. Murtaza Jafferjee<br>Ms. Renuka Fernando  |

**ANNEXURE II: COMPLIANCE WITH BANKING DIRECTION NO.11 OF 2007 ON CORPORATE GOVERNANCE**

| Rule Number   | Rule   | Remarks  |
|---------------|--|--|
| <b>3(1)</b>   | <b>The Responsibilities of the Board</b>   |  |
| 3 (1) (i)     | The board shall strengthen the safety and soundness of the bank by ensuring the implementation of the following;   |  |
| 3 (1) (i) (a) | Approve and oversee the bank's strategic objectives and corporate values and ensure that these are communicated throughout the Bank  | <b>Complied</b><br>3-year strategic plan was approved by the Board in December 2016. Plan for 2019-2023 was approved in December 2018.<br><br>Vision, mission and corporate values have been communicated to the staff via intranet and regular training.  |
| 3 (1) (i) (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.   | <b>Complied</b><br>Refer comments on 3 (1) (i) (a)<br>Board has approved the Risk Policy which includes the Risk management procedures and mechanisms with measurable goals. The Bank annually revise Risk Goals contained in the Risk Policy in order to dynamically manage risk appetite of the Bank.  |
| 3 (1) (i) (c) | Identify the principal risks and ensure implementation of appropriate systems to manage the risks prudently.   | <b>Complied</b><br>The implementation of the Risk Policy is being monitored by the IRMC and the Board through a well structured Risk reporting mechanism. IRMC minutes are submitted to the Board regularly as stipulated in the Terms of Reference of Integrated Risk Management Committee.   |
| 3 (1) (i) (d) | Approve implementation of a policy of communication with all stakeholders, including depositors, creditors, share-holders and borrowers  | <b>Complied</b><br>The Board has approved and implemented a policy of communication.<br><br>Board approved communication policy has been communicated to the staff via intranet of the Bank.   |
| 3 (1) (i) (e) | Review the adequacy and the integrity of the bank's internal control systems and management information systems  | <b>Complied</b><br>Such review is being carried out routinely by the Board. Internal controls are being looked at by individual departments at predetermined intervals being either monthly or quarterly. Implementation of internal controls is also looked into by the Internal Audit Department. Board monitors these through the Integrated Risk Management Committee and the Board Audit Review Committee (BARC). |
| 3 (1) (i) (f) | Identify and designate key management personnel, as defined in the International Accounting Standards, who are in a position to<br>(i) significantly influence policy;<br>(ii) direct activities; and<br>(iii) exercise control over business activities, operations and risk management | <b>Complied</b><br>The Board has identified Key Management Personnel (KMP), as required by the Direction.  |

# Corporate Governance Annexure

| Rule Number   | Rule  | Remarks  |
|---------------|---|--|
| 3 (1) (i) (g) | Define the areas of authority and key responsibilities for the board directors themselves and for the Key Management Personnel  | <p><b>Complied</b></p> <p>Matters reserved for the Board are specifically identified and approved by the Board.</p> <p>Areas of authority and key responsibilities of the other KMP are included in the respective job descriptions</p>  |
| 3 (1) (i) (h) | Ensure that there is appropriate oversight of the affairs of the bank by key management personnel, that is consistent with Board policy   | <p><b>Complied</b></p> <p>Oversight of affairs of the Bank is carried out through the Board Supervisory Committee (BSC) where all KMPs present their performance and make themselves available for any clarifications and explanations required by the BSC members. Board monitors this through the Minutes of the BSC.</p> <p>KMP also communicate to the Board via the monthly management report submitted to the Board of Directors.</p> <p>KMP make regular presentations to the Board on matters under their purview and are also called in by the Board to explain matters relating to their areas.</p> <p>KMP responsible for internal controls and compliance attend every IRMC meeting.</p> <p>Board has delegated the function of overseeing Internal Audit Department (IAD) to a board sub-committee namely, Board Audit Review Committee (BARC).</p> <p>Board exercise oversight of the affairs of the Bank by KMP through the minutes of the meetings of the BSC, IRMC, BARC and Assets Liabilities Management Committee (ALCO) tabled at Board meetings.</p> |
| 3 (1) (i) (i) | Periodically assess the effectiveness of the board of directors' own governance practices, including <ul style="list-style-type: none"> <li>(i) the selection, nomination and election of directors and key management personnel;</li> <li>(ii) the management of conflicts of interests and</li> <li>(iii) the determination of weaknesses and implementation of changes where necessary.</li> </ul> | <p><b>Complied</b></p> <p>The Board appraises its performance annually by using the Board of Directors self assessment questionnaire. The responses received from the Directors are reviewed by the Senior Director and discussed at the Board meeting.</p>  |

| Rule Number   | Rule   | Remarks  |
|---------------|--|--|
| 3 (1) (i) (j) | Ensure that the bank has an appropriate succession plan for key management personnel.  | <p><b>Complied</b></p> <p>A comprehensive succession planning process is undertaken for KMP. The process involves identification of senior officers and grooming them to take over Corporate Management positions. Succession Plan for KMP has been approved by the Board.</p> <p>After a series of comprehensive deliberations at Nomination Committee and Board level, a successor has been identified and named for the position of CEO. This has been communicated to staff. Human Resources Department is vested with the responsibility of revising and keeping the succession planning process up to date.</p> <p>Succession at Board levels is ensured through maintaining the Board composition at a level higher than the statutorily required minimum number. This permits the Board to carefully fill any sudden vacancy created without an adverse impact on the functionality. Year 2018 saw the successful implementation of this strategy with four (04) directors being replaced during the latter half effectively keeping the skills and gender balance intact.</p> |
| 3 (1) (i) (k) | Meet regularly, on a needs basis, with the key management personnel to review policies, establish communication lines and monitor progress towards corporate objectives  | <p><b>Complied</b></p> <p>Refer comment on 3 (1) (i) (h) above</p>   |
| 3 (1) (i) (l) | Understand the regulatory environment and ensure that the bank maintains an effective relationship with regulators.  | <p><b>Complied</b></p> <p>The Company Secretary is statutorily responsible for communications with the Registrar of Companies. This is included in the JD of the Company Secretary.</p> <p>Maintaining an effective relationship with the regulators is carried out through diligent compliance with applicable rules and regulations. This is included in the JD of Compliance Officer.</p> <p>Compliance with statutory regulations is monitored regularly by the Board. The Compliance Officer of the Bank submits a monthly compliance report which includes all returns submitted to the regulators, to the Board through the CEO. A monthly report is submitted to the IRMC by the Compliance Officer capturing interactions with the Regulators and actions to be taken on new regulations.</p>   |
| 3 (1) (i) (m) | Exercise due diligence in the hiring and oversight of external auditors  | <p><b>Complied</b></p> <p>Board has delegated this function to the BARC. TOR of the BARC contains provisions for hiring and oversight of External Auditors. The appointment of the External Auditor is made at the Annual General Meeting.</p>   |
| 3 (1) (ii)    | The Board shall appoint the chairman and the chief executive officer and define and approve the functions and responsibilities of the chairman and the chief executive officer in line with direction 3 (5) of these Directions. | <p><b>Complied</b></p> <p>Functions and the responsibilities of the Chairman and the CEO have been separated and approved by the Board.</p>  |

# Corporate Governance Annexure

| Rule Number            | Rule   | Remarks   |
|------------------------|--|---|
| <b>Board procedure</b> |  |   |
| 3 (1)(iii)             | <p>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.</p> <p>Obtaining the board's consent through the circulation of written resolutions/papers shall be avoided as far as possible.</p> | <p><b>Complied</b></p> <p>Board met 13 times in the year with three meetings being held in the month of July. Directors actively participate at such meetings. Any concern or comment by such directors requiring action is minuted.</p> <p>Approval of the Board by circular resolutions has been kept to a minimum and resorted to only where necessary. Such resolutions are also submitted to the subsequent Board meeting as an agenda item for information enabling a further discussion on the matter if required.</p>   |
| 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.  | <p><b>Complied</b></p> <p>Approved Board procedure includes a provision to indicate that all Directors are entitled to include such matters and proposals in the agenda for Board Meetings. Also monthly meetings are scheduled and informed to the Board at the beginning of each year to facilitate this.</p>   |
| 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.  | <p><b>Complied</b></p> <p>In terms of Clause 1.2 of the Board Procedure, the schedule of dates of meetings for the year is approved by the Board at, or before the, first Board meeting of the year and such approved schedule is notified to every Director thereby giving more than 7 days notice.</p> <p>Clause 2.3 provides that any change of the schedule shall be notified to the Directors at least 7 days prior to the date of the meeting.</p> <p>Clause 2.4 provides that any meeting other than that contained in the Schedule shall be given 7 days prior notice unless all the directors agree to meet at a shorter notice.</p> |
| 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.                | <p><b>Complied</b></p> <p>Clause 6 of the approved Board procedure contains a similar provision.</p> <p>Details of the Directors attendance is set out on Page 62 of the Annual Report, 2018.</p> <p>No director has violated this requirement during the financial year 2018.</p>  |
| 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.  | <p><b>Complied</b></p> <p>The Company Secretary who is an Attorney-at-Law satisfies the provisions contained in Section 43 of the Banking Act.</p> <p>JD of the Company Secretary includes the responsibilities to handle the secretariat services to the Board and shareholder meetings and carry out other functions specified in the statutes and other regulations.</p>   |
| 3(1) (viii)            | All directors shall have access to advice and services of the company secretary with a view to ensure that board procedures and all applicable rules and regulations are followed.   | <p><b>Complied</b></p> <p>All Directors have access to the advice and services of the Company Secretary.</p> <p>Clause 8.3 of the Board Procedure provides for same.</p>  |

| Rule Number | Rule   | Remarks   |
|-------------|--|---|
| 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.   | <b>Complied</b><br>Board minutes are maintained by the Company Secretary. Clause 9.1 of the Board Procedure also provides for same. The Directors have access to the Board papers and minutes through a secure electronic link.   |
| 3(1)(x)     | <p>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.</p> <p>The minutes shall serve as a reference for regulatory and supervisory authorities to assess the depth of deliberations at the board meetings. Therefore the minutes of a board meeting shall clearly contain or refer to the following;</p> <ul style="list-style-type: none"> <li>(a) A summary of data and information used by the Board in its deliberations</li> <li>(b) The matters considered by the board</li> <li>(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.</li> <li>(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</li> <li>(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</li> <li>(f) The decisions and board resolutions.</li> </ul> | <b>Complied</b><br><p>Minutes of Board meetings are recorded in sufficient detail to enable a proper assessment to be made of the depth of deliberations at the meetings.</p> <p>Every paper submitted to the Board seeking approval of the Board contains recommendations from the executive management and also discloses a reasonable basis for making such recommendations. Minutes will refer to the paper which contains the data and opinions relied on by the Board and also contain any other matter considered by the Board outside what is contained in the paper (if any). Minutes are to be read with the relevant board paper. Reference of the paper considered is included in the minute.</p> <p>Clause 9.4 of the Board procedure also provides for the contents of the Board minutes.</p> |
| 3 (1) (xi)  | <p>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.</p> <p>The Board shall resolve to provide separate independent professional advice to directors to assist the relevant director or directors to discharge his/her/their duties to the bank.</p>   | <b>Complied</b><br>Approved Board procedure includes a provision to enable the Directors to seek independent professional advice at the Bank's expense.   |

# Corporate Governance Annexure

| Rule Number  | Rule   | Remarks  |
|--------------|--|--|
| 3(1)(xii)    | <p>Directors shall avoid conflicts of interests, or the appearance of conflicts of interests, in their activities with, and commitments to, other organizations or related parties.</p> <p>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.</p> <p>Further a director shall abstain from voting on any board resolution in relation to which he/she or any of his/her close relation or a concern in which a director has substantial interest, is interested, and he/she shall not be counted in the quorum for the relevant agenda item at the board meeting.</p> | <p><b>Complied</b></p> <p>Clause 10 of the Board procedure specifically addresses avoidance of conflicts of interest.</p> <p>Board has made a determination as to what should be considered as material and such matters have been dealt by the Board as required by the Rule. Directors abstain from participating in the discussions, voicing their opinion or approving in situations where there is a conflict of interest. Board minutes provide evidence of compliance.</p>        |
| 3(1)(xiii)   | The board shall have a formal schedule of matters specifically reserved to it for decision to ensure that the direction and control of the bank is firmly under its authority.   | <p><b>Complied</b></p> <p>There is a schedule of matters reserved for Board approval which has been approved by the Board.</p>   |
| 3 (1) (xiv)  | The board shall, if it considers that the bank is, or is likely to be, unable to meet its obligations or is about to become insolvent or is about to suspend payments due to depositors and other creditors, forthwith inform the Director of Bank Supervision of the situation of the bank prior to taking any decision or action.  | <p><b>Complied</b></p> <p>Such a situation has not arisen. Board is furnished with sufficient information on a regular basis to enable the Board to act in the required manner if such a situation arises.</p> <p>Board has also approved and put in place a robust ALCO mechanism that would keep the liquidity position under control.</p> <p>IRMC discusses in detail the Key Risk Goals at each IRMC meeting and the minutes of the IRMC are submitted to the Board accordingly.</p> |
| 3 (1) (xv)   | The board shall ensure that the bank is capitalized at levels as required by the Monetary Board in terms of the capital adequacy ratio and other prudential grounds.   | <p><b>Complied</b></p> <p>The Bank is in compliance with regulatory and prudential requirements relating to capital adequacy. Capital Adequacy Ratios are submitted to the Board quarterly. IRMC also monitors this on a monthly basis through Key Risk Goals.</p>   |
| 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.  | <p><b>Complied</b></p> <p>Report is published in page 227 of the Annual Report of 2018.</p>  |
| 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.   | <p><b>Complied</b></p> <p>The Board appraises its performance by using the Board evaluation form which is filled by each director in relation to business strategy and contributions of Board members based on their field of expertise, annually. The responses are collated and reviewed by the Senior Director and discussed at the Board meeting.</p> <p>The records of these assessments are maintained with the Company Secretary.</p>   |

| Rule Number  | Rule   | Remarks   |
|--------------|--|---|
| <b>3 (2)</b> | <b>The Board's composition</b>   |   |
| 3(2)(i)      | The number of directors on the board shall not be less than 7 and not more than 13   | <b>Complied</b><br>Board composition was in compliance with this requirement throughout the year.   |
| 3(2)(ii)(A)  | The total period of service of a Director other than a director who holds the position of chief executive officer shall not exceed nine years, and such period in office shall be inclusive of the total period of service served by such director up to January 1st, 2008.  | <b>Complied</b><br>No Director served for a period exceeding Nine years during the year.  |
| 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.   | <b>Complied</b><br>The Board consisted of twelve directors with one Executive Director and eleven Non Executive Directors as at 31st December, 2018. Number of Executive Directors has not exceeded the specified number at any time during the year. |
| 3(2)(iv)     | <p>The board shall have at least three independent non executive directors or one third of the total number of directors, whichever is higher. This sub direction shall be applicable from January 1st, 2010 onwards.</p> <p>A non executive director shall not be considered independent if he/she;</p> <ul style="list-style-type: none"> <li>a) has direct and indirect shareholding of more than 1% of the bank;</li> <li>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% of the regulatory capital of the bank;</li> <li>c) has been employed by the bank during the two year period immediately preceding the appointment as director</li> <li>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;</li> <li>e) represents a specific stakeholder of the bank</li> <li>f) is an employee or a director or a material shareholder in a company or business organization;</li> </ul> <ul style="list-style-type: none"> <li>1. which currently has a transaction with the bank as defined in Direction 3(7) of these Directions, exceeding 10% of the regulatory capital of the bank, or</li> <li>11. in which any of the other directors of the bank are employed or are directors or are material shareholders; or</li> <li>111. in which any of the other directors of the bank have a transaction as defined in Direction 3(7) of these Directions, exceeding 10% of regulatory capital in the bank.</li> </ul> | <b>Complied</b><br>The Bank had six Independent Non Executive Directors out of a total of twelve Directors as at 31st December, 2018 which complies with the requirement.   |



## Corporate Governance Annexure

| Rule Number  | Rule   | Remarks   |
|--------------|--|---|
| 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.   | <b>Not Applicable</b><br>No alternate director has been appointed during the year.  |
| 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.  | <b>Complied</b><br>Directors possess qualifications and experience to meet the criteria specified in the Rule. Brief profiles of the Directors are given on pages 14 to 17 of the Annual Report, 2018.<br>Directors nominate names of eminent professionals or academics from various disciplines to the Board Nomination Committee which peruse the profiles and recommends suitable candidates to the Board.<br>Central Bank approval is also obtained for all new appointments and for continuing directors, annually. |
| 3(2)(vii)    | A meeting of the board shall not be duly constituted, although the number of directors required to constitute the quorum at such meeting is present, unless more than one half of the number of directors present at such meeting are non executive directors. This sub direction shall be applicable from January 1, 2010 onwards.  | <b>Complied</b><br>All meetings have been attended by a majority 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.             | <b>Complied</b><br>Composition of the Board, including the names of the Chairman, Executive Directors, Non Executive Directors and Independent Non- Executive directors are disclosed in page 14 to 17 of the Annual Report, 2018.  |
| 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.  | <b>Complied</b><br>A Board composition and succession plan is in place. All appointments are considered and approved by the Nomination Committee and by the full Board thereafter in addition to obtaining approval from the Central Bank of Sri Lanka.   |
| 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.  | <b>Complied</b><br>Notice and Agenda for the AGM to be held in 2019 includes proposals to seek shareholders' approval for directors appointed to fill casual vacancies.   |
| 3(2)(xi)     | If a director resigns or is removed from office, the board shall :<br>(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<br>(b) issue a statement confirming whether or not there are any matters that need to be brought to the attention of shareholders. | <b>Complied</b><br>Two directors retired and three directors resigned from the Board during the year. Necessary formalities as required by the Rule have been complied with.  |

| Rule Number | Rule   | Remarks   |
|-------------|--|---|
| 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.   | <b>Complied</b><br>Based on the quarterly declarations submitted by individual directors in the year 2018, no director is a Director of another Bank. Letter of appointment of employees includes a clause which stipulates that an employee shall not have any dealing with any other financial institution. |
| 3(3)        | <b>Criteria to assess the fitness and propriety of directors</b><br>In addition to provisions of Section 42 of the Banking Act No.30 of 1988, the criteria set out below shall apply to determine the fitness and propriety of a person who serves or wishes to serve as a director of a bank. Non-compliance with any one of the criteria as set out herein shall disqualify a person to be appointed, elected or nominated as a director or to continue as a director. |   |
| 3(3) (i)    | The age of a person who serves as a director shall not exceed 70 years.  | 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.   | <b>Complied</b><br>No director of the Bank holds Directorships in more than 20 companies.   |
| 3 (4)       | <b>Management functions delegated by the Board</b>   |   |
| 3 (4) (i)   | The directors shall carefully study and clearly understand the delegation arrangements in place  | <b>Complied</b><br>Clause 7 of the Board Procedure includes a provision for delegation of powers by the Board. TORs of all Board sub committees have been approved by the Board. All delegations have been done by the Board after due consideration.   |
| 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.  | <b>Complied</b><br>Refer comment on 3.4.(i) above.  |
| 3 (4) (iii) | The board shall review the delegation process in place on a periodic basis to ensure that they remain relevant to the needs of the bank.   | <b>Complied</b><br>As and when new requirements have arisen, the Board has reviewed and amended delegation arrangements based on the recommendations made by the management.  |
| 3 (5)       | <b>The Chairman and the Chief Executive Officer</b>  |   |
| 3 (5) (i)   | The roles of the chairman and the chief executive officer shall be separate and shall not be performed by the same individual.   | <b>Complied</b><br>Roles of the Chairman and the CEO are separated and held by two separate individuals. Chairman provides leadership to the Board while the CEO manages the day to day operations of the Bank giving effect to the strategies and policies approved by the Board.                            |

## Corporate Governance Annexure

| Rule Number | Rule  | Remarks   |
|-------------|---|---|
| 3 (5) (ii)  | <p>The chairman shall be a non executive director and preferably an independent director as well.</p> <p>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.</p> <p>The designation of the Senior Director shall be disclosed in the bank's Annual Report.</p> | <p><b>Complied</b></p> <p>Mr. Gihan Cooray, a Non Executive Director is the Chairman as at 31st December, 2018. Mr. Krishan Balendra, a Non Executive Director was the Chairman from 1st January, 2018 to 30th November, 2018.</p> <p>An Independent Non Executive Director Mr. Murtaza Jafferjee functions as the Senior Director. TOR of the Senior Director is approved by the Board.</p> <p>The designation of the Senior Director has been disclosed in the Annual Report, 2018.</p> |
| 3 (5) (iii) | <p>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 the relationship [including financial, business, family or other material/ relevant relationship (s), if any], between the chairman and the chief executive officer and the relationships among members of the board.</p>          | <p><b>Complied</b></p> <p>The identity of the Chairman and the Chief Executive Officer and the absence of a relationship between the two persons are disclosed in the Annual Report 2018.</p>   |
| 3 (5) (iv)  | <p>The chairman shall;</p> <p>(a) provide leadership to the board</p> <p>(b) ensure that the board works effectively and discharges its responsibilities; and</p> <p>(c) ensure that all key and appropriate issues are discussed by the board in a timely manner.</p>  | <p><b>Complied</b></p> <p>These are considered as the three key responsibilities of the Chairman and included in the 'Functions of the Chairman and the CEO' approved by the Board.</p> <p>The requirement is further covered by the self evaluation process of the Board.</p>  |
| 3 (5) (v)   | <p>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 agenda. The chairman may delegate the drawing up of the agenda to the company secretary.</p>   | <p><b>Complied</b></p> <p>According to Clause 3 of the approved Board Procedure, drawing up of the agenda has been delegated to the Company Secretary with strict adherence to the guidelines given in the said Procedure.</p>  |
| 3 (5) (vi)  | <p>The chairman shall ensure that all the directors are properly briefed on issues arising at board meetings and also ensure that directors receive adequate information in a timely manner.</p>  | <p><b>Complied</b></p> <p>This has been identified as a responsibility of the Chairman, in the paper on 'Functions of the Chairman and the CEO' which was approved by the Board.</p> <p>Provision contained in Clause 2.2 of the approved Board Procedure strengthens this requirement</p>  |
| 3 (5) (vii) | <p>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.</p>  | <p><b>Complied</b></p> <p>There is active participation by all directors at the Board meetings as well as at Board sub committee meetings as evidenced in the minutes.</p> <p>The Board appraises its performance by using the Board evaluation form which is filled by each director in relation to business strategy and contributions of Board members based on their field of expertise.</p>  |

| Rule Number  | Rule  | Remarks  |
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| 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   | <b>Complied</b><br>Refer comment under 3 (5) (vii).  |
| 3 (5) (ix)   | The chairman, shall not engage in activities involving direct supervision of key management personnel or any other executive duties whatsoever.   | <b>Complied</b><br>Chairman is a Non Executive Director and does not engage in day to day supervision of management or 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.  | <b>Complied</b><br>This has been identified as a responsibility of the Chairman, in the paper on 'Functions of the Chairman and the CEO' which was approved by the Board.<br>A communications policy has also been approved by the Board. The communication policy includes a provision for communication with shareholders. |
| 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.  | <b>Complied</b><br>The Board approved paper on 'Functions of the Chairman and CEO' evidences the requirement of the rule.  |
| <b>3 (6)</b> | <b>Board appointed committees</b>   |  |
| 3 (6) (i)    | Each bank shall have at least the following committees;<br>3(6)(ii) -Audit Committee<br>3(6)(iii)-Human Resources and Remuneration committee<br>3(6)(iv)-Nomination Committee<br>3(6)(v)-Integrated Risk Management Committee | <b>Complied</b><br>The Bank has established all four Board sub committees as required by the Rule.   |
|              | <ul style="list-style-type: none"> <li>Each committee shall report directly to the board.</li> </ul>  | <b>Complied</b><br>All minutes of the Board sub committees are submitted to the Board and constitute a regular agenda item.  |
|              | <ul style="list-style-type: none"> <li>Each committee shall appoint a secretary to arrange the meetings and maintain minutes, records etc. under the supervision of the chairman of the committee</li> </ul>                  | <b>Complied</b><br>All sub committees have formally appointed secretaries.   |
|              | <ul style="list-style-type: none"> <li>The board shall present a report of the performance on each committee, on their duties and roles at the annual general meeting</li> </ul>  | <b>Complied</b><br>Reports are contained in the Annual Report of 2018.   |

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| Rule Number       | Rule  | Remarks   |
|-------------------|---|---|
| <b>3 (6) (ii)</b> | <b>Audit committee</b>  |   |
| 3 (6) (ii) (a)    | The chairman of the committee shall be an independent non-executive director who possesses qualifications and experience in accountancy and /or audit.  | <p><b>Complied</b></p> <p>The Chairperson of the Board Audit Review Committee (BARC) up to 16th December 2018, Ms. Shalini Panditaratne was an Independent Non Executive Director. She was a Fellow Member of the Institute of Chartered Accountants of Sri Lanka and of the Chartered Institute of Management Accountants, UK. She possessed the relevant skills and experience required for the position.</p> <p>Ms. Panditaratne retired from her position on 16th December 2018 and Ms. Rachini Rajapaksa was appointed as the Chairperson effective 17th December 2018.</p> <p>Ms. Rajapaksa is an Independent Non-Executive Director. She is a Chartered Financial Analyst of the CFA Institute, Charlottesville, Virginia USA and is a Fellow Member of the Chartered Institute of Management Accountants of UK. She possesses the relevant skills and experience required for her position.</p> |
| 3 (6) (ii) (b)    | All members of the committee shall be non-executive directors   | <p><b>Complied</b></p> <p>All members of the BARC are non executive directors.</p>  |
| 3 (6) (ii) (c)    | <p>The committee shall make recommendations on matters in connection with;</p> <p>(i) the appointment of the external auditor for audit services to be provided in compliance with the relevant statutes;</p> <p>(ii) the implementation of the Central Bank guidelines issued to auditors from time to time;</p> <p>(iii) the application of the relevant accounting standards; and</p> <p>(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 reengaged for the audit before the expiry of three years from the date of the completion of the previous term</p> | <p><b>Complied</b></p> <ul style="list-style-type: none"> <li>The reappointment of the external auditor for audit services has been recommended to the Board by the BARC.</li> <li>The BARC has discussed the implementation of CBSL guidelines issued to auditors from time to time and the application of the relevant accounting standards.</li> </ul> <p>The BARC ensures that the service period of the engagement of the External 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.</p> <p>The BARC evaluates and makes recommendations to the Board with regard to the audit fee.</p>  |
| 3 (6) (ii) (d)    | The committee shall review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards and best practices.   | <p><b>Complied</b></p> <p>The BARC obtains representations from the External Auditor on their independence and that the audit is carried out in accordance with the Sri Lanka Auditing Standards.</p>   |

| Rule Number    | Rule  | Remarks   |
|----------------|---|---|
| 3 (6) (ii) (e) | <p>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;</p> <ol style="list-style-type: none"> <li>I. whether the skills and experience of the audit firm make it a suitable provider of the non-audit services;</li> <li>11. 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</li> <li>111. 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</li> </ol> | <p><b>Complied</b></p> <p>The matters referred to in the Rule are covered in the terms of reference of the BARC and are exercised with due care and diligence. Further, a separate policy on the engagement of the external auditor to provide non-audit services was developed by the BARC and approved by the Board of Directors to covers all aspects stated in this Direction. This Policy was reviewed by the BARC and was approved by the Board of Directors in April 2017</p>  |
| 3 (6) (ii) (f) | <p>The committee shall, before the audit commences, discuss and finalize with the external auditors the nature and scope of the audit, including;</p> <ol style="list-style-type: none"> <li>(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;</li> <li>(ii) the preparation of financial statements for external purposes in accordance with relevant accounting principles and reporting obligations; and</li> <li>(iii) the coordination between firms where more than one audit firm is involved.</li> </ol>   | <p><b>Complied</b></p> <p>The BARC Terms of Reference requires the BARC to discuss and finalise with the External Auditor the nature and scope of the audit. In order to comply, the External Auditors make a presentation at the BARC meeting detailing the proposed audit plan and scope. The Committee discussed and finalized the audit plan and scope with the External Auditor.</p> <p>During the tenure of the audit, regular status updates were obtained and discussed at the BARC meetings.</p> <p>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.</p> |
| 3 (6) (ii) (g) | <p>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;</p> <ol style="list-style-type: none"> <li>(i) major judgmental areas</li> <li>(ii) any changes in accounting policies and practices</li> <li>(iii) significant adjustments arising from the audit</li> <li>(iv) the going concern assumption; and</li> <li>(v) the compliance with relevant accounting standards and other legal requirements.</li> </ol>  | <p><b>Complied</b></p> <p>The committee reviews / comments and suggests recommendations on the Bank's financial information and reports that are submitted by the CEO/CFO and ensure the relevance of the Financial statements prepared for disclosure and published in the Bank's annual report and in the quarterly unaudited Financial statements and reports.</p> <p>BARC meetings were held in 2018 to review / discuss and make recommendations to the Board on Financial Statements.</p>   |

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| Rule Number    | Rule   | Remarks  |
|----------------|--|--|
| 3 (6) (ii) (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.   | <p><b>Complied</b></p> <p>The BARC met the External Auditors in the absence of the management of the bank on two occasions in 2018. The External Auditors were invited to draw the attention of BARC to any areas of concern or any matter they wish to raise regarding the accounts or otherwise.</p>   |
| 3 (6) (ii) (i) | The committee shall review the external auditor's management letter and the management's response thereto.   | <p><b>Complied</b></p> <p>Regular discussions with the External Auditors were carried out on the Audit Completion Letter (the management letter) and the management's response thereto. The BARC has also issued appropriate recommendations and guidance where necessary to ensure that such matters are resolved satisfactorily.</p>   |
| 3 (6) (ii) (j) | <p>The committee shall take the following steps with regard to the internal audit function of the bank;</p> <ul style="list-style-type: none"> <li>(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;</li> <li>(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;</li> <li>(iii) Review any appraisal or assessment of the performance of the head and senior staff members of the internal audit department.</li> <li>(iv) Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function;</li> <li>(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</li> <li>(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;</li> </ul> | <p><b>Complied</b></p> <p>The BARC carries out the following with regard to the Internal Audit function:</p> <ul style="list-style-type: none"> <li>(i) reviews the adequacy of the internal audit function and ensures that it conforms with the Internal Audit Charter which was reviewed by BARC in 2018. The annual audit plan of the Internal audit as well as the staff requirements were reviewed/ discussed at the time of approving the Audit Plan.</li> <li>(ii) The Audit plan for the year was approved by the BARC and the progress was reviewed on a regular basis.<br/>The committee reviewed the internal audit reports and considered the findings, recommendations and corrective action.</li> <li>(iii) The performance appraisal of the Executive Vice President Internal Audit (EVP - IA) is carried out by the Chairperson of the BARC in consultation with the other members of the BARC along with adequate input from the CEO. Performance appraisals of senior staff are reviewed by the EVP- IA and presented to the BARC for their concurrence.</li> <li>(iv) All senior appointments to the audit team were recommended by the BARC. One new appointment, was made to the Audit team during the year 2018.</li> <li>(v) A process is in place to ensure that resignations of senior staff members of the internal audit department including the EVP - IA are advised to the Chairman BARC at periodic BARC meetings. (There have been no resignations of senior level staff during the year 2018).</li> <li>(vi) The internal audit staff directly reports to EVP- IA who in turn directly reports to BARC for independence. The audits are performed with impartiality, proficiency and due professional care.</li> </ul> |

| Rule Number    | Rule   | Remarks  |
|----------------|--|--|
| 3 (6) (ii) (k) | The committee shall consider the major findings of internal investigations and management's responses thereto  | <b>Complied</b><br>Investigation reports were tabled at the BARC meeting together with a status update on ongoing investigations and the relevant issues were discussed in detail with suitable action points agreed upon. BARC also ensures the recommendations arising from such investigations are implemented.               |
| 3 (6) (ii) (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.<br>However, at least twice a year, the committee shall meet with the external auditors without the executive directors being present. | <b>Complied</b><br>CEO attends all BARC meetings upon invitation. Where it is deemed necessary, other corporate heads including the CFO are called for the meetings.<br>During the period under review, BARC met with the External Auditor on fourteen occasions including two occasions without the presence of the management. |
| 3 (6) (ii) (m) | The committee shall have<br>(i) explicit authority to investigate into any matter within its terms of reference<br>(ii) the resources which it needs to do so<br>(iii) full access to information; and<br>(iv) authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary   | <b>Complied</b><br>This has been covered in detail in the Terms of Reference of the BARC and Internal Audit Charter.<br>Please refer the Board Audit Review Committee Report on page 91 of the Annual Report, 2018   |
| 3 (6) (ii) (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.   | <b>Complied</b><br>The committee met sixteen times during the year, 2018. Adequate notices of issues to be discussed are made available to all members of BARC. Minutes of proceedings of BARC are maintained by EVP – IA who functions as the Secretary to the BARC.  |
| 3 (6) (ii) (o) | The board shall disclose in an informative way,<br>(i) details of the activities of the audit committee<br>(ii) the number of audit committee meetings held in the year<br>(iii) details of attendance of each individual director at such meetings  | <b>Complied</b><br>Please refer the Board Audit Review Committee Report on page 91 of the Annual Report, 2018.   |
| 3 (6) (ii) (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.   | <b>Complied</b><br>Detailed minutes are maintained by the EVP - IA who is the secretary to the BARC.   |



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| Rule Number        | Rule  | Remarks   |
|--------------------|---|---|
| 3 (6) (ii) (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. | <p><b>Complied</b></p> <p>The committee reviews issues relating to violation of internal controls if any and the arrangements by which the staff of the Bank may in confidence raise concerns about possible improprieties. The Committee also ensured that the procedures for the independent investigations of such matters are appropriate and are in place.</p> <p>The Whistle Blowing Policy provides for the confidentiality of potential whistle blowers. The Whistle Blowing Policy was last reviewed by BARC and approved by the Board of Directors in September 2017.</p> <p>The BARC is the key representative body for overseeing the Bank's relations with the External Auditor and meets the Auditor on a regular basis to discharge this function.</p> |
| <b>3 (6) (iii)</b> | <b>Human Resources and Remuneration Committee (HRRC)</b>  |   |
| 3 (6) (iii) (a)    | The committee shall determine the remuneration policy (salaries, allowances and other financial payments) relating to directors, CEO and key management personnel of the bank.  | <p><b>Complied</b></p> <p>Board approved remuneration policy is in place</p>  |
| 3 (6) (iii) (b)    | The committee shall set goals and targets for the directors, CEO and key management personnel.  | <p><b>Complied</b></p> <p>Goals and targets are set by the Committee for the CEO which gets transformed as goals for the Key Management Personnel through the Balanced Scorecard process.</p>   |
| 3 (6) (iii) (c)    | The committee shall 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.   | <p><b>Complied</b></p> <p>Minutes of the meeting of the HRRC indicate that such evaluations and the proposal put forward by HR/CEO for the remuneration in 2018 has been approved.</p>  |
| 3 (6) (iii) (d)    | The CEO shall be present at all meetings of the committee, except when matters relating to the CEO are being discussed.   | <p><b>Complied</b></p> <p>Approved TOR includes the provisions stipulated. CEO has attended all meetings and was excused when matters relating to her were discussed.</p>   |
| <b>3 (6) (iv)</b>  | <b>Nomination Committee</b>   |   |
| 3 (6) (iv) (a)     | The Committee shall implement a procedure to select/ appoint new directors, CEO and key management personnel  | <p><b>Complied</b></p> <p>Approved TOR of the Nomination Committee includes the provisions stipulated.</p>  |
| 3 (6) (iv) (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.  | <p><b>Complied</b></p> <p>The Committee has considered and recommended re-election of directors in compliance with the Rule.</p>  |

| Rule Number      | Rule   | Remarks   |
|------------------|--|---|
| 3 (6) (iv) (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.   | <b>Complied</b><br>Criteria has been set and included in the JDs of KMP approved by the Nomination Committee.   |
| 3 (6) (iv) (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.   | <b>Complied</b><br>Affidavits and Declarations of the Directors and CEO were submitted to the Committee during 2018 in order for the Committee to determine the suitability of the Directors and CEO. Having considered the Affidavits & Declarations the Committee decided that the Directors and CEO are fit and proper persons to hold office. CBSL confirmation was also received on the fit and proper status of Directors.  |
| 3 (6) (iv) (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.   | <b>Complied</b><br>The Committee has met the criteria set out in the Rule.  |
| 3 (6) (iv) (f)   | The committee shall be chaired by an Independent Director and preferably be constituted with a majority of Independent Directors.<br>The CEO may be present at the meetings by invitation.   | <b>Complied</b><br>Mr. Murtaza Jafferjee, an Independent Non Executive Director and the Senior Director functions as the Chairman.<br>CEO was invited to attend when her presence was deemed required by the Committee.   |
| <b>3 (6) (v)</b> | <b>Integrated Risk Management Committee (IRMC)</b>   |   |
| 3 (6) (v) (a)    | 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.<br>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. | <b>Complied</b><br>IRMC comprises of three non-executive directors, CEO and other relevant KMP.<br>Committee functions as per the Board approved TOR in close co-operation with relevant KMP<br>KMP in charge of risk management and control functions attend IRMC meetings regularly and other KMP attend and discuss the critical risk grids pertaining to their areas once a year.   |
| 3 (6) (v) (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.   | <b>Complied</b><br>Risk indicators are monitored by IRMC monthly through the Key Risk Goals paper. Key risks involved in the subsidiary companies are included in the Risk grids of the department overseeing such subsidiary and presented assessed and discussed at IRMC meetings. Each and every business/support unit of the Bank and subsidiary companies have separate risk grids populated using Risk and Control Self Assessment methodology covering all material risks. |

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| Rule Number   | Rule  | Remarks  |
|---------------|---|--|
| 3 (6) (v) (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.  | <p><b>Complied</b></p> <p>The committee reviews the adequacy and effectiveness of all management level committees that has a relevance to risk. Minutes of Management level committees, namely Investment Committee, ALCO, Executive Risk management committee etc. are submitted to the Committee to review the adequacy and effectiveness of same. However in view of the role played by the Board credit Committee, minutes of the management level credit committee have not been submitted to IRMC</p>  |
| 3 (6) (v) (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.  | <p><b>Complied</b></p> <p>Risks are monitored through monthly submission of Key Risk Goals report as well as bank risk grid submitted to live IRMC meetings where corrective action has been taken as reflected in the minutes.</p>  |
| 3 (6) (v) (e) | The committee shall meet at least quarterly to assess all aspects of risk management including updated business continuity plans.   | <p><b>Complied</b></p> <p>The IRMC has held meetings once in two months</p>  |
| 3 (6) (v) (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.  | <p><b>Complied</b></p> <p>Currently Committee monitors risk Management by Departments through the departmental risk grids. In the event action is required against an officer found to have failed in identifying specific risks and take prompt corrective actions as recommended by the committee, action will be taken against him/her in terms of the Bank's established Human Resources policy.</p> <p>The Committee is authorized to direct Chief Executive Officer to take appropriate actions against the officers responsible for failure to identify specific risks and take prompt corrective actions as recommended by the Committee and is documented in the TOR of IRMC.</p> |
| 3 (6) (v) (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.   | <p><b>Complied</b></p> <p>A report has been submitted to the Board after each IRMC meeting as required by the Rule. In addition minutes of all IRMC meetings have been submitted to the Board.</p>   |
| 3 (6) (v) (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. | <p><b>Complied</b></p> <p>The Compliance officer submits a report to the Committee at every meeting. The Bank has established a separate Compliance Division to assess the Bank's compliance. The Compliance Officer carries out the compliance function and report to the committee periodically on Bank's compliance with laws, regulations and approved policies on all areas of business operations.</p>   |

| Rule Number  | Rule  | Remarks   |
|--------------|---|---|
| <b>3 (7)</b> | <b>Related Party Transactions</b>   |   |
| 3 (7) (i)    | <p>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 purpose of this Direction</p> <ul style="list-style-type: none"> <li>a) Any of the bank's subsidiary companies</li> <li>b) Any of the bank's associate companies</li> <li>c) Any of the directors of the bank</li> <li>d) Any of the bank's key management personnel</li> <li>e) A close relation of any of the bank's directors or key management personnel</li> <li>f) A shareholder owning a material; interest in the bank</li> <li>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</li> </ul> | <p><b>Complied</b></p> <p>Board procedure contains provisions on avoiding conflicts of interests. Bank's credit policy contains provisions for ensuring compliance. Necessary steps have been taken by the Board to avoid any conflicts of interests that may arise, in transacting with related parties as per the definition in the direction.</p> <p>Board has also approved a framework for managing Relate Party Transactions and monitors its implementation through Related Party Transactions Review Committee.</p> |
| 3 (7) (ii)   | <p>The type of transactions with related parties that shall be covered by this Direction shall include the following;</p> <ul style="list-style-type: none"> <li>a) The grant of any type of accommodation, as defined in the Monetary Board's Directions on maximum amount of accommodation</li> <li>b) The creation of any liabilities of the bank in the form of deposits, borrowings and investments</li> <li>c) The provision of any services of a financial or non financial nature provided to the bank or received from the bank</li> <li>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.</li> </ul>   | <p><b>Complied</b></p> <p>The Board approved related party policy contains provisions for same.</p>   |

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| Rule Number | Rule   | Remarks  |
|-------------|--|--|
| 3 (7) (iii) | <p>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 favorable treatment' than that accorded to other constituents of the bank carrying on the same business. In this context, 'more favorable treatment' shall mean and include treatment, including the;</p> <ol style="list-style-type: none"> <li>Granting of 'total net accommodation' to related parties, exceeding a prudent percentage of the bank's regulatory capital, as determined by the board. For purpose of this sub- direction;</li> <li>'Accommodation' shall mean accommodation as defined in the Banking Act Directions No.7 of 2007 on Maximum Amount of Accommodation.</li> <li>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.</li> <li>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;</li> <li>Providing of preferential treatment, such as favorable terms, covering trade losses and/or waiving fees/ commissions, that extend beyond the terms granted in the normal course of business undertaken with related parties;</li> <li>Providing services to or receiving services from a related- party without an evaluation procedure;</li> <li>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.</li> </ol> | <p><b>Complied</b></p> <p>Refer comment in 3 (7) (i) above</p> <p>Board approved Related Party Transactions policy contains provisions to ensure compliance.</p> <p>Board has taken steps to establish a Related Party Transactions Review Committee which has been entrusted with the task of ensuring that a robust framework exists for approving, managing and reporting related party transactions in accordance with applicable rules. This committee met four times during the year 2018.</p> |
| 3(7)(iv)    | <p>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 favor 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.</p>  | <p><b>Complied</b></p> <p>All accommodations to directors and/or their close relatives have been granted with the approval of the Board.</p>   |

| Rule Number | Rule   | Remarks   |
|-------------|--|---|
| 3(7) (v)    | <p>(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.</p> <p>(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.</p> <p>(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.</p> <p>(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.</p> | <p><b>Not applicable</b></p> <p>This situation has not arisen in the Bank to date. However the Company Secretary obtains declarations from all the Directors prior to their appointment and they are requested to declare the transactions.</p> |
| 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  | <p><b>Complied</b></p> <p>Board approved Related Party Transactions policy contains provisions to ensure compliance.</p>  |

## Corporate Governance Annexure

| Rule Number | Rule  | Remarks   |
|-------------|---|---|
| 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.   | <b>Complied</b><br>No such facility has been remitted in violation of this rule.  |
| <b>3(8)</b> | <b>Disclosures</b>  |   |
| 3(8) (i)    | The Board shall ensure that;<br>(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<br>and that<br>(b) such statements are published in the newspapers in an abridged form, in Sinhala, Tamil and English.  | <b>Complied</b>   |
| 3 (8) (ii)  | The Board shall ensure that the following minimum disclosures are made in the Annual Report;<br>(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.<br>(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.<br>(c) The external Auditor's certification on the effectiveness of the internal control mechanism referred to in Direction 3(8)(ii)(b) above, in respect of any statements prepared or published after December 31, 2008. | <b>Complied</b><br><br>Included in page 94 of the Annual Report of 2018.<br><br>Included in page 89 of the Annual Report of 2018.<br><br>Assurance Report by auditors under "Sri Lanka Standard on Assurance Engagements (SLSAE) 3050 –Assurance Reports for Banks on Directors' Statements on Internal Control" has been obtained and included in the Annual Report of 2018. |

| Rule Number | Rule   | Remarks   |
|-------------|--|---|
| 3 (8) (ii)  | <p>(d) - Details of Directors, including names, fitness and propriety</p> <p>- transactions with the Bank</p> <p>- the total of fees/remuneration paid by the Bank</p> <p>(e) Total net accommodation as defined in 3(7)(iii) granted to each category of related parties.</p> <p>The net accommodation granted to each category of related parties shall also be disclosed as a percentage of the Bank's regulatory capital.</p> <p>(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.</p> <p>(g) The external auditor's certification of the compliance with these Directions in the Annual Corporate Governance reports published after January 1, 2010.</p> <p>(h) A report setting out details of the compliance with prudential requirements, regulations, laws and internal controls</p> <p>and</p> <p>measures taken to rectify any material non-compliances</p> <p>(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.</p> | <p>Included in pages 12 - 17 &amp; 65 - 66 of the Annual Report of 2018 .</p> <p>Disclosed under Report of Board of Directors on the Affairs of the Bank included in page 65 and 66 of the Annual Report 2018.</p> <p>Included in page 65 and 66 of the Annual Report of 2018.</p> <p>All findings of the 'Factual Findings Reports' of auditors issued under "Sri Lanka Related Services Practice Statement 4750" have been incorporated in this report.</p> <p>Included in the Annual Report, 2018.</p> <p>No such matter has been specified by the Monetary Board of CBSL.</p> |



# Risk Management Annexure

## CREDIT RISK TABLES

Table 1

### Gross Loans and Advances - Individual Impairment (as per financial reporting)

| 2018                      | Exposure            |                      | Impairment<br>Provision | Impairment<br>Net Present<br>Value of Future<br>Cash Flows* | Write Offs<br>During the<br>period | 0 - 30 Days | Age Analysis |                  |
|---------------------------|---------------------|----------------------|-------------------------|---|------------------------------------|-------------|--------------|------------------|
|                           | On<br>Balance sheet | Off<br>Balance Sheet |                         |   |                                    |             | 31 -90 Days  | Above<br>90 Days |
| Corporate Loans           | 3,491,761           | -                    | 389,886                 | 3,206,964   | -                                  | 2,674,918   | 498,494      | 422,366          |
| Retail, SME &<br>Consumer | 9,855,393           | -                    | 1,414,125               | 1,138,226   | 51,997                             | 5,071,775   | 2,264,256    | 2,519,360        |
| Housing Loans             | 45,405              | -                    | 2,111                   | 43,294  | -                                  | 45,405      | -            | -                |
| Leasing                   | 695,513             | -                    | 56,420                  | 7,955,395   | -                                  | 199,734     | 172,478      | 323,301          |
|                           | 14,088,072          | -                    | 1,862,542               | 12,343,879  | 51,997                             | 7,991,832   | 2,935,228    | 3,265,027        |

\*Sum of net present value of cash flows expected through normal business activities and collateral liquidation

Table 2

### Gross Loans and Advances - Collective Impairment (as per financial reporting)

| 2018                      | Exposure            |                      | Impairment<br>Provision | Write Offs<br>During<br>the period | 0 - 30 Days | Age Analysis |               |
|---------------------------|---------------------|----------------------|-------------------------|------------------------------------|-------------|--------------|---------------|
|                           | On<br>Balance sheet | Off<br>Balance Sheet |                         |                                    |             | 31 -90 Days  | Above 90 Days |
| Corporate Loans           | 60,894,086          | -                    | 51,278                  | -                                  | 60,276,671  | 391,018      | 122,380       |
| Retail, SME &<br>Consumer | 101,284,950         | -                    | 3,334,123               | 870,773                            | 88,090,311  | 6,336,113    | 6,858,528     |
| Housing Loans             | 4,177,706           | -                    | 160,114                 | 13,947                             | 3,872,756   | 35,941       | 269,009       |
| Leasing                   | 44,169,314          | -                    | 350,000                 | 40,679                             | 35,014,935  | 8,001,514    | 1,152,864     |
|                           | 210,526,056         | -                    | 3,895,515               | 925,399                            | 187,254,673 | 14,764,586   | 8,402,781     |

\* Staff Loans are not assessed for impairment.

Table 3

### Performing & Non Performing Loans(as per regulatory reporting)

| 2018                      | Performing Loans       |                         |                        |                         | Non Performing Loans  |                           |                                    |                    |             |           |           |
|---------------------------|------------------------|-------------------------|------------------------|-------------------------|-----------------------|---------------------------|------------------------------------|--------------------|-------------|-----------|-----------|
|                           | Exposure               |                         | Exposure               |                         | Provision             |                           |                                    | Age Analysis       |             |           |           |
|                           | On<br>Balance<br>sheet | Off<br>Balance<br>Sheet | On<br>Balance<br>sheet | Off<br>Balance<br>Sheet | Specific<br>Provision | Collateral<br>Information | Write Offs<br>During the<br>period | Special<br>Mention | Substandard | Doubtful  | Loss      |
| Corporate Loans           | 63,841,101             | -                       | 575,319                | -                       | 303,009               | 372,000                   | -                                  | 171,301            | 84,957      | 125,460   | 193,601   |
| Retail, SME &<br>Consumer | 102,112,623            | -                       | 8,997,148              | -                       | 4,117,609             | 3,816,879                 | 922,770                            | 4,475,544          | 1,706,286   | 833,102   | 1,982,216 |
| Housing Loans             | 3,954,102              | -                       | 269,009                | -                       | 82,963                | 204,004                   | 13,947                             | 119,108            | 32,822      | 31,735    | 85,343    |
| Leasing                   | 43,390,651             | -                       | 1,474,175              | -                       | 106,691               | -                         | 40,679                             | 1,154,743          | 210,434     | 51,567    | 57,432    |
|                           | 213,298,477            | -                       | 11,315,651             | -                       | 4,610,272             | 4,392,883                 | 977,396                            | 5,920,696          | 2,034,499   | 1,041,864 | 2,318,592 |

Note: Rs 7,333Mn worth of NPL contracts were not impaired individually as they were below individually significant threshold

## MARKET RISK TABLES

**Table: 1**

### Composition of Trading and Non-Trading Book

| Items   | 2018                          |                                   |                        |
|---|-------------------------------|-----------------------------------|------------------------|
|   | Trading book<br>(LKR million) | Non-trading book<br>(LKR million) | Total<br>(LKR million) |
| <b>Assets</b>   |                               |                                   |                        |
| Cash and Cash Equivalents                               | -                             | 6,438                             | 6,438                  |
| Balances with Central Bank of Sri Lanka                 | -                             | 12,762                            | 12,762                 |
| Reverse Repurchase Agreements                           | -                             | 181                               | 181                    |
| Derivative Financial Instruments                        | 2,404                         | -                                 | 2,404                  |
| Financial Assets  | 669                           | 57,464                            | 58,133                 |
| Other Financial Assets                                  | -                             | -                                 | -                      |
| Financial Assets at Amortised Cost - Debt Instruments   | -                             | 15,941                            | 15,941                 |
| Financial Assets at Amortised Cost - Loans and Advances | -                             | 221,501                           | 221,501                |
| Other Assets  | -                             | 2,627                             | 2,627                  |
| Investments in Subsidiaries                             | -                             | 679                               | 679                    |
| Fixed Assets (PPE & Intangibles)                        | -                             | 4,167                             | 4,167                  |
| <b>Total Assets</b>                                     | <b>3,073</b>                  | <b>321,760</b>                    | <b>324,833</b>         |
| <b>Liabilities</b>                                      |                               |                                   |                        |
| Due to Banks  | -                             | 18,475                            | 18,475                 |
| Derivative Financial Instruments                        | 484                           | -                                 | 484                    |
| Due to Depositors                                       | -                             | 231,937                           | 231,937                |
| Repurchase Agreements                                   | -                             | 7,784                             | 7,784                  |
| Due to other Borrowers                                  | -                             | 20,249                            | 20,249                 |
| Debt Securities Issued                                  | -                             | 8,746                             | 8,746                  |
| Retirement benefit obligations                          | -                             | 505                               | 505                    |
| Tax Liabilities (Current & Deferred)                    | -                             | 2,508                             | 2,508                  |
| Other Liabilities                                       | -                             | 7,683                             | 7,683                  |
| Equity & Other Reserves                                 | -                             | 26,462                            | 26,462                 |
| <b>Total Liabilities</b>                                | <b>484</b>                    | <b>324,349</b>                    | <b>324,833</b>         |
| Contingent Liabilities & Commitments                    | 45,047                        | 145,552                           | 190,599                |
| Commitment & Guarantees                                 | -                             | 145,552                           | 145,552                |
| Forward on Government Securities                        | -                             | -                                 | -                      |
| Derivative Assets- Held for Trading (Net)               | 45,047                        | -                                 | 45,047                 |

# Risk Management Annexure

Table: 2

**Net Open Position of Foreign Currency Denominated Assets and Liabilities of Domestic Banking Unit \***  
(in millions of respective currency)

| CCY | As at 31 <sup>st</sup> December 2018 | Up to One Month | 1 - 3 Months | 3 - 6 Months | 6 - 12 Months | 1 - 3 Years | 3 - 5 Years | Over 5 Years | NOP     |
|-----|--------------------------------------|-----------------|--------------|--------------|---------------|-------------|-------------|--------------|---------|
| USD | Assets (on and off BS)               | 81.195          | 70.934       | 28.637       | 53.938        | 8.150       | 2.944       | 5.242        | 0.202   |
|     | Liabilities (on and off BS)          | 79.029          | 33.248       | 25.293       | 23.516        | 35.047      | 9.911       | 44.795       |         |
|     | Periodic gap                         | 2.166           | 37.687       | 3.343        | 30.423        | (26.897)    | (6.967)     | (39.553)     |         |
| GBP | Assets (on and off BS)               | 3.935           | 6.912        | 0.011        | 0.036         | 0.096       | 0.028       | 0.040        | (0.023) |
|     | Liabilities (on and off BS)          | 0.864           | 2.368        | 0.655        | 1.010         | 1.011       | 0.380       | 4.794        |         |
|     | Periodic gap                         | 3.071           | 4.544        | (0.644)      | (0.974)       | (0.915)     | (0.352)     | (4.754)      |         |
| EUR | Assets (on and off BS)               | 6.268           | 4.257        | 0.034        | 0.842         | 0.115       | 0.036       | 0.113        | 0.013   |
|     | Liabilities (on and off BS)          | 1.425           | 1.272        | 0.540        | 1.675         | 2.121       | 0.796       | 3.822        |         |
|     | Periodic gap                         | 4.843           | 2.985        | (0.506)      | (0.833)       | (2.006)     | (0.760)     | (3.709)      |         |
| AUD | Assets (on and off BS)               | 6.307           | 8.554        | 0.006        | 0.311         | 0.037       | 0.032       | 0.011        | (0.035) |
|     | Liabilities (on and off BS)          | 0.988           | 0.921        | 1.354        | 2.298         | 0.540       | 0.204       | 8.986        |         |
|     | Periodic gap                         | 5.318           | 7.633        | (1.349)      | (1.988)       | (0.503)     | (0.172)     | (8.975)      |         |
| JPY | Assets (on and off BS)               | 51.609          | 0.212        | 0.319        | 0.995         | 2.800       | 0.129       | 1.028        | 2.089   |
|     | Liabilities (on and off BS)          | 37.279          | 0.863        | 1.048        | 0.634         | 5.261       | 1.987       | 7.931        |         |
|     | Periodic gap                         | 14.331          | (0.651)      | (0.729)      | 0.361         | (2.461)     | (1.858)     | (6.904)      |         |

## Liquidity Risk

Table:3

### Maturity gaps in major currencies (in millions of respective currency)

| CCY | As at 31 <sup>st</sup> December 2018 | Up to 1<br>Month | 1-3<br>Months | 3-6<br>Months | 6-12<br>Months | 1-3 years | 3-5 years | Over<br>5 years | Total     |
|-----|--------------------------------------|------------------|---------------|---------------|----------------|-----------|-----------|-----------------|-----------|
| LKR | Assets (on and off BS)               | 102,103          | 19,519        | 16,105        | 22,452         | 62,424    | 29,614    | 50,774          | 302,990   |
|     | Liabilities (on and off BS)          | 69,199           | 35,689        | 24,907        | 30,205         | 19,782    | 13,275    | 238,584         | 431,641   |
|     | Periodic gap                         | 32,904           | (16,170)      | (8,803)       | (7,753)        | 42,642    | 16,339    | (187,810)       | (128,651) |
|     | Cumulative gap                       | 32,904           | 16,734        | 7,931         | 178            | 42,820    | 59,159    | (128,651)       | -         |
| USD | Assets (on and off BS)               | 83               | 80            | 34            | 60             | 33        | 40        | 19              | 350       |
|     | Liabilities (on and off BS)          | 97               | 65            | 26            | 24             | 71        | 27        | 56              | 365       |
|     | Periodic gap                         | (14)             | 15            | 8             | 36             | (37)      | 13        | (37)            | (15)      |
|     | Cumulative gap                       | (14)             | 2             | 10            | 46             | 9         | 22        | (15)            | -         |
| GBP | Assets (on and off BS)               | 4                | 7             | 0             | 0              | 0         | 0         | 0               | 11        |
|     | Liabilities (on and off BS)          | 1                | 2             | 1             | 1              | 1         | 0         | 7               | 13        |
|     | Periodic gap                         | 3                | 5             | (1)           | (1)            | (1)       | (0)       | (7)             | (2)       |
|     | Cumulative gap                       | 3                | 8             | 7             | 6              | 5         | 5         | (2)             | -         |
| EUR | Assets (on and off BS)               | 6                | 4             | 0             | 1              | 0         | 0         | 0               | 12        |
|     | Liabilities (on and off BS)          | 1                | 1             | 1             | 2              | 2         | 1         | 6               | 14        |
|     | Periodic gap                         | 5                | 3             | (1)           | (1)            | (2)       | (1)       | (6)             | (2)       |
|     | Cumulative gap                       | 5                | 8             | 7             | 6              | 4         | 4         | (2)             | -         |
| AUD | Assets (on and off BS)               | 6                | 9             | 0             | 0              | 0         | 0         | 0               | 15        |
|     | Liabilities (on and off BS)          | 1                | 1             | 1             | 2              | 1         | 0         | 8               | 15        |
|     | Periodic gap                         | 5                | 8             | (1)           | (2)            | (0)       | (0)       | (8)             | 1         |
|     | Cumulative gap                       | 5                | 13            | 12            | 10             | 9         | 9         | 1               | -         |
| JPY | Assets (on and off BS)               | 52               | 0             | 0             | 1              | 3         | 0         | 1               | 57        |
|     | Liabilities (on and off BS)          | 48               | 12            | 1             | 1              | 5         | 2         | 189             | 258       |
|     | Periodic gap                         | 4                | (12)          | (1)           |                | (2)       | (2)       | (188)           | (200)     |
|     | Cumulative gap                       | 4                | (8)           | (9)           | (8)            | (11)      | (13)      | (200)           | -         |

# Risk Management Annexure

Table:4

## Interest Rate Sensitive gap Analysis (in millions of respective currency)

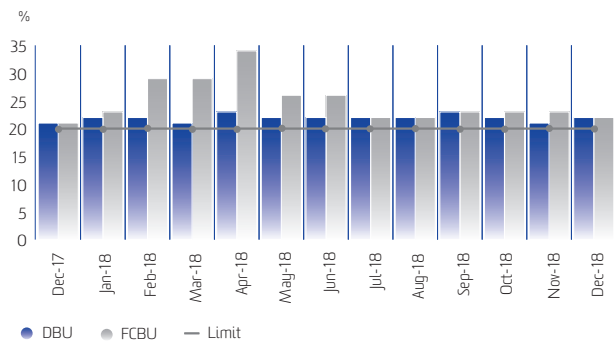
| CCY | As at 31 <sup>st</sup> December 2018 | Up to 1 Month | 1-3 Months | 3-6 Months | 6-12 Months | 1-3 years | 3-5 years | Over 5 years | Total   |
|-----|--------------------------------------|---------------|------------|------------|-------------|-----------|-----------|--------------|---------|
| LKR | Assets (on and off BS)               | 99,543        | 24,844     | 32,645     | 41,633      | 42,356    | 17,466    | 7,307        | 265,794 |
|     | Liabilities (on and off BS)          | 82,510        | 47,092     | 45,683     | 50,183      | 9,307     | 4,807     | 1,285        | 240,868 |
|     | Periodic gap                         | 17,033        | (22,248)   | (13,039)   | (8,550)     | 33,049    | 12,659    | 6,022        | 24,926  |
| USD | Assets (on and off BS)               | 95            | 121        | 69         | 52          | 1         | -         | -            | 339     |
|     | Liabilities (on and off BS)          | 123           | 119        | 66         | 26          | -         | -         | -            | 335     |
|     | Periodic gap                         | (28)          | 2          | 3          | 26          | 1         | -         | -            | 5       |
| GBP | Assets (on and off BS)               | 4             | 7          | -          | -           | -         | -         | -            | 11      |
|     | Liabilities (on and off BS)          | 4             | 3          | 1          | 2           | -         | -         | -            | 11      |
|     | Periodic gap                         | (0)           | 4          | (1)        | (2)         | -         | -         | -            | 0       |
| EUR | Assets (on and off BS)               | 6             | 4          | -          | 1           | -         | -         | -            | 11      |
|     | Liabilities (on and off BS)          | 8             | 1          | 1          | 2           | -         | -         | -            | 11      |
|     | Periodic gap                         | (2)           | 3          | (0)        | (1)         | -         | -         | -            | 0       |
| AUD | Assets (on and off BS)               | 6             | 9          | -          | -           | -         | -         | -            | 15      |
|     | Liabilities (on and off BS)          | 3             | 2          | 4          | 6           | -         | -         | -            | 15      |
|     | Periodic gap                         | 3             | 6          | (3)        | (6)         | -         | -         | -            | 0       |
| JPY | Assets (on and off BS)               | 25            | -          | -          | 4           | -         | -         | -            | 30      |
|     | Liabilities (on and off BS)          | 53            | 1          | 1          | -           | -         | -         | -            | 55      |
|     | Periodic gap                         | (27)          | (1)        | (1)        | 4           | 0         | 0         | 0            | (25)    |

Table:5

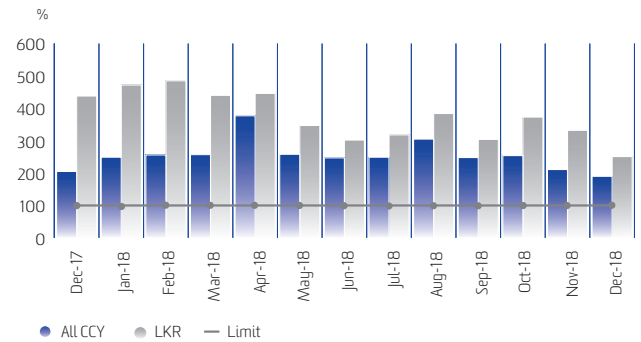
## Interest Rate Risk in Banking Book- Economic Value at Risk- in Millions (LKR equivalent)

| CCY | As at 31 <sup>st</sup> December 2018 | Up to 1 Month | 1-3 Months | 3-6 Months | 6-12 Months | 1-3 years | 3-5 years | Over 5 years | Total    |
|-----|--------------------------------------|---------------|------------|------------|-------------|-----------|-----------|--------------|----------|
| LKR | Up by 200bp                          | 7.98          | 84.44      | 175.78     | 302.93      | (866.10)  | (445.23)  | (225.59)     | (965.79) |
|     | Down by 200bp                        | (8.15)        | (86.31)    | (180.27)   | (312.65)    | 921.34    | 487.49    | 271.18       | 1,092.63 |
| USD | Up by 200bp                          | 3.16          | 8.95       | 34.58      | 49.48       | (7.09)    | (4.12)    | (1.41)       | 83.55    |
|     | Down by 200bp                        | (3.22)        | (9.12)     | (35.67)    | (51.24)     | 7.58      | 4.57      | 1.65         | (85.45)  |
| GBP | Up by 200bp                          | 0.20          | 1.33       | 2.58       | 7.71        | (0.49)    | (0.21)    | -            | 11.12    |
|     | Down by 200bp                        | (0.20)        | (1.36)     | (2.65)     | (7.99)      | 0.53      | 0.23      | -            | (11.45)  |
| EUR | Up by 200bp                          | 0.17          | 0.40       | 0.86       | 2.81        | (0.48)    | (0.29)    | -            | 3.46     |
|     | Down by 200bp                        | (0.17)        | (0.41)     | (0.88)     | (2.91)      | 0.52      | 0.33      | -            | (3.53)   |
| AUD | Up by 200bp                          | 0.21          | 1.21       | 3.51       | 10.45       | (0.20)    | (0.28)    | (0.14)       | 14.75    |
|     | Down by 200bp                        | (0.22)        | (1.24)     | (3.61)     | (10.81)     | 0.22      | 0.32      | 0.17         | (15.17)  |

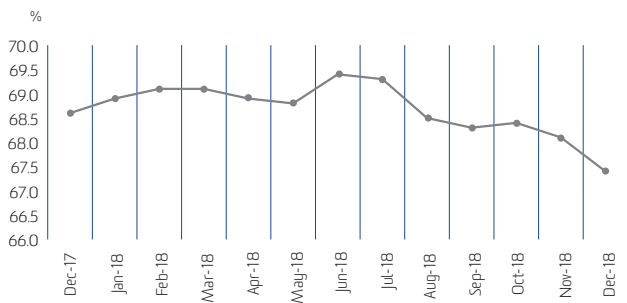
### Statutory Liquidity Ratio



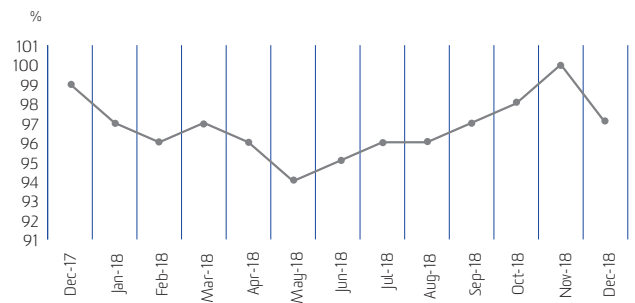
### Liquidity Coverage Ratio



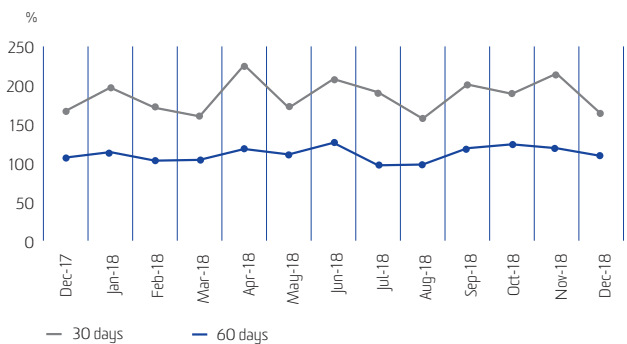
### Net loans to Total Assets Ratio



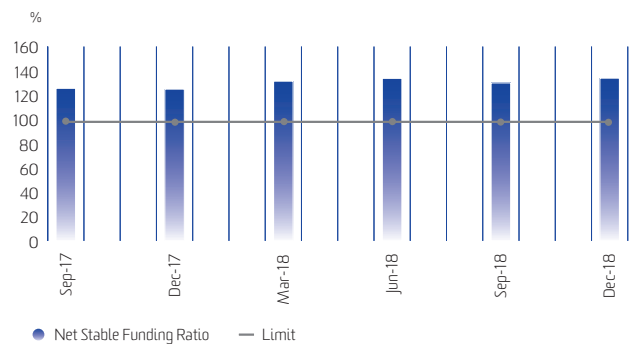
### Loan to Deposit Ratio



### Liquid Assets to Short Term Liability Ratio



### Net Stable Funding Ratio



# Risk Management Annexure

## BASEL III - Market Discipline - Minimum Disclosure Requirement Under Pillar 3 as per the Banking Act Direction No. 01 of 2016

Table 1

### Key Regulatory Ratios - Capital and Liquidity

| Item   | Bank        |             | Group       |             |
|--|-------------|-------------|-------------|-------------|
|  | 31-Dec-2018 | 31-Dec-2017 | 31-Dec-2018 | 31-Dec-2017 |
| <b>Regulatory Capital (LKR '000)</b>                                 |             |             |             |             |
| Common Equity Tier 1   | 24,935,511  | 18,070,743  | 25,292,362  | 18,489,947  |
| Tier 1 Capital   | 24,935,511  | 18,070,743  | 25,292,362  | 18,489,947  |
| Total Capital  | 32,106,836  | 23,305,824  | 32,463,687  | 23,725,029  |
| <b>Regulatory Capital Ratios (%)</b>                                 |             |             |             |             |
| Common Equity Tier 1 Capital Ratio<br>(Minimum Requirement - 6.375%) | 11.96%      | 10.58%      | 12.15%      | 10.83%      |
| Tier 1 Capital Ratio<br>(Minimum Requirement - 7.875%)               | 11.96%      | 10.58%      | 12.15%      | 10.83%      |
| Total Capital Ratio<br>(Minimum Requirement - 11.875%)               | 15.40%      | 13.64%      | 15.59%      | 13.89%      |
| <b>Regulatory Liquidity</b>  |             |             |             |             |
| Statutory Liquid Assets  |             |             |             |             |
| Domestic Banking Unit (LKR'000)                                      | 60,396,397  | 46,716,976  |             |             |
| Off-Shore Banking Unit (LKR'000)                                     | 4,568,492   | 1,949,119   |             |             |
| Statutory Liquid Assets Ratio, %<br>(Minimum Requirement - 20%)      |             |             |             |             |
| Domestic Banking Unit (%)  | 22.32%      | 21.13%      |             |             |
| Off-Shore Banking Unit (%)   | 22.29%      | 21.81%      |             |             |
| Liquidity Coverage Ratio (%)   |             |             |             |             |
| Rupee (Minimum Requirement - 90%)                                    | 250.57%     | 437.86%     |             |             |
| All Currency (Minimum Requirement - 90%)                             | 189.66%     | 204.73%     |             |             |

Table 2

## Basel III Computation of Capital Ratios

| Item   | Bank<br>LKR '000  |                   | Group<br>LKR '000 |                   |
|--|-------------------|-------------------|-------------------|-------------------|
|  | 31-Dec-2018       | 31-Dec-2017       | 31-Dec-2018       | 31-Dec-2017       |
| Common Equity Tier 1 (CET1) Capital after Adjustments  | 24,935,511        | 18,070,743        | 25,292,362        | 18,489,947        |
| Common Equity Tier 1 (CET1) Capital  | 26,553,409        | 20,050,066        | 26,911,955        | 20,474,308        |
| Equity Capital (Stated Capital)/Assigned Capital   | 8,865,523         | 5,101,369         | 8,865,523         | 5,101,369         |
| Reserve Fund   | 1,199,130         | 1,010,732         | 1,199,130         | 1,010,732         |
| Published Retained Earnings/(Accumulated Retained Losses)  | 16,586,839        | 13,813,405        | 16,945,384        | 14,237,647        |
| Published Accumulated Other Comprehensive Income (OCI)   | (98,083)          | 124,561           | (98,083)          | 124,561           |
| General and other Disclosed Reserves   | -                 | -                 | -                 | -                 |
| Unpublished Current Year's Profit/Loss and Gains reflected in OCI  | -                 | -                 | -                 | -                 |
| Ordinary Shares issued by Consolidated Banking and Financial<br>Subsidiaries of the Bank and held by Third Parties | -                 | -                 | -                 | -                 |
| <b>Total Adjustments to CET1 Capital</b>   | <b>1,617,899</b>  | <b>1,979,323</b>  | <b>1,619,593</b>  | <b>1,984,361</b>  |
| Goodwill (net)   | -                 | -                 | -                 | -                 |
| Intangible Assets (net)  | 1,301,248         | 1,148,648         | 1,302,942         | 1,153,557         |
| Shortfall of the cumulative impairment to specific provisions  | 316,650           | 830,675           | 316,650           | 830,804           |
| <b>Additional Tier 1 (AT1) Capital after Adjustments</b>   | <b>-</b>          | <b>-</b>          | <b>-</b>          | <b>-</b>          |
| <b>Additional Tier 1 (AT1) Capital</b>   | <b>-</b>          | <b>-</b>          | <b>-</b>          | <b>-</b>          |
| Qualifying Additional Tier 1 Capital Instruments   | -                 | -                 | -                 | -                 |
| Instruments issued by Consolidated Banking and Financial Subsidiaries<br>of the Bank and held by Third Parties     | -                 | -                 | -                 | -                 |
| <b>Total Adjustments to AT1 Capital</b>  | <b>-</b>          | <b>-</b>          | <b>-</b>          | <b>-</b>          |
| Investment in Own Shares   | -                 | -                 | -                 | -                 |
| Others (specify)   | -                 | -                 | -                 | -                 |
| <b>Tier 2 Capital after Adjustments</b>  | <b>7,171,325</b>  | <b>5,235,081</b>  | <b>7,171,325</b>  | <b>5,235,081</b>  |
| <b>Tier 2 Capital</b>  | <b>7,171,325</b>  | <b>5,235,081</b>  | <b>7,171,325</b>  | <b>5,235,081</b>  |
| Qualifying Tier 2 Capital Instruments  | 5,866,667         | 4,433,333         | 5,866,667         | 4,433,333         |
| Revaluation Gains  | 337,316           | -                 | 337,316           | -                 |
| Loan Loss Provisions   | 967,343           | 801,748           | 967,343           | 801,748           |
| Instruments issued by Consolidated Banking and Financial Subsidiaries<br>of the Bank and held by Third Parties     | -                 | -                 | -                 | -                 |
| <b>Total Adjustments to Tier 2</b>   | <b>-</b>          | <b>-</b>          | <b>-</b>          | <b>-</b>          |
| Investment in Own Shares   | -                 | -                 | -                 | -                 |
| Others (specify)   | -                 | -                 | -                 | -                 |
| <b>CET1 Capital</b>  | <b>24,935,511</b> | <b>18,070,743</b> | <b>25,292,362</b> | <b>18,489,947</b> |
| <b>Total Tier 1 Capital</b>  | <b>24,935,511</b> | <b>18,070,743</b> | <b>25,292,362</b> | <b>18,489,947</b> |
| <b>Total Capital</b>   | <b>32,106,836</b> | <b>23,305,824</b> | <b>32,463,687</b> | <b>23,725,029</b> |

## Notes:

As per the Directive No. 4 of 2018 issued by Central Bank of Sri Lanka on "Adoption of Sri Lanka Accounting Standard - SLFRS 9: Financial Instruments", for the purpose of calculating capital adequacy ratio, Banks shall stagger additional credit loss provision arising from SLFRS 9 at the transition date, 01 January 2018. The Bank has charged only 25% of the first day impact (Rs. 255.3 Mn) against the retained earnings of the Bank for the purpose of calculating Capital Adequacy Ratio as at 31 December 2018. If 100% of the first day impact is considered, the total tier 1 capital ratio and total capital ratio would be decreased by 0.37%.



# Risk Management Annexure

Table 2 (Contd.)

## Basel III Computation of Capital Ratios

| Item  | Bank        |             | Group       |             |
|---|-------------|-------------|-------------|-------------|
|   | LKR '000    | LKR '000    | LKR '000    | LKR '000    |
|   | 31-Dec-2018 | 31-Dec-2017 | 31-Dec-2018 | 31-Dec-2017 |
| Total Risk Weighted Assets (RWA)  | 208,535,184 | 170,838,077 | 208,201,892 | 170,758,045 |
| RWAs for Credit Risk  | 180,709,189 | 148,307,874 | 180,523,460 | 148,298,015 |
| RWAs for Market Risk  | 5,989,190   | 3,369,857   | 5,989,190   | 3,369,857   |
| RWAs for Operational Risk   | 21,836,805  | 19,160,347  | 21,689,242  | 19,090,174  |
| CET1 Capital Ratio (including Capital Conservation Buffer, Countercyclical Capital Buffer & Surcharge on D-SIBs) (%)  | 11.96%      | 10.58%      | 12.15%      | 10.83%      |
| of which: Capital Conservation Buffer (%)   | 1.875%      | 1.25%       | 1.875%      | 1.25%       |
| of which: Countercyclical Buffer (%)  | -           | -           | -           | -           |
| of which: Capital Surcharge on D-SIBs (%)   | -           | -           | -           | -           |
| Total Tier 1 Capital Ratio (%)  | 11.96%      | 10.58%      | 12.15%      | 10.83%      |
| Total Capital Ratio (including Capital Conservation Buffer, Countercyclical Capital Buffer & Surcharge on D-SIBs) (%) | 15.40%      | 13.64%      | 15.59%      | 13.89%      |
| of which: Capital Conservation Buffer (%)   | 1.875%      | 1.25%       | 1.875%      | 1.25%       |
| of which: Countercyclical Buffer (%)  | -           | -           | -           | -           |
| of which: Capital Surcharge on D-SIBs (%)   | -           | -           | -           | -           |

Table 3

## Basel III Computation of Liquidity Coverage Ratio (All Currency)

| Item   | Total Un-weighted Value | Total Weighted Value | Total Un-weighted Value | Total Weighted Value |
|--|-------------------------|----------------------|-------------------------|----------------------|
|  | LKR '000                | LKR '000             | LKR '000                | LKR '000             |
|  | 31-Dec-2018             | 31-Dec-2017          | 31-Dec-2018             | 31-Dec-2017          |
| Total Stock of High-Quality Liquid Assets (HQLA)   | 56,920,136              | 56,908,941           | 44,358,142              | 44,346,947           |
| Total Adjusted Level 1A Assets   | 57,429,989              | 57,429,989           | 44,653,640              | 44,653,640           |
| Level 1 Assets   | 56,897,746              | 56,897,746           | 44,335,752              | 44,335,752           |
| Total Adjusted Level 2A Assets   | -                       | -                    | -                       | -                    |
| Level 2A Assets  | -                       | -                    | -                       | -                    |
| Total Adjusted Level 2B Assets   | 22,390                  | 11,195               | 22,390                  | 11,195               |
| Level 2B Assets  | 22,390                  | 11,195               | 22,390                  | 11,195               |
| Total Cash Outflows  | 399,813,425             | 60,292,082           | 341,589,345             | 48,762,072           |
| Deposits   | 194,296,248             | 19,429,625           | 170,687,377             | 17,068,738           |
| Unsecured Wholesale Funding  | 46,734,129              | 22,429,177           | 25,136,013              | 14,213,421           |
| Secured Funding Transactions   | 1,102,676               | -                    | 1,552,809               | -                    |
| Undrawn Portion of Committed (Irrevocable) Facilities and Other Contingent Funding Obligations                                   | 148,621,941             | 9,374,848            | 136,084,637             | 9,351,406            |
| Additional Requirements  | 9,058,432               | 9,058,432            | 8,128,508               | 8,128,508            |
| Total Cash Inflows   | 52,302,283              | 30,286,978           | 50,768,980              | 27,100,956           |
| Maturing Secured Lending Transactions Backed by Collateral   | 172,043                 | -                    | 10,879                  | -                    |
| Committed Facilities   | 1,000,000               | -                    | 1,000,000               | -                    |
| Other Inflows by Counterparty which are Maturing within 30 Days  | 50,607,354              | 29,828,105           | 49,679,518              | 27,022,374           |
| Operational Deposits   | -                       | -                    | -                       | -                    |
| Other Cash Inflows   | 522,887                 | 458,873              | 78,583                  | 78,583               |
| Liquidity Coverage Ratio (%) (Stock of High Quality Liquid Assets/ Total Net Cash Outflows over the Next 30 Calendar Days) * 100 |                         | 190%                 |                         | 205%                 |

Table 4

## Main Features of Regulatory Capital Instruments

| Description of the Capital Instrument  | Ordinary Shares (Voting)                                | Ordinary Shares (Non Voting)   | Subordinated Debt (Debentures) | Subordinated Debt (Debentures) | Subordinated Debt (Debentures)  | Subordinated Debt (Debentures)  |
|--|---|--|--------------------------------|--------------------------------|---|---|
| Issuer   | Nations Trust Bank PLC                                  | Nations Trust Bank PLC   | Nations Trust Bank PLC         | Nations Trust Bank PLC         | Nations Trust Bank PLC  | Nations Trust Bank PLC  |
| Unique Identifier (eg, ISIN or Bloomberg Identifier for Private Placement)     | LK0309N00001  | LK0309N00001   | NTB-BD-08/11/21-C2365-1265     | NTB-BD-08/11/21-C2363          | NTB-BD-20/04/23-C2402-1265  | NTB-BD-20/04/23-C2401-13  |
| Governing Law(s) of the Instrument   | Companies Act, No.7 of 2007                             | Companies Act, No.7 of 2007  | Companies Act, No.7 of 2007    | Companies Act, No.7 of 2007    | Companies Act, No.7 of 2007   | Companies Act, No.7 of 2007   |
| Original Date of Issuance  | 3-May-99  | 20-Feb-18  | 8-Nov-16                       | 8-Nov-16                       | 20-Apr-18   | 20-Apr-18   |
| Par Value of Instrument  | 2212  | 80   | 100                            | 100                            | 100   | 100   |
| Perpetual or Dated   | Perpetual   | Perpetual  | Dated                          | Dated                          | Dated   | Dated   |
| Original Maturity Date, if Applicable  | N/A   | N/A  | 8-Nov-21                       | 8-Nov-21                       | 20-Apr-23   | 20-Apr-23   |
| Amount Recognised in Regulatory Capital (in LKR '000 as at the Reporting Date) | 5,735,916   | 3,125,607  | 2,201,953                      | 630,014                        | 1,917,933   | 115,400   |
| Accounting Classification (Equity/Liability)                                   | Equity  | Equity   | Liability                      | Liability                      | Liability   | Liability   |
| <b>Issuer Call subject to Prior Supervisory Approval</b>                       |   |  |                                |                                |   |   |
| Optional Call Date, Contingent Call Dates and Redemption Amount (LKR '000)     | N/A   | N/A  | N/A                            | N/A                            | N/A   | N/A   |
| Subsequent Call Dates, if Applicable   | N/A   | N/A  | N/A                            | N/A                            | N/A   | N/A   |
| <b>Coupons/Dividends</b>   |   |  |                                |                                |   |   |
| Fixed or Floating Dividend/Coupon  | Discretionary dividend amount                           | Discretionary dividend amount  | Fixed                          | Floating                       | Fixed   | Fixed   |
| Coupon Rate and any Related Index  | Distributable profit that has been declared as dividend | Distributable profit that has been declared as dividend                | 12.65%                         | 11.25%                         | 12.65%  | 13.00%  |
| Non-Cumulative or Cumulative   | Non-Cumulative  | Non-Cumulative   | Non-Cumulative                 | Non-Cumulative                 | Non-Cumulative  | Non-Cumulative  |
| Convertible or Non-Convertible   | Non-Convertible   | Convertible  | Non-Convertible                | Non-Convertible                | Convertible   | Convertible   |
| If Convertible, Conversion Trigger (s)   | Non-Convertible   | Starting from last market date of quarter ending 30th June and forward | Non-Convertible                | Non-Convertible                | As per Banking Act Direction No. 1 of 2016  | As per Banking Act Direction No. 1 of 2016  |
| If Convertible, Fully or Partially   | Non-Convertible   | Fully or Partially   | Non-Convertible                | Non-Convertible                | Fully or Partially  | Fully or Partially  |
| If Convertible, Mandatory or Optional  | Non-Convertible   | Optional   | Non-Convertible                | Non-Convertible                | Mandatory   | Mandatory   |
| If Convertible, Conversion Rate  | Non-Convertible   | 1:1  | Non-Convertible                | Non-Convertible                | Simple Average of Volume WA Price of ordinary voting shares published by the CSE, during the 3 months period, immediately preceding the date of the Trigger Event | Simple Average of Volume WA Price of ordinary voting shares published by the CSE, during the 3 months period, immediately preceding the date of the Trigger Event |

# Risk Management Annexure

**Table 5**  
**Credit Risk under Standardised Approach – Credit Risk Exposures and Credit Risk Mitigation (CRM) Effects**

| Asset Class  | Bank  |                          |                         |                            |                    |                 |                         |   |                          |                         |                            |                    |                 |                         |
|--|---|--------------------------|-------------------------|----------------------------|--------------------|-----------------|-------------------------|---|--------------------------|-------------------------|----------------------------|--------------------|-----------------|-------------------------|
|  | LKR'000 as at -31-Dec-2018                              |                          |                         |                            |                    |                 |                         | LKR'000 as at -31-Dec-2017                              |                          |                         |                            |                    |                 |                         |
|  | Exposures before Credit Conversion Factor (CCF) and CRM |                          |                         | Exposures post CCF and CRM |                    |                 |                         | Exposures before Credit Conversion Factor (CCF) and CRM |                          |                         | Exposures post CCF and CRM |                    |                 |                         |
|  | On-Balance Sheet Amount                                 | Off-Balance Sheet Amount | On-Balance Sheet Amount | Off-Balance Sheet Amount   | RWA                | RWA Density(ii) | RWA and RWA Density (%) | On-Balance Sheet Amount                                 | Off-Balance Sheet Amount | On-Balance Sheet Amount | Off-Balance Sheet Amount   | RWA                | RWA Density(ii) | RWA and RWA Density (%) |
| Claims on Central Government and CBSL                          | 25,296,968  | -                        | 25,296,968              | -                          | 782,888            | 3%              |                         | 25,012,852  | 1,535,200                | 25,012,852              | 30,704                     | 810,733            |                 | 3%                      |
| Claims on Foreign Sovereigns and their Central Banks           | -   | -                        | -                       | -                          | -                  | 0%              |                         | -   | -                        | -                       | -                          | -                  | -               | 0%                      |
| Claims on Public Sector Entities                               | -   | -                        | -                       | -                          | -                  | 0%              |                         | -   | -                        | -                       | -                          | -                  | -               | 0%                      |
| Claims on Official Entities and Multilateral Development Banks | -   | -                        | -                       | -                          | -                  | 0%              |                         | -   | -                        | -                       | -                          | -                  | -               | 0%                      |
| Claims on Banks' Exposures                                     | 1,928,632   | 37,790,696               | 1,928,632               | 776,434                    | 1,003,952          | 37%             |                         | 2,209,944   | 35,763,085               | 2,209,944               | 715,262                    | 1,478,649          |                 | 51%                     |
| Claims on Financial Institutions                               | 13,229,173  | 3,845,670                | 13,229,173              | 1,172,885                  | 7,529,533          | 52%             |                         | 11,083,386  | 3,261,851                | 11,083,386              | 1,090,246                  | 6,009,478          |                 | 49%                     |
| Claims on Corporates   | 56,394,370  | 77,969,149               | 56,394,370              | 7,516,188                  | 61,178,409         | 96%             |                         | 40,210,503  | 70,005,792               | 40,210,503              | 6,716,499                  | 45,681,542         |                 | 97%                     |
| Retail Claims  | 111,221,643   | 70,572,055               | 111,221,643             | 2,635,431                  | 871,69,949         | 77%             |                         | 102,643,879   | 65,643,745               | 102,643,879             | 2,632,706                  | 81,079,256         |                 | 77%                     |
| Claims Secured by Residential Property                         | 8,793,378   | -                        | 8,793,378               | -                          | 6,279,153          | 71%             |                         | 7,827,956   | -                        | 7,827,956               | -                          | 5,577,770          |                 | 71%                     |
| Claims Secured by Commercial Real Estate                       | 894,721   | 56,198                   | 894,721                 | 25,898                     | 920,619            | 100%            |                         | 833,791   | 174,554                  | 833,791                 | 34,911                     | 868,702            |                 | 100%                    |
| Non-Performing Assets (NPAs)(i)                                | 5,640,268   | -                        | 5,640,268               | -                          | 7,526,209          | 133%            |                         | 2,117,558   | -                        | 2,117,558               | -                          | 2,847,324          |                 | 134%                    |
| Higher-risk Categories   | 25,803  | -                        | 25,803                  | -                          | 64,507             | 250%            |                         | 25,803  | -                        | 25,803                  | -                          | 64,507             |                 | 250%                    |
| Cash Items and Other Assets                                    | 15,807,771  | -                        | 15,807,771              | -                          | 8,253,970          | 52%             |                         | 10,703,170  | -                        | 10,703,170              | -                          | 3,889,914          |                 | 36%                     |
| <b>Total</b>   | <b>239,232,727</b>                                      | <b>190,233,768</b>       | <b>239,232,727</b>      | <b>12,126,835</b>          | <b>180,709,189</b> | <b>72%</b>      |                         | <b>202,668,842</b>                                      | <b>176,384,227</b>       | <b>202,668,842</b>      | <b>11,220,328</b>          | <b>148,307,874</b> |                 | <b>69%</b>              |

**Table 5 (Contd.)**  
**Credit Risk under Standardised Approach – Credit Risk Exposures and Credit Risk Mitigation (CRM) Effects**

| Asset Class  | Group   |                          |                    |                            |                          |                  |   |                          |                    |                            |                          |                  |
|--|---|--------------------------|--------------------|----------------------------|--------------------------|------------------|---|--------------------------|--------------------|----------------------------|--------------------------|------------------|
|  | LK'000 as at -31-Dec-2018                               |                          |                    |                            |                          |                  | LK'000 as at -31-Dec-2017                               |                          |                    |                            |                          |                  |
|  | Exposures before Credit Conversion Factor (CCF) and CRM |                          |                    | Exposures post CCF and CRM |                          |                  | Exposures before Credit Conversion Factor (CCF) and CRM |                          |                    | Exposures post CCF and CRM |                          |                  |
|  | On-Balance Sheet Amount                                 | Off-Balance Sheet Amount | RWA Density (%)    | On-Balance Sheet Amount    | Off-Balance Sheet Amount | RWA Density (ii) | On-Balance Sheet Amount                                 | Off-Balance Sheet Amount | RWA Density (%)    | On-Balance Sheet Amount    | Off-Balance Sheet Amount | RWA Density (ii) |
| Claims on Central Government and CBSL                          | 25,296,968  | -                        | 25,296,968         | -                          | 782,888                  | 3%               | 25,083,896  | 1,535,200                | 25,083,896         | 30,704                     | 810,733                  | 3%               |
| Claims on Foreign Sovereigns and their Central Banks           | -   | -                        | -                  | -                          | -                        | 0%               | -   | -                        | -                  | -                          | -                        | 0%               |
| Claims on Public Sector Entities                               | -   | -                        | -                  | -                          | -                        | 0%               | -   | -                        | -                  | -                          | -                        | 0%               |
| Claims on Official Entities and Multilateral Development Banks | -   | -                        | -                  | -                          | -                        | 0%               | -   | -                        | -                  | -                          | -                        | 0%               |
| Claims on Banks Exposures                                      | 1,928,663   | 37,790,696               | 1,928,663          | 776,434                    | 1,003,958                | 37%              | 2,209,976   | 35,763,085               | 2,209,976          | 715,262                    | 1,478,656                | 51%              |
| Claims on Financial Institutions                               | 13,229,173  | 3,845,670                | 13,229,173         | 1,172,885                  | 7,529,533                | 52%              | 11,083,386  | 3,261,851                | 11,083,386         | 1,090,246                  | 6,009,478                | 49%              |
| Claims on Corporates   | 56,399,275  | 77,972,305               | 56,399,275         | 7,516,188                  | 61,183,314               | 96%              | 40,419,373  | 68,461,963               | 40,419,373         | 6,716,499                  | 45,890,411               | 97%              |
| Retail Claims  | 111,221,643   | 70,572,055               | 111,221,643        | 2,635,431                  | 87,169,949               | 77%              | 102,643,879   | 65,643,745               | 102,643,879        | 2,632,706                  | 81,079,256               | 77%              |
| Claims Secured by Residential Property                         | 8,793,378   | -                        | 8,793,378          | -                          | 6,279,153                | 71%              | 7,827,956   | -                        | 7,827,956          | -                          | 5,577,770                | 71%              |
| Claims Secured by Commercial Real Estate                       | 894,721   | 56,198                   | 894,721            | 25,898                     | 920,619                  | 100%             | 833,791   | 174,554                  | 833,791            | 34,911                     | 868,702                  | 100%             |
| Non-Performing Assets (NPAs)(i)                                | 5,640,268   | -                        | 5,640,268          | -                          | 7,526,209                | 133%             | 2,117,558   | -                        | 2,117,558          | -                          | 2,847,324                | 134%             |
| Higher-risk Categories   | -   | -                        | -                  | -                          | -                        | 0%               | -   | -                        | -                  | -                          | -                        | 0%               |
| Cash Items and Other Assets                                    | 15,681,660  | -                        | 15,681,660         | -                          | 812,7836                 | 52%              | 10,548,964  | -                        | 10,548,964         | -                          | 3,735,685                | 35%              |
| <b>Total</b>   | <b>239,085,750</b>                                      | <b>190,236,924</b>       | <b>239,085,750</b> | <b>12,126,835</b>          | <b>180,523,460</b>       | <b>72%</b>       | <b>202,768,778</b>                                      | <b>174,840,397</b>       | <b>202,768,778</b> | <b>11,220,328</b>          | <b>148,298,015</b>       | <b>69%</b>       |

**Note:**

- (i) NPAs – As per Banking Act Directions on Classification of loans and advances, income recognition and provisioning.
- (ii) RWA Density – Total RWA/Exposures post CCF and CRM.

# Risk Management Annexure

Table 6

## Credit Risk under Standardised Approach: Exposures by Asset Classes and Risk Weightss

| Description  | Bank                                       |            |            |           |             |            |           |        |                                     |
|--|--|------------|------------|-----------|-------------|------------|-----------|--------|-------------------------------------|
|  | LKR'000 as at 31-Dec-2018 (Post CCF & CRM) |            |            |           |             |            |           |        |                                     |
| Risk Weight<br>Asset Classes                                   | 0%   | 20%        | 50%        | 60%       | 75%         | 100%       | 150%      | >150%  | Total Credit<br>Exposures<br>Amount |
| Claims on Central Government and Central Bank of Sri Lanka     | 21,382,529                                 | 3,914,439  | -          | -         | -           | -          | -         | -      | 25,296,968                          |
| Claims on Foreign Sovereigns and their Central Banks           | -  | -          | -          | -         | -           | -          | -         | -      | -                                   |
| Claims on Public Sector Entities                               | -  | -          | -          | -         | -           | -          | -         | -      | -                                   |
| Claims on Official Entities and Multilateral Development Banks | -  | -          | -          | -         | -           | -          | -         | -      | -                                   |
| Claims on Banks Exposures                                      | -  | 1,276,193  | 1,360,318  | -         | -           | 68,554     | -         | -      | 2,705,065                           |
| Claims on Financial Institutions                               | -  | 3,697,242  | 7,829,462  | -         | -           | 2,875,354  | -         | -      | 14,402,059                          |
| Claims on Corporates   | -  | -          | 5,464,297  | -         | -           | 58,446,261 | -         | -      | 63,910,558                          |
| Retail Claims  | 98,384                                     | 228,591    | -          | 2,789,194 | 101,160,762 | 9,580,143  | -         | -      | 113,857,074                         |
| Claims Secured by Residential Property                         | -  | -          | 5,028,450  | -         | -           | 3,764,928  | -         | -      | 8,793,378                           |
| Claims Secured by Commercial Real Estate                       | -  | -          | -          | -         | -           | 920,619    | -         | -      | 920,619                             |
| Non-Performing Assets (NPAs)                                   | -  | -          | 49,507     | -         | -           | 1,769,373  | 3,821,388 | -      | 5,640,268                           |
| Higher-risk Categories   | -  | -          | -          | -         | -           | -          | -         | 25,803 | 25,803                              |
| Cash Items and Other Assets                                    | 5,419,519                                  | 2,667,853  | -          | -         | -           | 7,720,400  | -         | -      | 15,807,771                          |
| Total  | 26,900,432                                 | 11,784,318 | 19,732,035 | 2,789,194 | 101,160,762 | 85,145,632 | 3,821,388 | 25,803 | 251,359,562                         |

| Description  | Group                                      |            |            |           |             |            |           |       |                                     |
|--|--|------------|------------|-----------|-------------|------------|-----------|-------|-------------------------------------|
|  | LKR'000 as at 31-Dec-2018 (Post CCF & CRM) |            |            |           |             |            |           |       |                                     |
| Risk Weight<br>Asset Classes                                   | 0%   | 20%        | 50%        | 60%       | 75%         | 100%       | 150%      | >150% | Total Credit<br>Exposures<br>Amount |
| Claims on Central Government and Central Bank of Sri Lanka     | 21,382,529                                 | 3,914,439  | -          | -         | -           | -          | -         | -     | 25,296,968                          |
| Claims on Foreign Sovereigns and their Central Banks           | -  | -          | -          | -         | -           | -          | -         | -     | -                                   |
| Claims on Public Sector Entities                               | -  | -          | -          | -         | -           | -          | -         | -     | -                                   |
| Claims on Official Entities and Multilateral Development Banks | -  | -          | -          | -         | -           | -          | -         | -     | -                                   |
| Claims on Banks Exposures                                      | -  | 1,276,224  | 1,360,318  | -         | -           | 68,554     | -         | -     | 2,705,097                           |
| Claims on Financial Institutions                               | -  | 3,697,242  | 7,829,462  | -         | -           | 2,875,354  | -         | -     | 14,402,059                          |
| Claims on Corporates   | -  | -          | 5,464,297  | -         | -           | 58,451,166 | -         | -     | 63,915,463                          |
| Retail Claims  | 98,384                                     | 228,591    | -          | 2,789,194 | 101,160,762 | 9,580,143  | -         | -     | 113,857,074                         |
| Claims Secured by Residential Property                         | -  | -          | 5,028,450  | -         | -           | 3,764,928  | -         | -     | 8,793,378                           |
| Claims Secured by Commercial Real Estate                       | -  | -          | -          | -         | -           | 920,619    | -         | -     | 920,619                             |
| Non-Performing Assets (NPAs)                                   | -  | -          | 49,507     | -         | -           | 1,769,373  | 3,821,388 | -     | 5,640,268                           |
| Higher-risk Categories   | -  | -          | -          | -         | -           | -          | -         | -     | -                                   |
| Cash Items and Other Assets                                    | 5,419,542                                  | 2,667,853  | -          | -         | -           | 7,594,266  | -         | -     | 15,681,660                          |
| Total  | 26,900,455                                 | 11,784,350 | 19,732,035 | 2,789,194 | 101,160,762 | 85,024,403 | 3,821,388 | -     | 251,212,585                         |

| Bank                                       |           |            |           |            |            |           |        |                               |
|--|-----------|------------|-----------|------------|------------|-----------|--------|-------------------------------|
| LKR'000 as at 31-Dec-2017 (Post CCF & CRM) |           |            |           |            |            |           |        |                               |
| 0%   | 20%       | 50%        | 60%       | 75%        | 100%       | 150%      | >150%  | Total Credit Exposures Amount |
| 20,989,891                                 | 4,053,665 | -          | -         | -          | -          | -         | -      | 25,043,556                    |
| -  | -         | -          | -         | -          | -          | -         | -      | -                             |
| -  | -         | -          | -         | -          | -          | -         | -      | -                             |
| -  | -         | -          | -         | -          | -          | -         | -      | -                             |
| -  | 935,660   | 1,396,058  | -         | -          | 593,488    | -         | -      | 2,925,206                     |
| -  | 2,331,815 | 8,597,405  | -         | -          | 1,244,412  | -         | -      | 12,173,632                    |
| -  | -         | 2,490,921  | -         | -          | 44,436,081 | -         | -      | 46,927,002                    |
| 142,175                                    | 117,118   | -          | 2,260,447 | 92,229,122 | 10,527,723 | -         | -      | 105,276,585                   |
| -  | -         | 4,500,372  | -         | -          | 3,327,584  | -         | -      | 7,827,956                     |
| -  | -         | -          | -         | -          | 868,702    | -         | -      | 868,702                       |
| -  | -         | 35,775     | -         | -          | 586,476    | 1,495,307 | -      | 2,117,558                     |
| -  | -         | -          | -         | -          | -          | -         | 25,803 | 25,803                        |
| 5,589,806                                  | 1,529,313 | -          | -         | -          | 3,584,052  | -         | -      | 10,703,170                    |
| 26,721,873                                 | 8,967,571 | 17,020,530 | 2,260,447 | 92,229,122 | 65,168,518 | 1,495,307 | 25,803 | 213,889,170                   |

| Group                                      |           |            |           |            |            |           |       |                               |
|--|-----------|------------|-----------|------------|------------|-----------|-------|-------------------------------|
| LKR'000 as at 31-Dec-2017 (Post CCF & CRM) |           |            |           |            |            |           |       |                               |
| 0%   | 20%       | 50%        | 60%       | 75%        | 100%       | 150%      | >150% | Total Credit Exposures Amount |
| 21,060,935                                 | 4,053,665 | -          | -         | -          | -          | -         | -     | 25,114,600                    |
| -  | -         | -          | -         | -          | -          | -         | -     | -                             |
| -  | -         | -          | -         | -          | -          | -         | -     | -                             |
| -  | -         | -          | -         | -          | -          | -         | -     | -                             |
| -  | 935,692   | 1,396,058  | -         | -          | 593,488    | -         | -     | 2,925,238                     |
| -  | 2,331,815 | 8,597,405  | -         | -          | 1,244,412  | -         | -     | 12,173,632                    |
| -  | -         | 2,490,921  | -         | -          | 44,644,951 | -         | -     | 47,135,872                    |
| 142,175                                    | 117,118   | -          | 2,260,447 | 92,229,122 | 10,527,723 | -         | -     | 105,276,585                   |
| -  | -         | 4,500,372  | -         | -          | 3,327,584  | -         | -     | 7,827,956                     |
| -  | -         | -          | -         | -          | 868,702    | -         | -     | 868,702                       |
| -  | -         | 35,775     | -         | -          | 586,476    | 1,495,307 | -     | 2,117,558                     |
| -  | -         | -          | -         | -          | -          | -         | -     | -                             |
| 5,589,829                                  | 1,529,313 | -          | -         | -          | 3,429,823  | -         | -     | 10,548,964                    |
| 26,792,939                                 | 8,967,602 | 17,020,530 | 2,260,447 | 92,229,122 | 65,223,159 | 1,495,307 | -     | 213,989,106                   |

# Risk Management Annexure

Table 7

## Market Risk under Standardised Measurement Method

| Item  | Bank<br>RWA (LKR'000) |                  | Group<br>RWA (LKR'000) |                  |
|---|-----------------------|------------------|------------------------|------------------|
|   | 31-Dec-2018           | 31-Dec-2017      | 31-Dec-2018            | 31-Dec-2017      |
| <b>(a) RWA for Interest Rate Risk</b>                         | 703,460               | 357,831          | 703,460                | 357,831          |
| General Interest Rate Risk                                    | 703,460               | 357,831          | 703,460                | 357,831          |
| (i) Net Long or Short Position                                | 703,460               | 357,831          | 703,460                | 357,831          |
| (ii) Horizontal Disallowance                                  | -                     | -                | -                      | -                |
| (iii) Vertical Disallowance                                   | -                     | -                | -                      | -                |
| (iv) Options  | -                     | -                | -                      | -                |
| Specific Interest Rate Risk                                   | -                     | -                | -                      | -                |
| <b>(b) RWA for Equity</b>                                     | -                     | -                | -                      | -                |
| (i) General Equity Risk                                       | -                     | -                | -                      | -                |
| (ii) Specific Equity Risk                                     | -                     | -                | -                      | -                |
| <b>(c) RWA for Foreign Exchange &amp; Gold</b>                | 7,756                 | 21,278           | 7,756                  | 21,278           |
| <b>Capital Charge for Market Risk [(a) + (b) + (c)] * CAR</b> | <b>5,989,190</b>      | <b>3,369,857</b> | <b>5,989,190</b>       | <b>3,369,857</b> |

Table 8

## Operational Risk under Basic Indicator Approach/ The Standardised Approach/ The Alternative Standardised Approach

| Business Lines   | Capital Charge Factor | Fixed Factor | Bank<br>Gross Income (LKR'000)<br>as at 31-Dec-2018 |            |            | Capital Charge Factor | Fixed Factor | Gross Income (LKR'000)<br>as at 31-Dec-2017 |            |            |
|--|-----------------------|--------------|---|------------|------------|-----------------------|--------------|---|------------|------------|
|  |                       |              | 1st Year  | 2nd Year   | 3rd Year   |                       |              | 1st Year                                    | 2nd Year   | 3rd Year   |
|  |                       |              |   |            |            |                       |              |   |            |            |
| <b>The Basic Indicator Approach</b>                        | 15%                   |              | 13,217,045  | 17,622,084 | 21,023,282 | 15%                   |              | 12,271,650                                  | 13,217,046 | 17,622,084 |
| <b>The Standardised Approach</b>                           |                       |              | -   | -          | -          |                       |              | -   | -          | -          |
| Corporate Finance  | 18%                   |              | -   | -          | -          | 18%                   |              | -   | -          | -          |
| Trading and Sales  | 18%                   |              | -   | -          | -          | 18%                   |              | -   | -          | -          |
| Payment and Settlement                                     | 18%                   |              | -   | -          | -          | 18%                   |              | -   | -          | -          |
| Agency Services  | 15%                   |              | -   | -          | -          | 15%                   |              | -   | -          | -          |
| Asset Management   | 12%                   |              | -   | -          | -          | 12%                   |              | -   | -          | -          |
| Retail Brokerage   | 12%                   |              | -   | -          | -          | 12%                   |              | -   | -          | -          |
| Retail Banking   | 12%                   |              | -   | -          | -          | 12%                   |              | -   | -          | -          |
| Commercial Banking   | 15%                   |              | -   | -          | -          | 15%                   |              | -   | -          | -          |
| <b>The Alternative Standardised Approach</b>               |                       |              | -   | -          | -          |                       |              | -   | -          | -          |
| Corporate Finance  | 18%                   |              | -   | -          | -          | 18%                   |              | -   | -          | -          |
| Trading and Sales  | 18%                   |              | -   | -          | -          | 18%                   |              | -   | -          | -          |
| Payment and Settlement                                     | 18%                   |              | -   | -          | -          | 18%                   |              | -   | -          | -          |
| Agency Services  | 15%                   |              | -   | -          | -          | 15%                   |              | -   | -          | -          |
| Asset Management   | 12%                   |              | -   | -          | -          | 12%                   |              | -   | -          | -          |
| Retail Brokerage   | 12%                   |              | -   | -          | -          | 12%                   |              | -   | -          | -          |
| Retail Banking   | 12%                   | 0.035        | -   | -          | -          | 12%                   | 0.035        | -   | -          | -          |
| Commercial Banking   | 15%                   | 0.035        | -   | -          | -          | 15%                   | 0.035        | -   | -          | -          |
| <b>Capital Charges for Operational Risk (LKR'000)</b>      |                       |              |   |            |            |                       |              |   |            |            |
| The Basic Indicator Approach                               | 2,593,121             |              |   |            |            | 2,155,539             |              |   |            |            |
| The Standardised Approach                                  | -                     |              |   |            |            | -                     |              |   |            |            |
| The Alternative Standardised Approach                      | -                     |              |   |            |            | -                     |              |   |            |            |
| <b>Risk Weighted Amount for Operational Risk (LKR'000)</b> |                       |              |   |            |            |                       |              |   |            |            |
| The Basic Indicator Approach                               | 21,836,805            |              |   |            |            | 19,160,347            |              |   |            |            |
| The Standardised Approach                                  | -                     |              |   |            |            | -                     |              |   |            |            |
| The Alternative Standardised Approach                      | -                     |              |   |            |            | -                     |              |   |            |            |

**Table 8 (Contd.)****Operational Risk under Basic Indicator Approach/ The Standardised Approach/ The Alternative Standardised Approach**

| Business Lines                                      | Capital Charge Factor | Fixed Factor | Group             |            |            | Capital Charge Factor | Fixed Factor | Gross Income (LKR'000) |            |            |
|---|-----------------------|--------------|-------------------|------------|------------|-----------------------|--------------|------------------------|------------|------------|
|   |                       |              | as at 31-Dec-2018 |            |            |                       |              | as at 31-Dec-2017      |            |            |
|   |                       |              | 1st Year          | 2nd Year   | 3rd Year   |                       |              | 1st Year               | 2nd Year   | 3rd Year   |
| The Basic Indicator Approach                        | 15%                   |              | 13,519,915        | 16,913,568 | 21,078,467 | 15%                   |              | 12,519,408             | 13,519,915 | 16,913,568 |
| The Standardised Approach                           |                       |              | -                 | -          | -          |                       |              | -                      | -          | -          |
| Corporate Finance                                   | 18%                   |              | -                 | -          | -          | 18%                   |              | -                      | -          | -          |
| Trading and Sales                                   | 18%                   |              | -                 | -          | -          | 18%                   |              | -                      | -          | -          |
| Payment and Settlement                              | 18%                   |              | -                 | -          | -          | 18%                   |              | -                      | -          | -          |
| Agency Services                                     | 15%                   |              | -                 | -          | -          | 15%                   |              | -                      | -          | -          |
| Asset Management                                    | 12%                   |              | -                 | -          | -          | 12%                   |              | -                      | -          | -          |
| Retail Brokerage                                    | 12%                   |              | -                 | -          | -          | 12%                   |              | -                      | -          | -          |
| Retail Banking                                      | 12%                   |              | -                 | -          | -          | 12%                   |              | -                      | -          | -          |
| Commercial Banking                                  | 15%                   |              | -                 | -          | -          | 15%                   |              | -                      | -          | -          |
| The Alternative Standardised Approach               |                       |              | -                 | -          | -          |                       |              | -                      | -          | -          |
| Corporate Finance                                   | 18%                   |              | -                 | -          | -          | 18%                   |              | -                      | -          | -          |
| Trading and Sales                                   | 18%                   |              | -                 | -          | -          | 18%                   |              | -                      | -          | -          |
| Payment and Settlement                              | 18%                   |              | -                 | -          | -          | 18%                   |              | -                      | -          | -          |
| Agency Services                                     | 15%                   |              | -                 | -          | -          | 15%                   |              | -                      | -          | -          |
| Asset Management                                    | 12%                   |              | -                 | -          | -          | 12%                   |              | -                      | -          | -          |
| Retail Brokerage                                    | 12%                   |              | -                 | -          | -          | 12%                   |              | -                      | -          | -          |
| Retail Banking                                      | 12%                   | 0.035        | -                 | -          | -          | 12%                   | 0.035        | -                      | -          | -          |
| Commercial Banking                                  | 15%                   | 0.035        | -                 | -          | -          | 15%                   | 0.035        | -                      | -          | -          |
| Capital Charges for Operational Risk (LKR'000)      |                       |              |                   |            |            |                       |              |                        |            |            |
| The Basic Indicator Approach                        | 2,575,598             |              |                   |            |            | 2,147,645             |              |                        |            |            |
| The Standardised Approach                           | -                     |              |                   |            |            | -                     |              |                        |            |            |
| The Alternative Standardised Approach               | -                     |              |                   |            |            | -                     |              |                        |            |            |
| Risk Weighted Amount for Operational Risk (LKR'000) |                       |              |                   |            |            |                       |              |                        |            |            |
| The Basic Indicator Approach                        | 21,689,242            |              |                   |            |            | 19,090,174            |              |                        |            |            |
| The Standardised Approach                           | -                     |              |                   |            |            | -                     |              |                        |            |            |
| The Alternative Standardised Approach               | -                     |              |                   |            |            | -                     |              |                        |            |            |



# Risk Management Annexure

Table 9

## Differences between Accounting and Regulatory Scopes and Mapping of Financial Statement Categories with Regulatory Risk Categories

| LKR '000 as at 31-Dec-2018  |  |   |   |   |  |
|---|--|---|---|---|--|
| Bank  | a<br>Carrying Values<br>as Reported in<br>Published<br>Financial<br>Statements | b<br>Carrying Values<br>under Scope<br>of Regulatory<br>Reporting | c<br>Subject to<br>Credit Risk<br>Framework | d<br>Subject to<br>Market Risk<br>Framework | e<br>Not subject to<br>Capital<br>Requirements or<br>Subject to<br>Deduction from<br>Capital |
| <b>Assets</b>   | 324,832,936  | 326,961,835   | 241,686,147                                 | 57,586,205                                  | 28,656,825   |
| Cash and Cash Equivalents   | 6,437,519  | 6,437,790   | 6,437,790                                   | -   | -  |
| Balances with Central Banks   | 12,762,122   | 12,634,094  | 12,634,094                                  | -   | -  |
| Placements with Banks   | 180,593  | 300,000   | 128,000                                     | -   | 172,000  |
| Derivative Financial Instruments                                      | 2,403,787  | -   | -   | -   | -  |
| Financial Assets - Recognised through Profit or Loss                  | 668,812  | 57,586,205  | -   | 57,586,205                                  | -  |
| Financial Assets Designated at Fair Value through Profit or Loss      | -  | -   | -   | -   | -  |
| Loans and Receivables to Banks  | -  | -   | -   | -   | -  |
| Financial Assets at Amortised Cost - Loans and Advances               | 221,500,656  | 221,442,175   | 195,225,983                                 | -   | 27,183,535   |
| Financial Assets at Fair Value through Other Comprehensive Income     | 57,463,831   | -   | -   | -   | -  |
| Financial Assets at Amortised Cost - Debt Instruments                 | 15,941,247   | 15,542,590  | 15,542,590                                  | -   | -  |
| Investments in Subsidiaries   | 678,710  | 678,710   | 678,710                                     | -   | -  |
| Investments in Associates and Joint Ventures                          | -  | -   | -   | -   | -  |
| Property, Plant and Equipment   | 2,867,825  | 2,867,827   | 2,867,827                                   | -   | -  |
| Investment Properties   | -  | -   | -   | -   | -  |
| Goodwill and Intangible Assets  | 1,301,248  | -   | -   | -   | -  |
| Other Assets  | 2,626,586  | 9,472,443   | 8,171,153                                   | -   | 1,301,291  |
| <b>Liabilities</b>  | 298,370,833  | 300,759,497   | -   | -   | -  |
| Due to Banks  | 18,474,545   | 11,189,594  | -   | -   | -  |
| Derivative Financial Instruments                                      | 484,373  | -   | -   | -   | -  |
| Other Financial Liabilities Held-For- Trading                         | -  | -   | -   | -   | -  |
| Financial Liabilities Designated at Fair Value through Profit or Loss | -  | -   | -   | -   | -  |
| Due to Depositors   | 231,936,769  | 227,443,051   | -   | -   | -  |
| Due to Other Borrowers  | 28,032,833   | 35,109,197  | -   | -   | -  |
| Debt Securities Issued  | -  | -   | -   | -   | -  |
| Current Tax Liabilities   | 1,547,833  | -   | -   | -   | -  |
| Deferred Tax Liabilities  | 960,783  | -   | -   | -   | -  |
| Other Provisions  | -  | -   | -   | -   | -  |
| Other Liabilities   | 8,188,087  | 18,517,655  | -   | -   | -  |
| Due to Subsidiaries   | -  | -   | -   | -   | -  |
| Subordinated Term Debts   | 8,745,611  | 8,500,000   | -   | -   | -  |
| <b>Off-Balance Sheet Liabilities</b>                                  | 190,599,308  | 203,879,066   | 201,154,261                                 | -   | 2,724,804  |
| Guarantees  | 908,258  | 908,258   | 908,258                                     | -   | -  |
| Performance Bonds   | 14,771,258   | 14,771,258  | 13,157,621                                  | -   | 1,613,636  |
| Letters of Credit   | 5,920,213  | 5,920,213   | 5,208,160                                   | -   | 712,053  |
| Other Contingent Items  | 3,876,005  | 3,876,005   | 3,876,005                                   | -   | -  |
| Undrawn Loan Commitments  | 120,076,350  | 120,076,350   | 120,076,350                                 | -   | -  |
| Other Commitments   | 45,047,225   | 58,326,983  | 57,927,867                                  | -   | 399,115  |
| <b>Shareholders' Equity</b>   |  |   |   |   |  |
| Equity Capital (Stated Capital)/Assigned Capital                      | 8,865,523  | 8,865,523   | -   | -   | -  |
| of which Amount Eligible for CET1                                     | 8,865,523  | 8,865,523   | -   | -   | -  |
| of which Amount Eligible for AT1                                      | -  | -   | -   | -   | -  |
| Retained Earnings   | 15,820,900   | 16,326,084  | -   | -   | (765,940)  |
| Accumulated Other Comprehensive Income                                | (98,082)   | -   | -   | -   | -  |
| Other Reserves  | 1,873,761  | 1,010,732   | -   | -   | 337,316  |
| <b>Total Shareholders' Equity</b>                                     | 26,462,102   | 26,202,339  | -   | -   | (428,624)  |

### Notes:

- 1) Differences in Financial Assets - Recognised through Profit or Loss, Financial Assets at Fair Value through Other Comprehensive Income, Intangible Assets, Other Assets, Due to Banks, Due to Depositors, Due to Other Borrowers, Current Tax Liabilities, Deferred Tax Liabilities and Other Liabilities is due to Classification differences.
- 2) Difference in Retained Earnings is due to profit difference in SLAS and SLFRS accounting standards and Revaluation Reserve classification differences.
- 3) Accumulated Other Comprehensive Income is not considered in (b) as it is based on SLAS accounting standards.
- 4) Differences in Other Commitments is due to Notional Value of Derivative contracts reported in Published Financial Statements (a) and Carrying Value reported in Regulatory Reporting (b).

# Mapping Our Material Topics to GRI and GRI Index

| GRI Standard   | Disclosure   | Page number      | Omission   |
|--|--|------------------|--|
| GRI 101: Foundation (does not include any disclosures) |  |                  |  |
| <b>General Disclosures</b>                             |  |                  |  |
| GRI 102: General Disclosures                           | 102-1 Name of Organisation   | 3                |  |
|  | 102-2 Activities, brands, products and services                                    | 32 - 37          |  |
|  | 102-3 Location of headquarters   | IBC              |  |
|  | 102-4 Location of operations   | 273 - 274        |  |
|  | 102-5 Ownership and legal form   | IBC              |  |
|  | 102-6 Markets served   | 32, 273 - 274    |  |
|  | 102-7 Scale of the organisation  | 22, 38 - 39      |  |
|  | 102-8 Information on employees and other workers                                   | 43               |  |
|  | 102-9 Supply chain   | 53               |  |
|  | 102-10 Significant changes to the organisation and supply chain                    | 3                |  |
|  | 102-11 Precautionary principle   | 52               |  |
|  | 102-12 External initiatives  | 3                |  |
|  | 102-13 Membership of associations  | 53               |  |
|  | 102-14 Statement from senior decision maker  | 8 - 10           |  |
|  | 102-16 Values, principles, norms and standards of behaviour                        | 50               |  |
|  | 102-18 Governance Structure  | 60 - 62          |  |
|  | 102-40 List of stakeholder groups  | 25               |  |
|  | 102-41 Collective bargaining agreements  | 42               | The Bank does not have collective bargaining agreements in place |
|  | 102-42 Identifying and selecting stakeholders                                      | 25               |  |
|  | 102-43 Approach to stakeholder engagement  | 25               |  |
|  | 102-44 Key topics and concerns raised  | 25               |  |
|  | 102-45 Entities included in the consolidated financial statements                  | 3                |  |
|  | 102-46 Defining report content and topic boundary                                  | 3, 28, 270 - 271 |  |
|  | 102-47 Material topics   | 28               |  |
|  | 102-48 Restatement of information  | 3                |  |
|  | 102-49 Changes in reporting  | 3                |  |
|  | 102-50 Reporting period  | 3                |  |
|  | 102-51 Date of most recent report  | 3                |  |
|  | 102-52 Reporting cycle   | 3                |  |
|  | 102-53 Contact point for questions regarding Report                                | 3                |  |
|  | 102-54 Claims of reporting in accordance with GRI Standards                        | 3                |  |
|  | 102-55 GRI context index   | 267 - 269        |  |
|  | 102-56 External assurance  | 3, 58            |  |
| <b>Material topics</b>                                 |  |                  |  |
| <b>Economic Performance</b>                            |  |                  |  |
| GRI 103: Management Approach                           | 103-1 Explanation of material topics and its boundaries                            | 270              |  |
|  | 103-2 The Management Approach and its components                                   | 55               |  |
|  | 103-3 Evaluation of the Management Approach  | 55               |  |
| GRI 201: Economic Performance                          | 201-2- Financial implications and other risks and opportunities due climate change | 56               |  |
| <b>Materials</b>                                       |  |                  |  |
| GRI 103: Management Approach                           | 103-1 Explanation of material topics and its boundaries                            | 271              |  |
|  | 103-2 The Management Approach and its components                                   | 55               |  |
|  | 103-3 Evaluation of the Management Approach  | 55               |  |
| GRI 301: Materials                                     | 301-1 Materials used by weight or volume   | 57               |  |

# Mapping Our Material Topics to GRI and GRI Index

| GRI Standard                            | Disclosure  | Page number | Omission |
|---|---|-------------|----------|
| <b>Energy</b>                           |   |             |          |
| GRI 103: Management Approach            | 103-1 Explanation of material topics and its boundaries   | 271         |          |
|   | 103-2 The Management Approach and its components  | 55          |          |
|   | 103-3 Evaluation of the Management Approach   | 55          |          |
| GRI 302: Energy                         | 302-1 Energy consumption within the organization  | 57          |          |
|   | 302-4 Energy intensity  | 57          |          |
| <b>Bio Diversity</b>                    |   |             |          |
| GRI 103: Management Approach            | 103-1 Explanation of material topics and its boundaries   | 271         |          |
|   | 103-2 The Management Approach and its components  | 57          |          |
|   | 103-3 Evaluation of the Management Approach   | 57          |          |
| GRI 304: Biodiversity                   | 304-2 Significant impacts of activities, products and services on biodiversity  | 57          |          |
| <b>Emissions</b>                        |   |             |          |
| GRI 103: Management Approach            | 103-1 Explanation of material topics and its boundaries   | 271         |          |
|   | 103-2 The Management Approach and its components  | 55          |          |
|   | 103-3 Evaluation of the Management Approach   | 55          |          |
| GRI 305 Emissions:                      | 305-1 Direct greenhouse gas (GHG) emissions   | 56          |          |
|   | 305-2 Energy indirect greenhouse gas (GHG) emissions (Scope 2)  | 56          |          |
|   | 305-3 Other indirect greenhouse gas (GHG) emissions (Scope 3)   | 56          |          |
|   | 305-4 GHG emission intensity  | 56          |          |
| <b>Effluent and Waste</b>               |   |             |          |
| GRI 103: Management Approach            | 103-1 Explanation of material topics and its boundaries   | 271         |          |
|   | 103-2 The Management Approach and its components  | 55          |          |
|   | 103-3 Evaluation of the Management Approach   | 55          |          |
| GRI 306: Effluent and Waste             | 306-2 Waste by type and disposal method   | 57          |          |
| <b>Environmental Compliance</b>         |   |             |          |
| GRI 103: Management Approach            | 103-1 Explanation of material topics and its boundaries   | 271         |          |
|   | 103-2 The Management Approach and its components  | 55          |          |
|   | 103-3 Evaluation of the Management Approach   | 55          |          |
| GRI 307: Environmental Compliance       | 307-1 Non-compliance with environmental laws and regulations  | 55          |          |
| <b>Employment</b>                       |   |             |          |
| GRI 103: Management Approach            | 103-1 Explanation of material topics and its boundaries   | 270         |          |
|   | 103-2 The Management Approach and its components  | 42          |          |
|   | 103-3 Evaluation of the Management Approach   | 42          |          |
| GRI 401: Employment                     | 401-1 Employee hires and turnover   | 43 - 44     |          |
| <b>Occupational health and safety</b>   |   |             |          |
| GRI 103: Management Approach            | 103-1 Explanation of material topics and its boundaries   | 270         |          |
|   | 103-2 The Management Approach and its components  | 45          |          |
|   | 103-3 Evaluation of the Management Approach   | 45          |          |
| GRI 403: Occupational health and safety | 403-2 Type of injury and rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities, by region and by gender | 45          |          |
| <b>Training and education</b>           |   |             |          |
| GRI 103: Management Approach            | 103-1 Explanation of material topics and its boundaries   | 270         |          |
|   | 103-2 The Management Approach and its components  | 44 - 45     |          |
|   | 103-3 Evaluation of the Management Approach   | 44 - 45     |          |
| GRI 404: Training and education         | 404-1 Average hours of training per year per employee   | 45          |          |
|   | 404-2 Programs for upgrading skills and transition assistance programmes  | 44 - 45     |          |
|   | 404-3 Percentage of employees receiving regular performance and career development reviews  | 42, 44      |          |

| GRI Standard                             | Disclosure  | Page number | Omission |
|--|---|-------------|----------|
| <b>Diversity and equal opportunity</b>   |   |             |          |
| GRI 103: Management Approach             | 103-1 Explanation of material topics and its boundaries   | 270         |          |
|  | 103-2 The Management Approach and its components  | 43          |          |
|  | 103-3 Evaluation of the Management Approach   | 43          |          |
| GRI 405: Diversity and equal opportunity | 405-1 Diversity of governing bodies and employees   | 43, 62      |          |
| <b>Local communities</b>                 |   |             |          |
| GRI 103: Management Approach             | 103-1 Explanation of material topics and its boundaries   | 271         |          |
|  | 103-2 The Management Approach and its components  | 53          |          |
|  | 103-3 Evaluation of the Management Approach   | 53          |          |
| GRI 413: Local Communities               | 413-1 Operations with local community engagement, impact assessments and development programs                     | 53 - 54     |          |
| <b>Marketing and labelling</b>           |   |             |          |
| GRI 103: Management Approach             | 103-1 Explanation of material topics and its boundaries   | 270         |          |
|  | 103-2 The Management Approach and its components  | 52          |          |
|  | 103-3 Evaluation of the Management Approach   | 52          |          |
| GRI 417: Marketing and labelling         | 417-1 Requirements for product and service labelling  | 52          |          |
|  | 417-2 Incidents of non-compliance concerning product and service information and labelling                        | 52          |          |
|  | 417-3 Incidents of non-compliance concerning marketing communications   | 52          |          |
| <b>Customer Privacy</b>                  |   |             |          |
| GRI 103: Management Approach             | 103-1 Explanation of material topics and its boundaries   | 270         |          |
|  | 103-2 The Management Approach and its components  | 52          |          |
|  | 103-3 Evaluation of the Management Approach   | 52          |          |
| GRI 418: Customer Privacy                | 418-1 Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data | 52          |          |
| <b>Socio-economic compliance</b>         |   |             |          |
| GRI 103: Management Approach             | 103-1 Explanation of material topics and its boundaries   | 271         |          |
|  | 103-2 The Management Approach and its components  | 52          |          |
|  | 103-3 Evaluation of the Management Approach   | 52          |          |
| GRI 419: Socio-economic compliance       | 419-1 Non compliance with laws and regulations in the social and economic area                                    | 52          |          |

# Material Matters Annexure

| Material topic and why it is material to us   | Corresponding GRI topic(s)   | Topic boundary and change in boundary   | Materiality in comparison to 2017 |
|---|--|---|-----------------------------------|
| <b>Growth and profitability</b><br>Achieving sustainable growth in earnings is vital in driving shareholder value and ensuring the sufficiency of financial resources in fulfilling strategic aspirations.  | 201: Economic Performance  | The Group's financial performance will directly impact its primary stakeholders such as shareholders, employees and customers.                        | No change                         |
| <b>Customer experience</b><br>Elevating customer experience through convenience, accessibility and technology to be a key source of competitive advantage is a strategic priority for the Bank.             |  | While the impacts of the material topic arise primarily from customers it will have a long-term impact on the Bank's commercial sustainability.       | Increased                         |
| <b>Digitisation</b><br>Digitisation has transformed the way Banks interact with their customers as well as how business is conducted, and risks are managed on a day to day basis.                          |  | The impacts of digitisation are both internal and external as it directly affects our internal efficiencies, cost management and customer experience. | No change                         |
| <b>Responsible lending</b><br>In order to remain commercially viable and socially relevant we ensure customer rights are protected and that lending is directed towards sustainable businesses.             | 417: Marketing and labelling<br>418: Customer privacy  | Our lending practices have a direct impact on our customers, but over the long term will have an impact on our brand, market share and performance.   | No change                         |
| <b>Employee attraction</b><br>Recruiting and retaining the employees with the right skills, attitudes and work ethic is vital in achieving our strategic objectives.  | 401: Employment<br>405: Diversity and equal opportunity<br>403: Occupational health and safety | Human capital management relates primarily to our direct employees across the island  | No change                         |
| <b>Training and development</b><br>With the Bank's digital transformation, it is imperative that we continue to upskill our employees and equip them with the right tools to drive our strategic ambitions. | 404: Training and education  | Relates to the Bank's direct employees.   | No change                         |
| <b>Employee satisfaction</b><br>A satisfied pool of employees ensure retention, productivity, good customer engagement and performance.   |  | Satisfaction relates primarily to the Bank's employees but will have long-term implications on the Bank's competitive edge.                           | No change                         |

| Material topic and why it is material to us   | Corresponding GRI topic(s)  | Topic boundary and change in boundary  | Materiality in comparison to 2017 |
|---|---|--|-----------------------------------|
| <b>Operational efficiency</b><br>Achieving process efficiencies and increased productivity has a direct impact on the Bank's profitability while freeing up employee time for customer interaction. |   | Directly impacts the Group's financial performance.  | No change                         |
| <b>Preserving the environment</b><br>As a responsible corporate citizen, we strive to minimise the adverse environmental impacts of our operations  | 301: Materials<br>302: Energy<br>304: Bio diversity<br>305: Emissions<br>306: Effluents and Waste | The Group's internal environmental impacts consist of paper and energy consumption and the carbon footprint it generates. The Bank's most significant external environmental impact arises from its lending portfolio. | No change                         |
| <b>Corporate social responsibility</b><br>Creating value to the communities we operate in through strategic, ongoing CSR projects can help us sustain our social license to operate.                | 413: Local communities  | The impacts of this topic arise in the communities we operate in across the island.  | No change                         |
| <b>Corporate Governance and compliance</b><br>Sustainable value creation is underpinned by robust governance frameworks and practices.  | 307: Environmental compliance<br>419: Socio-economic compliance                                   | Non-compliance to regulations and laws as well as weak corporate governance practices could result in potential legal liability and significant affect the Bank's reputation and continuity of operations.             | No change                         |

# Details of Freehold Land & Buildings

|                                 | Extent<br>(perches) | Land    |              | Building |              | Total   |              | Accumulated<br>Depreciation | LKR '000<br>Net Book Value |           |
|---------------------------------|---------------------|---------|--------------|----------|--------------|---------|--------------|-----------------------------|----------------------------|-----------|
|                                 |                     | At Cost | At Valuation | At Cost  | At Valuation | At Cost | At Valuation |                             | 2018                       | 2017      |
| Head Office                     |                     |         |              |          |              |         |              |                             |                            |           |
| 242, Union Place,<br>Colombo 02 | 77.20               | 543,985 | 1,224,000    | 95,265   | 145,678      | 639,250 | 1,369,678    | 4,507                       | 1,365,171                  | 1,369,000 |
| City Office                     |                     |         |              |          |              |         |              |                             |                            |           |
| 76, York Street ,<br>Colombo 01 | 10.82               | 15,455  | 177,500      | 24,537   | 28,500       | 39,992  | 206,000      | 705                         | 205,295                    | 206,000   |

The freehold land and buildings of the bank was revalued during 2017 by a professionally qualified independent valuer and booked as at 31.12.2017. The revaluation was carried out by taking into account the prices in property markets or recent market transactions on arm's length basis.

# Service Network

## BRANCHES

| No | Name of the Branch | Address  |
|----|--------------------|--|
| 1  | Akkaraipattu       | No. 210, Main Street, Akkaraipattu                               |
| 2  | Akuressa           | No. 73, Matara Road, Akuressa                                    |
| 3  | Aluthgama          | No. 411, Calle Road Aluthgama                                    |
| 4  | Ambalangoda        | No. 20, 5th Cross Street, Ambalangoda                            |
| 5  | Ambalantota        | No 61, Main Street, Ambalantota                                  |
| 6  | Anuradhapura       | No. 294/A, Maithripala Senanayaka Mawatha, Anuradhapura          |
| 7  | Avissawella        | 107, New Ratnapura Road, Avissawella                             |
| 8  | Badulla            | No. 10 Bank Road, Badulla  |
| 9  | Balangoda          | No. 86/A, Bans Ratwatte Mawatha, Balangoda                       |
| 10 | Bandaragama        | No 18/2 Kalutara Road, Bandaragama                               |
| 11 | Bandarawela        | No. 326, Badulla Road, Bandarawela                               |
| 12 | Battaramulla       | No. 103 A, Pannipitiya Road, Battaramulla                        |
| 13 | Batticaloa         | No. 29, Bar Road, Batticaloa                                     |
| 14 | Boralesgamuwa      | No. 36 Lake Road, Boralesgamuwa                                  |
| 15 | Borella            | No. 67, D.S. Senanayake Mawatha, Borella Colombo 8               |
| 16 | Chilaw             | No. 43, Kurunegala Road, Chilaw                                  |
| 17 | Cinnamon Gardens   | No. 4 A Independence Avenue, Colombo 7                           |
| 18 | City Branch        | No. 76 York Street, Colombo 01                                   |
| 19 | Corporate Branch   | No. 242, Union Place, Colombo 02                                 |
| 20 | Crescat            | B 14, Basement, Crescat Boulevard, Galle Road, Colombo 03        |
| 21 | Dambulla           | No 700, Anuradapura Road, Dambulla                               |
| 22 | Dehiwala           | No. 163, Galle Road, Dehiwala                                    |
| 23 | Deniyaya           | Janahitha Building, Pallegama Road, Deniyaya                     |
| 24 | Digana             | No. 964/6, Nilagama, Digana, Rajawella                           |
| 25 | Elpitiya           | No. 42, Ambalangoda Road, Elpitiya                               |
| 26 | Embilipitiya       | No. 70, New Town Road, Embilipitiya                              |
| 27 | Galle              | NO 144, Matara Road, Pettigalawatta, Galle                       |
| 28 | Gampaha            | No. 112, Baudhaloka Mawatha, Gampaha                             |
| 29 | Gampola            | No. 13, Nawalapitiya Road, Gampola                               |
| 30 | Ciriulla           | No.145/A , Kurunegala Road, Ciriulla                             |
| 31 | Gothatuwa          | No.35, New Town, Gothatuwa, IDH                                  |
| 32 | Hambantota         | No. 39, Main Road, Hambantota                                    |
| 33 | Havelock Town      | No. 100, Havelock Road, Colombo 05                               |
| 34 | Hikkaduwa          | No. 08, Galle Road, Hikkaduwa                                    |
| 35 | Homagama           | No. 113/A, High Level Road, Homagama                             |
| 36 | Horana             | No. 192B, Ratnapura Road, Horana                                 |
| 37 | Ja-ela             | No. 176, Colombo Road, Ja-ela                                    |
| 38 | Jaffna             | No. 35, Stanley Street, Jaffna                                   |
| 39 | Kadawatha          | No 144/1A, Sumitomo Building, Kandy Road, Kadawatha              |
| 40 | Kaduruwela         | No. 292, Sawmill Junction, Kaduruwela, Polonnaruwa               |
| 41 | Kaduwela           | No.510, Colombo Road, Kaduwela                                   |
| 42 | Kalmunai           | No. 174, Batticaloa Road, Kalmunai                               |
| 43 | Kandy              | No. 147, Kotugodella Veediya, Kandy                              |
| 44 | Kandy City Centre  | L1-17, Level 1, Kandy City Centre, No.05, Dalada Veediya, Kandy. |
| 45 | Karapitiya         | No 241, Hirimbura Road Karapitiya                                |
| 46 | Katugastota        | No. 146, Kurunegala Road, Katugastota                            |
| 47 | Kegalle            | No. 176, Walawwa watta, Kegalle                                  |



## Service Network

| No | Name of the Branch | Address   |
|----|--------------------|---|
| 48 | Kiribathgoda       | No.69, Makola Road,Kiribathgoda   |
| 49 | Kohuwala           | No.135 A,Tissara Plaza,Dutugemunu Street,Kohuwala                       |
| 50 | Kollupitiya        | No 314, R.A.De Mel Mawatha, Colombo 03                                  |
| 51 | Kotahena           | No. 258, Goerge R De Silva Mawatha, Colombo 13                          |
| 52 | Kottawa            | No. 269/1 Mahalwarawa Junction, Kottawa                                 |
| 53 | Kuliyapitiya       | No. 72 A, Hettipola Road, Kuliyapitiya                                  |
| 54 | Kurunegala         | No. 37, Puttalam Road, Kurunegala                                       |
| 55 | Mahabage           | No. 590, Negombo Road, Mahabage   |
| 56 | Maharagama         | No. 129,High Level Road, Maharagama                                     |
| 57 | Malabe             | No. 410/4, Athurugiriya Road, Malabe                                    |
| 58 | Matale             | No. 237/241, Main Street, Matale  |
| 59 | Matara             | No. 56, Esplanade Road, Matara  |
| 60 | Mathugama          | No. 123/1 , Agalawatta Road, Matugama                                   |
| 61 | Mawathagama        | No 56, Kurunegala Road, Mawathagama.                                    |
| 62 | Millennium         | No. 46/58, Nawam Mawatha, Colombo 02                                    |
| 63 | Minuwangoda        | No.59, Negombo Road, Minuwangoda  |
| 64 | Monaragala         | No. 190, Wellawaya Road, Monaragala                                     |
| 65 | Moratuwa           | No. 89, New Galle Road,Moratuwa   |
| 66 | Mt Lavinia         | No. 269, Galle Road, Mount Lavinia                                      |
| 67 | Narahenpita        | No 255/2 Kirula Road, Colombo 5   |
| 68 | Nawala             | No. 267A, Nawala Road, Nawala   |
| 69 | Negombo            | No. 72A, Old Chillaw Road, Negombo                                      |
| 70 | Nelliady           | No. 171/1, Jaffna - Point Pedro Road, Nelliady                          |
| 71 | Nittambuwa         | No. 39, Kandy Road, Nittambuwa  |
| 72 | Nugegoda           | No. 128, High Level Road, Nugegoda                                      |
| 73 | Nuwara Eliya       | No. 86, Kandy Road, Nuwara Eliya  |
| 74 | Old Moor Street    | No. 360, Old Moor Street, Colombo 12                                    |
| 75 | Panadura           | No. 229, Galle Road, Panadura   |
| 76 | Peradeniya         | Royal Mall Complex, No. 903/18, William Gopallawa Mw, Kandy             |
| 77 | Pettah             | No. 244, Main Street, Pettah  |
| 78 | Pettah 2           | No. 54 A, Bankshall Street, Colombo 11                                  |
| 79 | Piliyandala        | No. 30 ,Moratuwa Road, Piliyandala                                      |
| 80 | Rajagiriya         | No. 196,Sri Jayawardenapura Mawatha, Welikada, Rajagiriya               |
| 81 | Ratnapura          | No. 189, Main Street, Ratnapura   |
| 82 | Sri Sangaraja      | No. 545 A, Sri Sangaraja Mawatha, Colombo 10                            |
| 83 | Tangalle           | No. 110, Tissa Road, Tangalle   |
| 84 | Thalawathugoda     | No. 245/2,Pannipitiya Road,Thalawathugoda                               |
| 85 | Tissamaharama      | No. 43/2 , Kachcheriyagama, Hambanthota Road , Tissamaharama            |
| 86 | Trincomalee        | No. 96, Main Street, Trincomalee  |
| 87 | Vavuniya           | No. 222, Kandy Road, Vavuniya   |
| 88 | Ward Place         | No 16, Ward Place, Colombo 7.   |
| 89 | Wariyapola         | No 84, Puttalam Road, Wariyapola  |
| 90 | Wattala            | No.492,Negombo Road, Wattala  |
| 91 | Weligama           | No. 354/29, Samaraweera Place, Sirimavo Bandaranayake Mawatha, Weligama |
| 92 | Wellawatte         | No 595, Galle Road, Wellawatte  |
| 93 | Wennappuwa         | No. 289, Chilaw Road, Wennappuwa  |
| 94 | World Trade Center | Unit L03/EB/01, Level 03, East Tower, Echelon Square, Colombo 01        |

The Bank is headquartered in Colombo, Sri Lanka and its operations are primarily limited to the country.

**OFF SITE CRMs**

| No | Location      | Address                          |
|----|---------------|----------------------------------|
| 1  | ANC Education | No 310, R A DeMel Mw, Colombo 03 |
| 2  | SLIIT         | SLIIT, New Kandy Road, Malabe    |
| 3  | CINEC         | IT Park, Millennium Dr, Malabe   |

**OFF SITE ATMs**

| No | Location                | Address  |
|----|-------------------------|--|
| 1  | Arpico Hyde Park        | Arpico Super Centre, No.69, Hyde Park Corner, Colombo 02                                       |
| 2  | Arpico Navinna          | Arpico Super Centre, No.310, High Level Road, Navinna, Maharagama                              |
| 3  | Asiri-General           | No. 181, Kirula Road, Narahenpita  |
| 4  | Asiri-Surgical          | No. 21, Kirimandala Mawatha, Narahenpita   |
| 5  | Athurugiriya            | No. 25, Malabe Road, Athurugiriya  |
| 6  | Attidiya                | L & S Engineering (Pvt) Ltd, No 208, Main Road, Attidiya                                       |
| 7  | Awissawella             | Union Apparel (Pvt) Ltd, Block C1, C.V.Gunaratne Industrial Park, Seethawakapura, Avissawella  |
| 8  | Borella                 | Keells Super - Borella, No 85, Dr N.M. Perera Mawatha, Colombo 08                              |
| 9  | Cinnamon Lakeside       | No: 115, Sir Chittampalam A Gardiner Mawatha, Colombo 02                                       |
| 10 | Dambulla                | "Dambulla Giman Hala", Dambulla  |
| 11 | Digana                  | MAS Factory, BOI, Palkelele  |
| 12 | Galle Sahana            | "Sahana" No 438, Matara Road, Megalle, Galle.  |
| 13 | Gampaha Railway Station | Railway station, Gampaha   |
| 14 | Ganemulla               | Sri Lanka Railway Station, Ganemulla   |
| 15 | Home Loan center        | No. 400, Galle Road, Colombo 03  |
| 16 | JKH WaterFront          | Water Front, 92, Glennie Street, Colombo 02  |
| 17 | Kaduruwela              | Texwin Clothing (PVT) LTD, BOP 398, Abayapura, Pulasthigama, Kaduruwela                        |
| 18 | Kaduwela                | The Main Bus Stand, Avissawella Road, Kaduwela   |
| 19 | Kalubowila              | No. 53, Hospital Road, Kalubowila, Dehiwala  |
| 20 | Kandana                 | Arpico Daily, No: 88, Negombo road, Kandana  |
| 21 | Kandy Railway Station   | Sri Lanka Railway Station, Kandy   |
| 22 | Kolonnawa               | Laugfs Supermarket, No 228, Kolonnawa Road, Kolonnawa  |
| 23 | Kottawa Keells          | Keells super, No: 119, Horana Road, Kottawa  |
| 24 | Laugfs Kohuwala         | Laugfs Sun-up Super Market, No.17, Sunethradevi Mawatha, Kohuwala.                             |
| 25 | Laugfs Nedimala         | Laugfs Sun-up Super Market, No. 288, Hill Street, Dehiwala                                     |
| 26 | Laugfs Seeduwa          | Laugfs Sun-up Super Market, No: 10, Kotugoda Road, Seeduwa                                     |
| 27 | Leesons Ragama          | Leesons Hospital, No: 32, Thewatta Road, Ragama  |
| 28 | Mawaramandiya           | Biyagama Multi Corporative Society Limited, "Samupakara Mandiraya", Mawaramandiya, Siyambalape |
| 29 | Miriswatte              | Lanka Filling Station, No: 144, Kandy Road, Miriswatte, Mudungoda                              |
| 30 | Mt. Lavinia             | Keells Super Mt. Lavinia, No.388 Galle Road, Mt. Lavinia                                       |
| 31 | Negombo Super K         | Negombo Super K, No: 250, Colombo Road, Negombo  |
| 32 | Orion City              | Orion Management Consortium Ltd, No 752/1, Base Line Road, Colombo 09                          |
| 33 | Panadura                | Arpico super center, No. 542, Galle road, Panadura   |
| 34 | Peradeniya              | Royal Mall Shopping Complex, No. 903/18, William Gopallawa Mw, Kandy                           |
| 35 | Pitakotte               | No: 338, Kotte Road, Pitakotte   |
| 36 | Rajagiriya              | Keells Super Rajagiriya, No.475, Sri Jayawardenapura Road, Rajagiriya                          |
| 37 | Ratmalana               | Lanka Sathosa Limited, Rathmalana Mega, Police Trans Camp, No. 650/A, Galle Road, Ratmalana    |
| 38 | Rathnapura              | No. 278, Colombo Road, Rathnapura  |
| 39 | SKCinema Matara         | SK Cinema (Pvt) Limited, No. 07, Beach Road, Matara  |
| 40 | Wattala                 | Keells Super - Wattala, No.385, Negombo Road, Wattala  |

# Glossary

## A

### ACCEPTANCES

The signature on a Bills of Exchange indicates that the person on whom it is drawn accepts the conditions of the bill. In other words a bill of exchange that has been accepted.

### ACCOUNTING POLICIES

The specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting Financial Statements.

### ACCRUAL BASIS

Recognition of the effects of transactions and other events when they occur without waiting for receipt or payment of cash or its equivalents.

### ACTUARIAL GAIN/LOSS

Gain or loss arising from the difference between estimates and actual experience in an entity's pension plan.

## B

### BASEL III

The BCBS issued the Basel III rules text, which presents the details of strengthened global regulatory standards on bank capital adequacy and liquidity.

### BASIS POINT (BP)

One hundredth of a percentage point (0.01 per cent); 100 basis points is 1 percentage point. Used in quoting movements in interest rates or yields on securities.

## C

### CAGR

Compounded annual growth rate. The rate at which it would have grown if it grew at an even rate compounded annually.

### CAPITAL ADEQUACY RATIO

The relationship between capital and risk weighted assets as defined in the framework developed by the Bank for International Settlements and as modified by the Central Bank of Sri Lanka to suit local requirements.

### 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.

### CARRYING VALUE

Value of an asset or a liability as per books of the organization before adjusting for fair value.

### 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.

### COST TO INCOME RATIO

Operating expenses (excluding provision for bad and doubtful debts) expressed as a percentage of net Income

### CREDIT RATING

An evaluation of a corporate's ability to repay its obligations or the likelihood of not defaulting, carried out by an independent rating agency.

### CREDIT RISK

Credit risk is the risk of financial loss to the Bank if a customer or counter party to a financial instrument fails to meet its contractual obligations, and arises principally from the loans and advances to customers and other banks and investment in debt/ equity securities.

### CREDIT RISK MITIGATION

A technique to reduce the credit risk associated with an exposure by application of credit risk mitigants such as collateral, guarantee and credit protection.

### 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.

### CURRENCY 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.

## D

### DELINQUENCY

A debt or other financial obligation is considered to be in a state of delinquency when payments are overdue. Loans and advances are considered to be delinquent when consecutive payments are missed. Also known as 'Arrears'.

### DERECOGNITION

Removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

### DIVIDEND COVER

Profit after tax divided by gross dividends. This ratio measures the number of times dividend is covered by the current year's distributable profits.

### DIVIDEND YIELD

Dividend earned per share as a percentage of its market value.

## E

### EARNINGS PER ORDINARY SHARE (EPS)

Profit after taxation and after dividend on Preference Shares divided by the number of ordinary shares in issue.

### EFFECTIVE INCOME TAX RATE

Provision for taxation divided by the profit before taxation.

### EVENTS AFTER THE REPORTING PERIOD

Events after the reporting period are those events, favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue.

### EXPOSURE

A claim, contingent claim or position which carries a risk of financial loss.

### EXPECTED CREDIT LOSSES ('ECL')

The weighted average, with respect to the risk of default occurring, of the difference between all contractual cash flows that are due in accordance with the contract and all the cash flows that are expected to be received, discounted at the original effective interest rate.

**12-MONTH ECL**

The ECL resulting from default events that are possible within the next twelve months.

**LIFETIME ECL**

The expected credit losses that result from all possible default events over the expected life of a financial instrument.

**EXPOSURE AT DEFAULT ('EAD')**

Under the standardised approach, the amount expected to be outstanding after any credit risk mitigation, if and when the counterparty defaults. Under IRB, the amount outstanding if and when the counterparty defaults. EAD reflects drawn balances as well as allowances for undrawn amounts of commitments and contingent exposures.

**F****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 the ownership of the asset but transfers substantially all the risks and rewards of ownership to the lessee.

**FINANCIAL ASSET**

Is any asset that is cash, an equity instrument of another entity or a contractual right to receive cash or another financial asset from another entity.

**FINANCIAL GUARANTEE CONTRACT**

Is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

**FINANCIAL INSTRUMENT**

Financial Instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

**FINANCIAL LIABILITY**

Is a contractual obligation to deliver cash or another financial asset to another entity.

**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)**

The GRI is an international independent standards organisation that helps businesses, governments, and other organisations understand and communicate their impacts on issues such as climate change, human rights, and corruption. GRI promotes sustainability reporting as a way for organisations to become more sustainable and contribute to sustainable development.

**GROSS DIVIDENDS**

The portion of profits distributed to the shareholders including tax withheld.

**GUARANTEES**

Three party agreement involving a promise by one party (the guarantor) to fulfill the obligations of a person owning a debt if that person fails to perform.

**H****HIGH QUALITY LIQUID ASSETS (HQLA)**

Assets that are unencumbered, liquid in markets during a time of stress and, ideally, be central bank eligible. These include, for example, cash and claims on Central Governments and Central Banks.

**I****IMPAIRED LOANS**

Loans where the Group does not expect to collect all the contractual cash flows or expects to collect them later than they are contractually due.

**INTEREST MARGIN**

Net interest income expressed as a percentage of total assets.

**INDIVIDUALLY ASSESSED IMPAIRMENT**

Exposure to loss is assessed on all individually significant accounts and all other accounts that do not qualify for collective assessment.

**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 COVER**

A ratio showing the number of times interest charges is covered by earnings before interest and tax.

**INTEREST SPREAD**

This represents the difference between the average interest rate earned and the average interest rate paid on funds.

**INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS**

The Group's own assessment of the levels of capital that it needs to hold through an examination of its risk profile from regulatory and economic capital viewpoints.

**L****LIQUID ASSETS**

Assets that are held in cash or in a form that can be converted to cash readily, such as deposits with other banks, bills of exchange, treasury bills.

**LIQUID ASSETS RATIO**

Assets that are held in cash or in a form that can be converted to cash readily (as prescribed by the Central Bank of Sri Lanka) divided by the total liabilities including contingent liabilities.

**LIQUIDITY COVERAGE RATIO ('LCR')**

The ratio of the stock of high quality liquid assets to expected net cash outflows over the following 30 days. High quality liquid assets should be unencumbered, liquid in markets during a time of stress and, ideally, be central bank eligible.

**LOANS TO DEPOSITS RATIO**

Total loans and advances expressed as a percentage of the total deposit portfolio.

**LIQUIDITY RISK**

The risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities

**LOAN-TO-VALUE RATIO (LTV)**

The LTV ratio is a mathematical expression which expresses the amount of a first mortgage lien as a percentage of the total appraised value of real property. The LTV ratio is used in

# Glossary

determining the appropriate level of risk for the loan and therefore the correct price of the loan to the borrower.

## M

### MARKET CAPITALISATION

Number of ordinary shares in issue multiplied by the market value of a share as at the year-end.

### 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.

### 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.

## N

### NET ASSETS VALUE PER ORDINARY SHARE

Shareholders' funds excluding Preference Shares divided by the number of ordinary shares in issue.

### NET DIVIDENDS

Dividends net of withholding tax.

### NPA RATIO

Total non-performing advances (net of Interest in Suspense) divided by total advances portfolio (net of Interest in Suspense).

### NON-PERFORMING ADVANCES (NPA)

All loans are classified as nonperforming when a payment is 90 days in arrears.

### NET STABLE FUNDING RATIO (NSFR)

Measures the amount of longer term, stable sources of funding employed by a Bank relative to the liquidity profiles of the assets funded and the potential for contingent calls on funding liquidity arising from off-balance sheet commitments and obligations.

## O

### OPERATIONAL RISK

Operational risk refers to the losses arising from fraud, negligence, oversight, human error, process errors, system failures, external events, etc.

## P

### PAST DUE

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

### PROVISION COVER

Total provisions for loan losses expressed as a percentage of net non-performing loans and advances before discounting for provisions on non-performing loans and advances.

## 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.

### RETURN ON ASSETS

Profit after tax divided by average assets.

### RETURN ON EQUITY

Profit after Tax divided by the average shareholders' funds.

### RISK APPETITE

The aggregate level and types of risk a firm is willing to assume within its risk capacity to achieve its strategic objectives and business plan.

### RISK WEIGHTED ASSETS

On Balance Sheet assets and the credit equivalent of off Balance Sheet assets 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

### SEGMENTAL ANALYSIS

Analysis of financial information by segments of an enterprise specifically, the different industries and the different geographical areas in which it operates.

### 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 (CURRENCY)

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. Alternatively a simultaneous spot sale and forward purchase of a currency.

## 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 debt.

### TOTAL CAPITAL

Capital base is summation of the core capital (Tier I) and the supplementary capital (Tier II).

## V

### 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.

## Y

### YIELD TO MATURITY

Discount rate at which the present value of future payments would equal the security's current price.

# Notice of Meeting

Notice is hereby given that the Twentieth Annual General Meeting of Nations Trust Bank PLC will be held on 29th March, 2019 at 10.00 a.m. at the Auditorium of the Institute of Chartered Accountants of Sri Lanka, 30A, Malalasekera Mawatha, Colombo 07, Sri Lanka.

The business to be brought before the meeting will be:

1. To read the notice convening the Meeting.
2. To receive and consider the Annual Report of the Board of Directors and the Statement of Accounts for the period ended 31st December, 2018 with the Report of the Auditors thereon.
3. To re-elect Mr. M. Jafferjee who retires by rotation at the Annual General Meeting as a Director pursuant to Article 27 of the Articles of Association of the Company.
4. To re-elect Mr. J. C. A. D'Souza who retires by rotation at the Annual General Meeting as a Director pursuant to Article 27 of the Articles of Association of the Company.
5. To elect Mr. S. Maheshwari as a Director in terms of Article 25 of the Articles of Association of the Company.
6. To elect Mr. S. L. Sebastian as a Director in terms of Article 25 of the Articles of Association of the Company.
7. To elect Ms. R. S. Cader as a Director in terms of Article 25 of the Articles of Association of the Company.
8. To elect Mr. C. H. A. W. Wickramasuriya as a Director in terms of Article 25 of the Articles of Association of the Company.
9. To elect Mr. A. R. Fernando as a Director in terms of Article 25 of the Articles of Association of the Company.
10. To reappoint Auditors and to authorise the Directors to determine their remuneration.
11. To authorise the Directors to determine and make donations.
12. To consider any other business of which due notice has been given.

## Notes:

- i. A member unable to attend is entitled to appoint a proxy to attend and vote in his/her place.
- ii. A proxy need not be a member of the Company.
- iii. A member wishing to vote by proxy at the meeting may use the Proxy Form enclosed.
- iv. To be valid, the completed Proxy Form must be lodged at the Registered Office of the Company not less than 48 hours before the meeting.

By Order of the Board



**Theja Silva**  
Company Secretary

27th February 2019

## Notes

# Form of Proxy (Voting Shareholders)

I/We.....  
 of ..... being a member/members of Nations Trust Bank PLC,  
 hereby appoint ..... of ..... or failing him/her

|                            |                |
|----------------------------|----------------|
| Mr. Gihan Cooray           | or failing him |
| Mr. Murtaza Jafferjee      | or failing him |
| Mr. Prasanna De Silva      | or failing him |
| Mr. Suran Wijesinghe       | or failing him |
| Mr. Conrad D'Souza         | or failing him |
| Ms. Rachini Rajapaksa      | or failing her |
| Mr. Russell De Mel         | or failing him |
| Mr. Sumit Maheshwari       | or failing him |
| Mr. Savanth Sebastian      | or failing him |
| Ms. Sherin Cader           | or failing her |
| Mr. Chanaka Wickramasuriya | or failing him |
| Mr. Arjun Fernando         | or failing him |
| Ms. Renuka Fernando        |                |

as my/our Proxy to represent me/us and to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held on 29th March, 2019 at 10.00 a.m. and at any adjournment thereof and at every poll which may be taken in consequence thereof.

The Proxy may vote as he/she thinks fit on any other resolution brought before the meeting and may also speak on my/our behalf at the meeting.

In witness I/we placed my/our hand/s hereto on this ..... (.....) day of March, 2019.

.....  
 Signature/s

Please indicate with a (✓) in the space below how you wish your votes to be cast:

|   | For                   | Against               |
|---|-----------------------|-----------------------|
| 1. To receive and consider the Annual Report of the Board of Directors and the Statement of Accounts for the period ended 31st December 2018 with the Report of the Auditors thereon. | <input type="radio"/> | <input type="radio"/> |
| 2. To re-elect Mr. M. Jafferjee who retires by rotation at the Annual General Meeting as a Director pursuant to Article 27 of the Articles of Association of the Company.             | <input type="radio"/> | <input type="radio"/> |
| 3. To re-elect Mr. J. C. A. D'Souza who retires by rotation at the Annual General Meeting as a Director pursuant to Article 27 of the Articles of Association of the Company.         | <input type="radio"/> | <input type="radio"/> |
| 4. To elect Mr. S. Maheshwari as a Director in terms of Article 25 of the Articles of Association of the Company.   | <input type="radio"/> | <input type="radio"/> |
| 5. To elect Mr. S. L. Sebastian as a Director in terms of Article 25 of the Articles of Association of the Company.   | <input type="radio"/> | <input type="radio"/> |
| 6. To elect Ms. R. S. Cader as a Director in terms of Article 25 of the Articles of Association of the Company.   | <input type="radio"/> | <input type="radio"/> |
| 7. To elect Mr. C. H. A. W. Wickramasuriya as a Director in terms of Article 25 of the Articles of Association of the Company.  | <input type="radio"/> | <input type="radio"/> |
| 8. To elect Mr. A. R. Fernando as a Director in terms of Article 25 of the Articles of Association of the Company.  | <input type="radio"/> | <input type="radio"/> |
| 9. To reappoint Auditors and to authorise the Directors to determine their remuneration.  | <input type="radio"/> | <input type="radio"/> |
| 10. To authorise the Directors to determine and make donations.   | <input type="radio"/> | <input type="radio"/> |
| 11. To consider any other business of which due notice has been given.  | <input type="radio"/> | <input type="radio"/> |



## Form of Proxy (Voting Shareholders)

### Instructions as to Completion

1. Please perfect the Form of Proxy by filling in legibly your full name and address, by signing in the space provided and filling in the date of signature.
2. The completed Form of Proxy should be deposited at the Registered Office of the Company at No. 242, Union Place, Colombo 2, not less than 48 hours before the time appointed for the holding of the Meeting.
3. If the Form of Proxy is signed by an Attorney, the Power of Attorney should accompany the Form of Proxy for registration, if such Power of Attorney has not already been registered with the Company.
4. If the appointer is a Company or Corporation, this Form must be executed under the Common Seal or the hand of a duly Authorised Officer.
5. If this Form is returned without any indication as to how the person appointed as Proxy shall vote, the Proxy shall exercise his/her discretion as to how he/she votes, or whether he/she abstains from voting.

### Please fill in the following details:

---

NIC No.:

---

Share Folio No.:

---

Name:

---

Address:

---

Jointly with:

---

# Form of Proxy (Non-Voting Shareholders)

I/We.....  
 of ..... being a member/members of Nations Trust Bank PLC,  
 hereby appoint ..... of ..... or failing him/her

|                            |                |
|----------------------------|----------------|
| Mr. Cihan Cooray           | or failing him |
| Mr. Murtaza Jafferjee      | or failing him |
| Mr. Prasanna De Silva      | or failing him |
| Mr. Suran Wijesinghe       | or failing him |
| Mr. Conrad D'Souza         | or failing him |
| Ms. Rachini Rajapaksa      | or failing her |
| Mr. Russell De Mel         | or failing him |
| Mr. Sumit Maheshwari       | or failing him |
| Mr. Savanth Sebastian      | or failing him |
| Ms. Sherin Cader           | or failing her |
| Mr. Chanaka Wickramasuriya | or failing him |
| Mr. Arjun Fernando         | or failing him |
| Ms. Renuka Fernando        |                |

as my/our Proxy to represent me/us at the Annual General Meeting of the Company to be held on 29th March, 2019 at 10.00 a.m. and at any adjournment thereof.

In witness I/we placed my/our hand/s hereto on this ..... (.....) day of March, 2019.

.....  
 Signature/s

## Form of Proxy (Non-Voting Shareholders)

### Instructions as to Completion

1. Please perfect the Form of Proxy by filling in legibly your full name and address, by signing in the space provided and filling in the date of signature.
2. The completed Form of Proxy should be deposited at the Registered Office of the Company at No. 242, Union Place, Colombo 2, not less than 48 hours before the time appointed for the holding of the Meeting.
3. If the Form of Proxy is signed by an Attorney, the Power of Attorney should accompany the Form of Proxy for registration, if such Power of Attorney has not already been registered with the Company.
4. If the appointer is a Company or Corporation, this Form must be executed under the Common Seal or the hand of a duly Authorised Officer.

### Please fill in the following details:

---

NIC No.:

---

Share Folio No.:

---

Name:

---

Address:

---

Jointly with:

---

# Corporate Information

## REGISTERED NAME

Nations Trust Bank PLC

## LEGAL FORM

A Licensed Commercial Bank established under the Banking Act No. 30 of 1988. A public limited Liability Company incorporated in Sri Lanka.

## COMPANY REGISTRATION NUMBER

PQ 118

## DATE OF INCORPORATION

21st January 1999

## REGISTERED OFFICE

No. 242, Union Place, Colombo 2.

Telephone : 4313131

Facsimile : 2307854

E-mail : [ntb.investorrelations@nationstrust.com](mailto:ntb.investorrelations@nationstrust.com)

Web page : [www.nationstrust.com](http://www.nationstrust.com)

## COMPANY SECRETARY

Theja Silva

## AUDITORS

Messrs. Ernst & Young  
Chartered Accountants,  
No. 201, De Saram Place,  
Colombo 10.

## CREDIT RATING

A (lka) from Fitch Ratings Lanka Ltd.

## DIRECTORS

Mr. Gihan Cooray - Chairman  
Mr. Murtaza Jafferjee - Senior Director  
Mr. Prasanna De Silva  
Mr. Suran Wijesinghe  
Mr. Conrad D'Souza  
Ms. Rachini Rajapaksa  
Mr. Russell De Mel  
Mr. Sumit Maheshwari  
Mr. Savanth Sebastian  
Ms. Sherin Cader  
Mr. Chanaka Wickramasuriya  
Mr. Arjun Fernando  
Ms. Renuka Fernando

## BOARD SUPERVISORY COMMITTEE

Mr. Suran Wijesinghe - Chairman  
Mr. Murtaza Jafferjee  
Mr. Prasanna de Silva  
Mr. Savanth Sebastian  
Ms. Sherin Cader

## BOARD AUDIT REVIEW COMMITTEE

Ms. Rachini Rajapaksa - Chairperson  
Mr. Suran Wijesinghe  
Mr. Savanth Sebastian  
Ms. Sherin Cader  
Mr. Arjun Fernando

## HUMAN RESOURCES AND REMUNERATION COMMITTEE

Mr. Gihan Cooray - Chairman  
Mr. Murtaza Jafferjee  
Mr. Suran Wijesinghe  
Mr. Prasanna De Silva

## NOMINATION COMMITTEE

Mr. Murtaza Jafferjee - Chairman  
Mr. Gihan Cooray  
Mr. Prasanna De Silva

## CREDIT COMMITTEE

Mr. Gihan Cooray - Chairman  
Mr. Prasanna De Silva  
Mr. Russel De Mel  
Mr. Chanaka Wickramasuriya

## INTEGRATED RISK MANAGEMENT COMMITTEE

Mr. Suran Wijesinghe - Chairman  
Ms. Rachini Rajapaksha  
Ms. Sherin Cader  
Mr. Arjun Fernando

## RELATED PARTY TRANSACTIONS REVIEW COMMITTEE

Mr. Russell De Mel - Chairman  
Mr. Murtaza Jafferjee  
Ms. Renuka Fernando

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