



NEXT GEN BANKING

NATIONS TRUST BANK PLC
Annual Report 2019

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NEXT GEN BANKING

At Nations Trust, we understand the importance of digital technologies and how they reshape the way people live and work. That's why we continue to reinvent the status quo, offering our customers accessibility and simplicity through a range of innovative products and services.

We're using data analytics and state-of-the-art technology to move away from traditional legacy systems, instead designing innovative, collaborative models that integrate our customers' personal preferences into their banking experience.

We've always been known for our bold, forward-thinking approach in the work we do, and today, we're staying ahead in a fast-changing world, using groundbreaking digital technologies and our own exceptional skills and services to bring the speed and precision of Next Gen Banking to Sri Lankans everywhere.



DON'T *live life* WITHOUT IT™

AMERICAN EXPRESS

NATALIE FORD

MEMBER SINCE 2003

**DON'T LIVE
IN THE MOMENT
WITHOUT IT**



AMERICAN EXPRESS

Discover world-class service and personal recognition with your Nations Trust Bank's American Express Membership.

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ABOUT US

Nations Trust Bank PLC has uniquely positioned itself in Sri Lanka's banking sector through transformative ideas and disruptive technology which has enabled it to redefine the entire customer experience. The Bank's competitive edge has been sharpened by its focus on innovation, digitisation, an open and collaborative leadership style and a tenacious team of young professionals who have successfully built a future-fit, competitive bank. The Bank offers a wide array of innovative and relevant solutions to a diverse base of Retail and Consumer, Corporate, SME and Leasing customers. With a total asset base of LKR 325 billion as at end-December 2019, it is one of Sri Lanka's fastest growing banks.

OUR VISION

We help people and businesses by providing **financial services and information** to achieve their goals and aspirations **in a sustainable way**

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

OUR REPORTING

THIS YEAR WE PRESENT OUR SIXTH INTEGRATED ANNUAL REPORT, COVERING 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 2019.

The Bank follows an annual reporting cycle and this report builds on the Bank's previous reports for the period from 1st January to 31st December 2018.

REPORTING ASSURANCE

The Financial Statements have been prepared based on the Sri Lanka Financial Reporting Standards issued by the Institute of Chartered Accountants of Sri Lanka and has been assured by Messrs. Ernst and Young. This report has been prepared in accordance with the GRI Standards : Core option and is externally assured by Messrs. Ernst and Young.

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.

FEEDBACK

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

Evan Ranasinghe,
Vice President, Management Reporting and Planning
E-mail : evan.ranasinghe@nationstrust.com

ICONOLOGY

The following navigation icons have been used across the report to demonstrate connectivity

CAPITALS



Financial Capital



Manufactured Capital



Digital Capital



Intellectual Capital



Human Capital



Social and Relationship Capital



Natural Capital

BUSINESS LINES



Corporate



Treasury



SME



Consumer



Leasing

STRATEGIC PRIORITIES



Financial Performance



Customer Focus



Delivery and Distribution



Internal Processes



Human Resources



Limited printed copies are available upon request



Online HTML version



Digital format



CD version



The HTML version of the Annual Report 2019 can be read at: <https://www.nationstrust.com/>

As part of our commitment towards reducing our environmental impact, we will only be printing a limited number of copies of this Annual Report. The Report is available for perusal and download through other mediums as listed above.

FINANCIAL HIGHLIGHTS

Group Performance of the year (LKR million)

	2019	2018	YoY Change
Net interest income	16,134	15,164	6%
Gross income	46,314	43,461	7%
Operating profit before tax on financial services	8,444	7,726	9%
Profit for the year	3,714	3,702	0%

Financial Position (Group) (LKR million)

Customer deposits	226,872	231,463	-2%
Loans and receivables	226,794	221,506	2%
Total assets	325,369	325,016	0%
Total liabilities	293,974	297,957	-1%
Total equity	31,396	27,059	16%

Profitability (Group)

Net interest margin	4.86%	5.03%
Non-performing loans ratio	6.17%	4.58%
Return on assets	1.14%	1.25%
Return on equity	12.71%	15.26%
Cost-to-income ratio	47.92%	48.38%

Investor Information (Group)

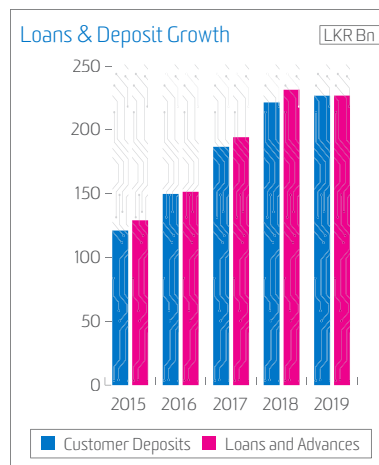
Market value per share (Voting) (LKR)	80.00	89.20
Market value per share (Non-Voting) (LKR)	80.00	82.10
Earnings per share-basic (LKR)	13.08	13.10
Net asset value per share (LKR)	110.61	97.42
Market Capitalisation (LKR million)	22,708	24,498

Regulatory Ratios (Group)

Capital adequacy ratio

Tier 1 (minimum ratio of 8.5%)*	13.30%	12.15%
Total Capital (minimum ratio of 12.5%)*	17.96%	15.59%
Statutory liquid assets ratio (DBU - Bank)	23.78%	22.32%

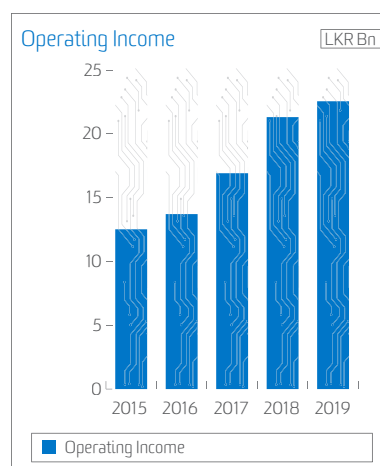
* Minimum capital ratios applicable as at 31st December 2019



12.71%

Return on Equity

**STRENGTHENED CAPITAL BY THE
ISSUANCE OF LKR 4.5 BILLION
SUBORDINATED REDEEMABLE
DEBENTURES**



18% ↑

Taxes to the
Government

21%

Tax as a % of
Operating Income

56%

Tax as a % of
Profit Before Tax

3.71 Bn ↑

Profit After Tax

NON-FINANCIAL HIGHLIGHTS

A STRONG EMPLOYEE PROPOSITION

9% ↑

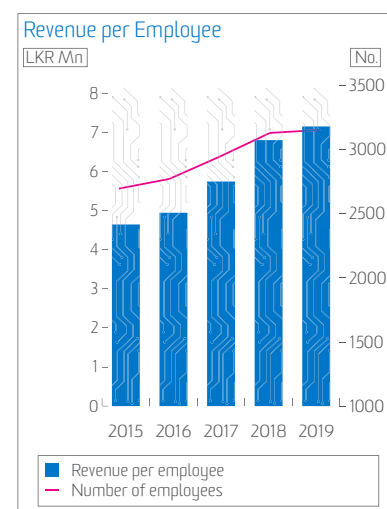
Increase in Employee Value

LAUNCH OF A NEW COMPETENCY FRAMEWORK FOCUSING ON BANKING IN THE DIGITAL WORLD

113,883
Training hours

636
Promotions

3,151
No. of employees



CREATING UNIQUE CUSTOMER EXPERIENCES

92% ↑

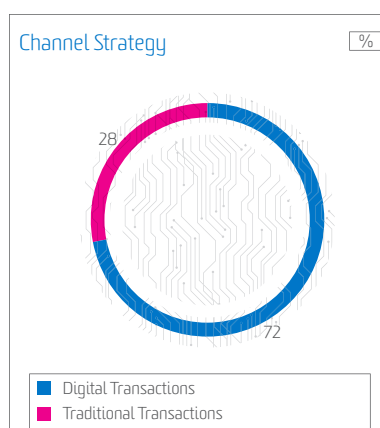
Customer Satisfaction Rate

Over 850,000

Customers

29% ↑

Growth in Omni Channel Users



96
Branches

122
ATMs

54
CRMs

SUSTAINABLE VALUE CREATION

2% ↑

Increase in Energy Efficiency

LKR 29 MILLION
INVESTMENTS
IN CSR ACTIVITIES

CARBON FOOTPRINT
OF 3,549 TCO2E

34
Correspondent
Relationships

18
Exchange
Houses

2,289
Suppliers

03
Franchised
Partners

CHAIRMAN'S MESSAGE

Performance was driven by the pursuit of selective growth opportunities particularly in the corporate and consumer segments, continued focus on increasing non-fund based income and strategic emphasis on driving cost efficiencies by leveraging on the agility of our digital infrastructure



Dear Shareholders,

It is my pleasure to present the Integrated Annual Report and the Financial Statements for the financial year ended 31 December 2019.

I am pleased to report that Nations Trust Bank delivered a commendable financial performance in 2019 while making major progress in the execution of its strategic agenda amidst many challenges that prevailed in the operating landscape. The Bank continued to invest in building a market-leading digital experience, enabling the delivery of customer centric solutions, agile and efficient infrastructure and a collaborative, empowered work environment.

OPERATING ENVIRONMENT

Sri Lanka's economic growth moderated to 2.6% in the nine months ending September 2019, reflecting global pressures, muted sentiments following the Easter Sunday attacks and unfavourable weather conditions. Despite an accommodative monetary policy stance, credit growth was lacklustre for most part of the year while cashflow stresses and declining business confidence across key industry sectors led to a broad-based increase in impairments. Accordingly, credit growth slowed to 5.0% in 2019 and the industry gross NPL ratio increased to 4.7%, from 3.4% the previous year.

On the regulatory front, caps on deposit and lending rates had a short-term impact on net interest margins. Meanwhile Sector profitability was also hampered by a considerable increase in the effective tax rate for the year, primarily due to the impact of the Debt-Repayment-Levy. While we are

encouraged by the recently announced tax concessions and measures taken to revive the SME sector, we look forward to further opportunities to engage with the Government in formulating such initiatives in order to ensure that the intended benefits are delivered through effective implementation.

PERFORMANCE AND VALUE CREATION

The Group recorded a profit-after-tax of LKR 3.7 billion in 2019, relatively unchanged over the previous year. Conscious efforts to curtail lending to certain segments resulted in a loan growth of 2% during the year. Performance was driven by the pursuit of selective growth opportunities particularly in the corporate and consumer segments, continued focus on increasing non-fund based income and strategic emphasis on driving cost efficiencies by leveraging on the agility of our digital infrastructure. I also commend the team on the success of the 'War on Recoveries' initiative, which comprised a concerted, organisation-wide effort to preserve portfolio quality through eliminating bottlenecks and streamlining recovery processes. Resultantly, the increase in impairment charges was contained at 0.8% while the Bank's gross NPL ratio stood at 4.86% as at end 2019.

The Bank continued to maintain a strong balance sheet with total assets amounting to LKR 325.4 billion as at end December 2019. During the year, a Basel III compliant debenture for LKR 4.5 billion was issued strengthening the Tier II capital of the Bank; accordingly, the Bank's total capital ratio strengthened to 17.96% as at end December 2019. We are continuing to explore further avenues to augment capital in line with the requirements of BASEL III.

The Group continued to deliver on its stakeholder commitments, generating an Earnings per share (EPS) and Net Asset value per share (NAVPS) of LKR 13.08 (2018: LKR 13.10) and LKR 110.61 (2018: LKR 97.42) respectively.

On the people front, the Bank continued to invest in upskilling its employees through a development agenda focused on nurturing skills required to thrive in a digital world. Our customer value proposition centres on offering simple and intelligent solutions, redefining customer convenience through market leading digital propositions and nurturing an organisation wide service culture.

LEADERSHIP AND GOVERNANCE

On behalf of the Board, I take this opportunity to extend my appreciation to Mr. Murtaza Jafferjee, who held the position of Senior Independent Director for his valuable counsel and guidance over the last 9 years.

The Bank's talent bench was strengthened during the year, as we attracted several highly skilled individuals for key corporate and senior management positions, thereby ensuring a balance between fresh perspectives and continuity. A clear and comprehensive process for determining succession at top management level allowed for a smooth transition in leadership, as Ms. Renuka Fernando steps down as Chief Executive Officer in April 2020. I congratulate Mr. Priyantha Talwatte, who will take over the reins as CEO from April this year and wish him well in his new role.

SUSTAINABILITY AT NATIONS TRUST

As a responsible corporate citizen, we are committed to embedding the principles of sustainability to our business strategy and operations. The Bank's sustainability policy is aligned to the United Nations' Sustainable Development Goals and during the year we made considerable progress in furthering our CSR agenda through investments in ongoing strategic community engagements. The Bank also continued to drive concerted efforts towards increasing the energy efficiency of its operations, reducing paper consumption through lean initiatives and integrating environmental considerations into our lending decisions. These initiatives are discussed in further detail in subsequent sections of this Report.

WAY FORWARD

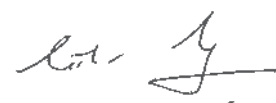
Gradual signs of economic recovery were witnessed in the last quarter of 2019 with improving collections ratios and a gradual decline in impairments. Anticipated policy stability together with realisation of the intended results of the Government's stimulus package will augur well for the SME Sector and key industries, presenting considerable upside potential for the Banking sector in 2020. The Bank will seek selective growth opportunities across all its business verticals while leveraging on the foundation and processes put in place to preserve portfolio quality. Ongoing investments will be made in further strengthening the Bank's IT infrastructure to serve our customers better and operate effectively in a digital environment.

DIVIDENDS

Your Board of directors has declared a first and final cash dividend of LKR 2.30 per share compared to the scrip dividend of LKR 2.10 per share declared for 2018.

ACKNOWLEDGEMENTS

I wish to extend my appreciation to my colleagues on the Board for their vision and invaluable contribution over the years. The Board joins me in commending the Chief Executive Officer, Ms. Renuka Fernando for her leadership and commitment over the past 08 years in propelling the Bank forward and positioning it on a strong platform to pursue future growth. I wish her well in all future endeavours. I also thank the Nations Trust Team for their dedication and drive in achieving the results set out in a challenging year. We also appreciate the guidance provided by officials of the Central Bank of Sri Lanka on regulatory matters. I take this opportunity to thank all our loyal customers, business partners and other stakeholders who have partnered us in this journey and look forward to your continued support in the years to come.



Gihan Cooray
Chairman

27th February 2020

CHIEF EXECUTIVE OFFICER'S REVIEW

The Bank is aptly positioned to capitalise on the opportunities presented by the anticipated revival in the broader economy, as it leverages on its core strengths and capabilities to drive revenue and earnings growth



Nations Trust Bank demonstrated strong resilience in a year rife with external challenges to record a profit of LKR 3.71 billion, a marginal increase over 2018, attesting to the timeliness of our strategy in navigating economic headwinds. Despite moderating economic growth and subdued investor sentiments we maintained strategic focus on building a competitive, future-fit Bank, making solid progress in our digital transformation journey. We also focused on refining our credit risk management operating model and capabilities, which enabled the Bank to preserve portfolio quality in an environment of credit stress and rising impairments.

A RESILIENT PERFORMANCE

The Group delivered a top line growth of 7% and profit after tax of LKR 3.71 billion. A conscious effort to curtail our risk appetite, due to the economic downturn, resulted in a 2% growth in loans and advances while total assets increased marginally to LKR 325.4 billion by end-December 2019.

The capital position strengthened following a scrip dividend and Basel III compliant debenture issue during the year, resulting in the Group's core capital and total capital ratios improving to 13.30% and 17.96% from 12.15% and 15.59% the previous year.

Performance was upheld by Corporate Banking which deepened relationships with existing customers and pursued offshore opportunities in structured finance while maintaining impressive portfolio quality. The Credit Cards vertical also performed well during the year maintaining its position as the largest issuer and recording the highest customer spend. Consumer assets, Leasing and SME recorded subdued growth reflecting the Bank's efforts towards consolidating portfolios and preserving quality while focusing on recoveries and working proactively with customers in managing their stressed conditions.

Group net interest income increased by 6% to LKR 16.1 billion during the year, despite a minimal growth in loans and advances, primarily led by smart cost of funds and margin management.

Non-fund based income, comprising of net fees and commissions as well as net trading and other income, grew by 4% reflecting foreign exchange revaluation gains and an increase in fee-based activity.

The increase in impairment charge for the year was curtailed to 0.8% over 2018, attesting to the huge emphasis on underwriting and recoveries. Both the SME and Consumer segments saw a decline in impairment charges for the year compared to 2018 while the increase stemmed predominantly from the Leasing portfolio.

Cost efficiency continued to improve reflecting our efforts and investments over the last few years to bring productivity and efficiency to our operations, through technology and lean practices. The cost-to-income ratio maintained at 48% while the increase in operating expenses was limited to 5%.

TRANSFORMING THE BANK

Reimagining banking through technology has been a priority for the Bank in the past few years and today we are seen as a leader in digital transformation in the industry, having introduced several game changing solutions aimed at revolutionising the customer experience, enhancing delivery and distribution models and strengthening internal processes. Digital channels accounted for 72% of total transactions performed in 2019, among the highest in the industry. In 2019, we strengthened our mobile banking proposition with the introduction of several value-added features and enhanced the corporate banking proposition by adding cash management capabilities.

FriMi, our digital banking platform, continues to lead this industry space, growing with a 93% increase in customer base during the year and generating monthly transaction values averaging LKR 4.0 billion. FriMi was also awarded the 'Best New Fin-Tech Bank in Sri Lanka' by the Global Banking and Finance Awards and ranked among 'Sri Lanka's Top 20 E-commerce Brands' by LMD in 2019. We continued to enhance the user experience through redesigning the customer interface and adding new features such as bill split.

Moderating economic growth following the Easter Sunday attacks led to an industry-wide deterioration in portfolio quality, compelling banks to curtail lending and strengthen recovery mechanisms. From the Bank's perspective, timely decisions made in 2018 to exit certain customer segments paid dividends in 2019, while conscious efforts made in consolidating our portfolio, particularly in the SME sector allowed the Bank to preserve portfolio quality to a certain extent. Meanwhile adoption of the RAROC model in customer selection has led to increased focus on portfolio profitability, rather than volume growth, thereby enabling the Bank to optimise risk-return dynamics.

Customer focus is a key pivot of our strategy and we continued to leverage on our digital capabilities in gaining deeper insights into customer behaviour and offering simple, intelligent and inclusive solutions across customer journeys. Customer satisfaction levels improved to 92% in 2019 from 84% in 2018, while net promoter scores also increased across business verticals. Developing employee competencies in customer service continues to be a key focus with numerous training interventions targeted towards supporting our aspiration in redefining the customer experience.

During the year the bank implemented an Activity Based Costing Framework across our products and value chains mapped to our customer journeys, which captures the entire operating cost of the bank. This has given us invaluable insights that will now help us to manage and improve our resources, capacities and associated cost efficiencies. We also continued to leverage on our digital capabilities to optimise our operating model and simplify processes. We launched a number of workflow systems with straight through processing capability and continued our drive for automation of manual processes thereby moving towards our mantra of operational excellence.

RISK RETURN DYNAMICS

Given rising impairments during the year, credit risk management was a key area of focus. We further strengthened our pre-credit sanctioning, post-credit monitoring and collection activities based on the business impacts faced by our customers and leveraging on our capabilities on data and analytics to strengthen the traditional processes. This enabled us to better understand early warning signals and take risk based proactive measures within these functions to not only manage our risks but also to assist our customers to withstand a downward cycle. We also deployed increased resources to these functions and built new collection models that would bring more effective

results in times of economic stress, especially on our consumer businesses.

Operational risk management was also strengthened during the year by further enhancing the Risk and Control Self-Assessment (RCSA) and Key Risk Indicator Framework. With the increasing pursuit of digitisation and in response to emerging vulnerabilities of the industry as a whole to cyber risks, we established a dedicated Information Security Committee and conducted independent risks assessments focusing specifically on cyber, network and infrastructure risks.

PEOPLE PROPOSITION

Our young and agile workforce are ambassadors of the Nations Trust brand and are critical in driving our digitisation agenda. The Bank's People Strategy is aligned to its overall digital transformation strategy which has led to a change in our required skill composition, necessitating refinements to the Bank's recruitment, engagement and training agenda. In 2019 we launched a new competency model centred on developing skills in data analytics, digital, entrepreneurial leadership and customer experience among others.

We also launched our new employer brand, 'Create Tomorrow', focusing on unique attributes of our organisational culture such as digitally savvy, agile and empowered with the aim of attracting and retaining millennials. Meanwhile we continued to focus on digital engagement to stimulate ideas and build camaraderie, through platforms suited to the thinking and attitudes of our relatively young workforce.

WAY FORWARD

The Bank is aptly positioned to capitalise on the opportunities presented by the anticipated revival in the broader economy, as it leverages on its core strengths and capabilities to drive revenue and earnings growth. Our domain specialisation in several products and customer segments, strong customer relationships, commitment to operational excellence and significant investments and progress in digitisation, augurs well for the Bank, as we seek to sharpen our competitive edge.

While pursuing our commitment to a strong sales culture and new acquisition strategy, we will look to expanding the wallet share of our extensive customer relationships and pursue our objective of becoming the primary bank for all our customers through delivery excellence. We will leverage our data and digital capability to provide our customers with value additions and information which will enable our customers to progress through their life cycle. Businesses will focus on driving strong

growth with Returns on Capital as a key priority and deploy human capital, funding and strategic business initiatives based on such priorities. Granular understanding and efficient management of credit cost arising out of the implementation of SLFRS 9 models and aligning our businesses to enhance real returns will continue to play an important part in implementing our lending strategy.

Driving cost and process efficiencies will also be an area of focus. We will seek to leverage on the significant amount of investments made over the last few years in automation, lean process re-engineering and the Activity Based Costing Measurement framework, which has enabled a robust management of our resources and the delivery of operational excellence across the enterprise.

The Bank's recent investments and thrust towards strengthening its digital infrastructure has placed it in a unique position to capture the opportunities presented by the industry's ongoing digital transformation. In addition to transforming the customer experience through simple and intelligent solutions, we will seek to further optimise the digital infrastructure to drive internal efficiencies and automation. On the people front, we will continue to invest in developing and transforming our young and agile team and equipping them with the skills required to thrive in a digital world.

APPRECIATIONS

As announced in the Bank's succession plan, Mr. Priyantha Talwatte will assume office as the Chief Executive Officer with effect from 2nd April 2020. I take this opportunity to congratulate him and wish him much success in his new role. I also wish to extend my deep appreciation to the Chairman and the Board of Directors for their unwavering support, guidance and confidence placed in me over the years. I express my heartfelt gratitude to the Nations Team for their passion and commitment in propelling our Bank to many achievements with a 'Make it Happen' attitude. I wish them continued success in the future. In conclusion I would also like to place on record my appreciation to the Governor of the Central Bank of Sri Lanka and his team, our external Auditors Messrs Ernst & Young, our loyal customers, shareholders and all other stakeholders for their continued support over the years.

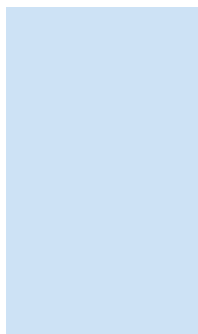


Renuka Fernando
Director/CEO

27th February 2020

BOARD OF DIRECTORS

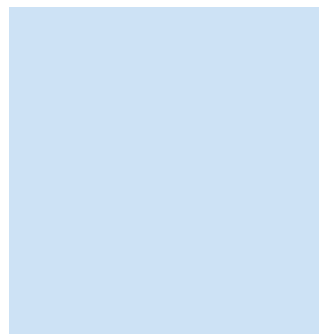
Equipped with wide-ranging knowledge, skills and acumen, we lead the way in next-gen banking, wholly focused on being forerunners of the industry



Gihan Cooray
Chairman/Non-Executive Director



Renuka Fernando
Director/Chief Executive Officer



Prasanna De Silva
Non-Executive Director



Suran Wijesinghe
Non-Executive Director



Conrad D'Souza
Independent Non-Executive Director/
Senior Director



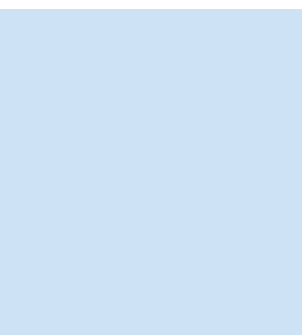
Rachini Rajapaksa
Independent Non-Executive Director



Russell De Mel
Independent Non-Executive Director



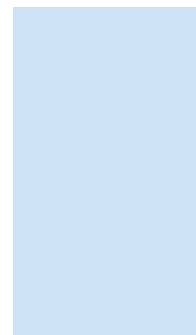
Sumith Maheshwari
Non-Executive Director



Savanth Sebastian
Independent Non-Executive Director



Sherin Cader
Non-Executive Director



Chanaka Wickramasuriya
Independent Non-Executive Director



Arjun Fernando
Non-Executive Director



Theja Silva
Group Company Secretary/General Counsel

BOARD OF DIRECTORS

Gihan 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 the 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 Ltd.
- Director - Waldock Mackenzie Ltd.
- Director - LankaClear (Pvt) Ltd.
- Vice President - American Chamber of Commerce

Previous appointments

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

Skills and experience

During her banking career spanning 39 years, Mrs. Fernando 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.

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 28 years experience in banking and finance of which 18 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

- Chief Strategy Officer – Central Finance Company 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/
Senior 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 Ltd. (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) Ltd.

Skills and experience

In HDFC he is responsible for investor relations, strategy, corporate planning and budgeting, corporate finance and sustainability. He had held the position of Treasurer of HDFC for 10 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.

He is also a Consultant to multilateral agencies and has undertaken assignments in Asia, Africa and Eastern Europe.

(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, Pricewaterhouse Coopers 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.

BOARD OF DIRECTORS

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 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' experience in development banking including project financing, SME financing and merchant banking and around nine 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.

Sumith 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 Ltd., Saurashtra Freight (Pvt) Ltd., Fairfreight Lines (Pvt) Ltd., Akalya Services (Pvt) Ltd., National Collateral Management Services Ltd., Sterling Holiday Resorts Ltd., Bangalore International Airport Ltd., Fairfax India Holding Corporation, Privi Organics India Ltd., CSB Bank Ltd., Thomas Cook (India) Ltd., Seven Island Shipping Ltd. and Anchorage Infrastructure Investments Holdings Ltd.

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 has completed the Post Graduate Programme in Management from the Indian School of Business, Hyderabad and holds Bachelor of Commerce degree 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

- RG 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

Mrs. Cader counts over 20 years of 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 Centre 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 my SAP Financials – Managerial & Financial Accounting.

Chanaka Wickramasuriya

(Independent Non-Executive Director)

Date of appointment

Appointed to the Board on 16th December 2018

Current appointments

- Independent Consultant

Previous appointments

- Joint Managing Partner of Ironwood Capital Partners Private Equity Fund
- Managing Partner of LR Global Lanka Private Equity Fund
- Partner-Global Portfolio Manager of the Global Private Equity Fund of Aureos Capital Ltd.
- 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, NDB Securities (Pvt) Ltd. and NDB ZEPHYR Partners Ltd.

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

Fuelled by a dynamic, energetic group of skilled professionals, we're ready to take on a future of change.



Left to right

Priyantha Talwatte - Deputy Chief Executive Officer, **Renuka Fernando** - Director/Chief Executive Officer, **Hemantha Gunetilleke** - SEVP (Consumer Banking), **Theja Silva** - General Counsel/Group Company Secretary, **Bandara Jayathilake** - SEVP (Commercial Banking)



Left to right

Sheahan Daniel - SVP (Branch Network), **Chamath Munasinghe** - SVP (Banking Operations), **Nazeem Mohamed** - SVP (FriMi), **Janaka Pitadeniya** - Chief Digital Officer, **Sajith Sameera** - Chief Information Officer



Left to right

Priyantha Wijesekera - EVP (Leasing), **Indrajith Boyagoda** - EVP (Treasury & Investment Banking), **Ajith Akmeemana** - Chief Financial Officer, **Senal Seneviratne** - EVP (Corporate Banking), **Gayan Ranaweera** - Chief Credit Officer, **Ramanika Unamboowe** - EVP (Human Resources)



Left to right

Randil Boteju - SVP (Consumer Sales), **Niluka Gunatilaka** - SVP (Cards), **Sampath Perera** - Chief Data Officer, **Chamila Sumathiratne** - Chief Risk Officer, **Kushlani Allis** - Chief Internal Auditor, **Sanjaya Senarath** - Chief Marketing Officer

SEVP - Senior Executive Vice President

EVP - Executive Vice President

SVP - Senior Vice President

VICE PRESIDENTS

A bold, forward-thinking approach,
fuelled by visionary strategy



Left to right

Tharusha Ekanayake - VP/Head (Forex and Money Markets), **Jerome Ratnarajah** - VP (Market Risk Management),
Lasith Ranatunga - VP (Corporate Credit & Special Asset Management), **Thushara Asuramanna** - VP (SME Credit Management)



Left to right

Priyantha Samaradiwakara - VP (Leasing Sales), **Arosha Liyanaarachchi** - VP (Commercial Banking),
Saaraa Warnakulasooriya - Chief Compliance Officer, **Milroy Fernando** - VP (Branch Operations & Compliance),
Yamuna Silva - VP (Legal), **Chamayne Fernando** - VP (Principal Software Architect)





Left to right

Nisaja Aryasinghe - VP (SME Banking - Western Province), **Rasanja De Silva** - VP (Branches - Western Province),
Menaka Wavita - VP (Branches - Emerging Market), **Druvi Vaidyakularatne** - VP (Head of IT Infrastructure & Services),
Jeremy Gnanapragasam - VP (Head of Nations Transformation), **Renuka Senadheera** - VP (Consumer Services)



Left to right

Roger Rozaïro - VP (Collection Strategy, Analytics and Compliance), **Evan Ranasinghe** - VP (Management Reporting & Planning),
Vidharshana Perera - VP (Field Collections), **Kanchana Devasurendra** - VP (Application Administration)

VP - Vice President

IT'S NICE WHEN WE BOTH SHARE THE SAME VALUES

A TIMELESS LEGACY



PRIVATE BANKING

Nations Trust Bank Private Banking, the solution provider to satisfy the financial needs of your lifestyle.

OUR STRATEGY AND PERFORMANCE

Measuring Strategic Progress	20
Value Creation Model	22
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Stakeholder Needs	27
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Corporate Banking	29
Treasury	30
SME	31
Consumer Banking	32
Leasing	33

MEASURING STRATEGIC PROGRESS

Our short to medium term strategy for the next few years would be consistent with the direction we have followed in the recent past.

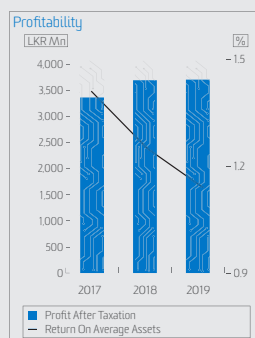
FINANCIAL PERFORMANCE

Strategic Drivers 2019

- Adoption of the RAROC model in portfolio evaluation
- Leveraging on cross-sell opportunities
- Emphasis on preserving portfolio quality
- Enhanced collection capabilities

Key Performance Indicators

Strategic focus on profitability rather than volume growth resulted in a modest loan expansion of 2%



PBT GROWTH: 9%

NIM: 4.86% (2018: 5.03%)

RETURN ON EQUITY: 12.71%

Following the issuance of LKR 4.5 billion debentures the Bank's capital position has strengthened

TOTAL CAPITAL RATIO: 17.96%

CUSTOMER FOCUS

Strategic Drivers 2019

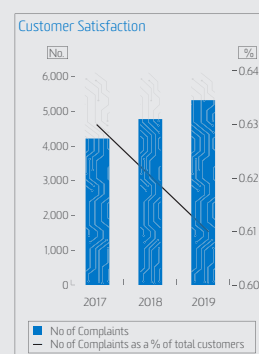
- Product and process development to create simple and intelligent customer experiences
- Enhance availability and accessibility of direct, self-service channels
- High level of engagement

Key Performance Indicators

Consistent improvements in customer satisfaction scores

92%

Customer Satisfaction score



Focus on driving customer convenience through digital solutions

29% ↑

Growth in Omni Channel Users

Nations Trust maintained focus on its strategic priorities as set out in its Strategic Plan for 2017-2019. The Plan defines five areas of focus which reflect the dynamism in the operating landscape and leverages on our unique capabilities in building a future-fit, competitive bank. Performance is measured against these strategic pillars by continuously

monitoring performance against defined key performance indicators.

Despite the challenging market conditions that prevailed in 2019, Nations Trust recorded significant strategic progress, particularly in enhancing the customer experience, digital capabilities and driving process efficiencies.

Our short to medium term strategy for the next few years would be consistent with the direction we have followed in the recent past. Key areas of focus would be leveraging on our core competencies to drive growth, profitable business expansion and transforming the customer experience through simple and intelligent solutions.



DELIVERY AND DISTRIBUTION

Strategic Drivers 2019

- Create simple customer onboarding experiences
- Enhance the mobile banking proposition with value added features
- Ongoing integration of physical and digital channels

Key Performance Indicators

Continued focus on modernising our digital infrastructure in benefiting both customers and employees

72%

Transactions conducted through digital platforms



Mobile Banking and Frimi feature enhancements

Roll out new Cash Management System



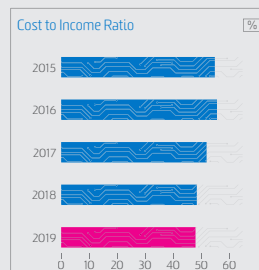
INTERNAL PROCESSES

Strategic Drivers 2019

- Data analytics to drive enhanced process efficiencies
- Ongoing investments in RPA
- Investment in workflow systems
- Sales force automation

Key Performance Indicators

Consistent improvement in cost efficiencies



Process efficiencies through LKR 567 million investment in IT infrastructure

Improved turnaround time in SME credit processing



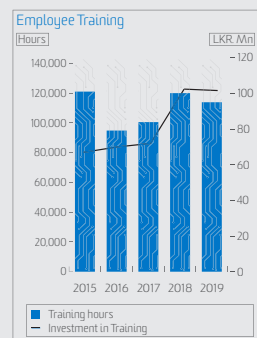
HUMAN RESOURCES

Strategic Drivers 2019

- Development of new competency framework
- Launch of employer brand- 'Create Tomorrow'
- Ongoing focus on digital engagement with employees

Key Performance Indicators

Developing competencies relevant to banking in a digital world through LKR 102 million investment in training



Employee retention rate improved to 85% from 83% of previous year

Employee productivity (Revenue per employee) increased by 5.1% during the year

VALUE CREATION MODEL

WHO WE ARE

Nations Trust Bank is a young and innovative Sri Lankan bank which is at the forefront of the industry's journey of digital transformation. As an agile and technology-driven financial service provider, Nations Trust has redefined industry standards in customer convenience and accessibility, offering a unique customer experience and an array of solutions to the Consumer, Corporate and SME sectors.

VISION

We help people and businesses by providing financial services and information to achieve their goals and aspirations in a sustainable way

MISSION

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

OUR INPUTS



Financial Capital (page 34)

Shareholders' funds, customer deposits and borrowings which are used in driving strategy to fund its asset growth.



Manufactured Capital (page 37)

Physical infrastructure including branches, ATMs and CRMs



Digital Capital (page 38)

Digital infrastructure and capabilities



Intellectual Capital (page 41)

Our brand and organisational tacit knowledge



Human Capital (page 42)

The Nations Trust team



Social & Relationship Capital (page 46)

Relationships with customers, business partners, regulators and communities



Natural Capital (page 50)

Natural resources consumed in our value creation process

WHAT WE OFFER

OUR PRODUCTS/BUSINESS LINES



Corporate (page 29)



Treasury (page 30)



SME (page 31)



Consumer (page 32)



Leasing (page 33)

COMPETITIVE STRENGTHS

Multi-channel delivery platforms with data driven customer experience

A range of delivery channels ensure that customers can interact with us however and whenever they want

Agile and responsive business model

As a medium-sized bank, we are well positioned to embrace disruptive technology and transformative ideas

Dynamic and young team

With an average age of 29, our team is well equipped to respond to emerging market dynamics

Best in class digital capabilities

We have introduced several game-changing digital propositions which have placed us at the forefront of the industry's digital transformation

THROUGH A CLEAR STRATEGY

STAKEHOLDER OUTCOMES



Shareholders

Returns consistent with risk undertaken

- 12.71% Return on Equity
- Dividend of LKR 2.30 per share
- 100% voting outcome for all resolutions at AGM
- 13.53% NAVPS Growth

Customers

Affordable and innovative financial solutions with excellent customer experience

- LKR 156 billion in total Rupee loan disbursements
- LKR 18 billion interest payments on deposits
- Innovation to drive improved customer experiences, cash management services, new features in mobile banking, FriMi apps
- Customer satisfaction rate of 92% (page 46)

Employees

Progression and skill development in a rewarding, challenging work environment

- LKR 4.5 billion in salaries and benefits
- LKR 102 million investment in training and development
- 636 promotions
- 43% female representation (page 44)

Government and Regulators

Contributing through taxes and enhancing access to finance

- LKR 4.7 billion in tax and levies to the government (17.55% increase)
- Compliance with all regulatory requirements

Community

Meaningful change in communities

- LKR 4 billion SME lending outside Western Province
- LKR 29 million investment in CSR initiatives
- 2,182 volunteer hours
- Cordial community relations (page 48)

Environmental Impacts

- Recycled paper of 17% (or 14.5 MT) of paper used
- Carbon footprint of 3,549 tCO₂e
- Lending towards green products such as renewable energy, agriculture and other green initiatives

Financial Performance

Driving revenue growth, expansion of market share and improving profitability

Customer Focus

Transformational customer experience through innovation, technology and data analytics

Delivery and Distribution

Leveraging technology to bring digital experience and market access/penetration

Internal Processes

Achieving operational excellence through automation, lean processes and data analytics

Human Resources

Acquire and develop skills required to achieve our strategic agenda

Disburse credit to Consumer, SME, Corporate clients

Offer savings and investment solutions

Facilitate payments and transactions

Innovating for our clients

Invest in operations, technology and physical infrastructure

OUR OPERATING ENVIRONMENT

Advances in the technology environment are transforming every sphere of banking including customer experience, disintermediation, delivery channels, process automations and competition among others.

New dynamics continue to reshape our operating landscape, presenting both opportunities and risks to long-term value creation. At Nations Trust, a dedicated team continually scans the external environment to identify these emerging trends, ensuring that the Bank's strategy is adequately equipped to respond to these dynamics.

ECONOMIC AND POLICY DEVELOPMENTS

2019 presented significant domestic and global economic challenges for Sri Lanka; policy measures taken to stabilise government finances and balance of payments together with impacts of the Easter Sunday attacks resulted in a sharp slowdown.

In providing the necessary impetus to stimulate the economy, the new government has announced sweeping tax cuts and measures to enhance credit flows to the SME sector. The Government is encouraging banks to support emerging entrepreneurs and new businesses, with relief to the sector being provided through an estimated 9% reduction in the effective tax rate.

Opportunities/Risks



Anticipated growth in credit demand



Potential impact on portfolio quality and recoverability

DIGITISATION AND DISRUPTION

Advances in the technology environment are transforming every sphere of banking including the customer experience, disintermediation, delivery channels, process automations and competition among others. Technologies such as robotics, artificial intelligence, machine learning and blockchain are likely to have wide-ranging impacts on financial services over the next few years.

Opportunities/Risks



As a digitally-savvy bank, Nations Trust is well positioned to challenge the larger, traditional banks through best in class digital capabilities

Decreasing operating costs and enhancing customer service



Emergence of new risks pertaining to technology, cybersecurity and information

Competition for skills in IT and data analytics among others



Our response

We are committed to supporting the Government's development agenda through a selective lending strategy which will enable us to channel funds to selected areas of the economy while maintaining focus on portfolio quality.



Our response

The Bank has successfully carved a niche position as a digital front-runner in the industry and deploying technology to transform the customer experience and drive efficiencies will continue to be a key priority.

CUSTOMER SOPHISTICATION

The expectations of our customers continue to evolve, driven by increased sophistication, connectivity and demographic changes. Customers are increasingly demanding more convenient access and control of their finances, which in turn has transformed the way they prefer to interact with banks. Banks which are unable to respond to these dynamics are likely to see an erosion of competitive position over time, as niche digital banks offer more attractive value propositions.

Opportunities/Risks



Sharpen competitive edge through offering unique customer experience

Offer customer centric products and services

REGULATORY OVERSIGHT

Key regulatory changes implemented in recent times include accounting and reporting changes such as IFRS 9-Financial Instruments, caps on deposit rates and lending rates, capital regulations, concessions to the tourism industry and SME sector and market conduct on treasury operations among others.

Opportunities/Risks



Implementation of stronger governance and risk management frameworks

Maintenance of adequate capital buffers



Increased complexity and cost of compliance

EMPHASIS ON ENVIRONMENTAL AND SOCIAL CONSIDERATIONS

The increasing prevalence of environmental and social challenges such as implications of climate change, persistent inequalities and infrastructure challenges have placed increased pressure on financial institutions to contribute towards sustainable economic, social and environmental development.

Opportunities/Risks



Contribute to sustainable finance initiatives aimed at addressing these challenges

Improved governance and transparency in overall business conduct



Emergence of new risks, particularly with regards to climate change



Our response

Customer focus is a key pillar of our strategy and we seek to redefine the customer experience by focusing on convenience, service and relevant products and to be ahead of competition.



Our response

We are committed to fully complying with all relevant regulations and compliance is monitored by a dedicated unit on an ongoing basis.

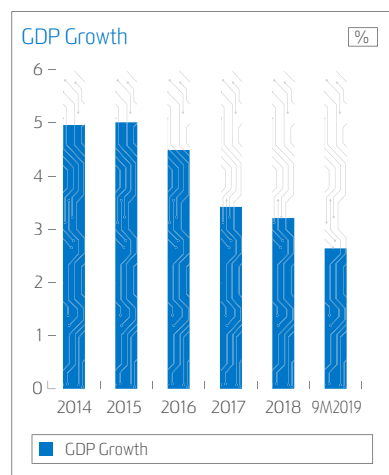


Our response

The Bank is a signatory to the SLBA's Sustainable Banking Initiative, which encourages a multi-stakeholder approach towards contributing to sustainable development. The Bank's sustainability agenda is also clearly articulated in a Sustainability Policy which is aligned to the Sustainable Development Goals.

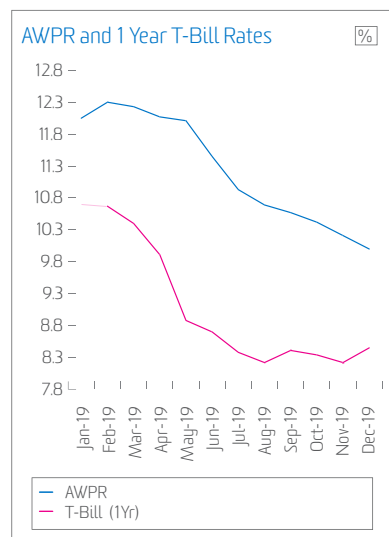
ECONOMIC AND INDUSTRY PERFORMANCE

ECONOMIC GROWTH



Sri Lanka's economic growth slowed in 2019, with GDP expanding by a mere 2.6% in the nine months to September 2019. The slowdown reflected monetary and fiscal measures adopted to stabilise balance of payments and government finances together with effects of the Easter Sunday attacks and prolonged effects of the political uncertainties.

INTEREST RATES

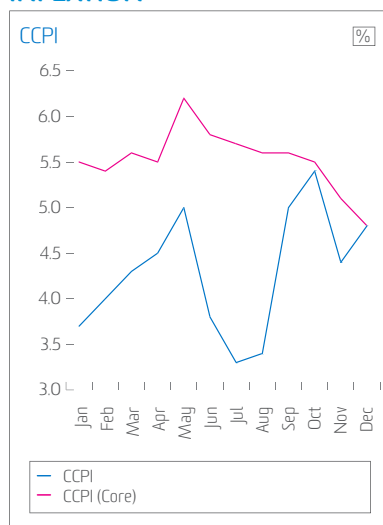


The Central Bank adopted a relatively accommodative monetary policy stance during the year, reducing policy rates by a total of 100 bps in May and August 2019. However, market interest rates remained high in the first part of the year, prompting the regulator to impose deposit and lending rate caps in April and September 2019 respectively. Resultantly, market interest rates declined during the 2nd half of 2019.

EXCHANGE RATES

The external sector recorded a mixed performance during the year, with the trade deficit and current account deficit contracting in response to policy measures taken to curb imports. As a result the Sri Lankan Rupee recorded a marginal appreciation in 2019 following its sharp depreciation in 2018.

INFLATION



Inflation levels remained stable and in line with expectations with headline inflation recording low single digit levels in the first eight months of the year before recording a slight uptick towards the end of 2019. Y-o-Y core inflation was relatively higher than 2018 reflecting increases in the non-food category mainly impeding from house rentals, education fees and fuel prices.

OUTLOOK

Following the Presidential elections in November 2019, the new caretaker government has introduced several fiscal and monetary stimulus measures, including sweeping tax concessions and relief packages for SMEs. The Government expects these measures to accelerate credit growth, fostering a recovery of economic activity over the short to medium term. That said, the shift in fiscal policy and departure from the fiscal consolidation agenda could lead to a downturn in government revenue in the short term.

Sri Lanka's economic growth slowed in 2019, with GDP expanding by a mere 2.6% in the nine months to September 2019.

Banking sector performance indicator

Growth	5.0% credit growth in 2019 (19.4% in 2018) reflecting the slowdown in credit demand, particularly from the private sector.
Performance	11.0% decrease in profit after tax Increase in loan loss provisioning and overhead costs Return on Assets of 0.9% (1.1% in 2018)
Asset quality	45.0% increase in NPLs with broad-based deterioration in quality Gross NPL ratio of 4.7% (3.4% in 2018)
Funding	7.9% growth in deposits Shift from demand deposits to term and short-term savings Decline of CASA ratio to 31.4% 4.7% decline in borrowings
Capital	Common equity ratio of 13.0% Total capital ratio of 16.5%
Liquidity	Adequate liquidity buffers

STAKEHOLDER NEEDS

Stakeholder engagement and value creation is a major focus for Nations Trust and responding to the legitimate needs of our 3,151 employees, over 850,000 customers and 6,001 shareholders is fundamental to the way we operate. We therefore ensure that stakeholder considerations are a vital input in all decisions and strive to adopt a fair and balanced approach in addressing sometimes conflicting stakeholder needs.

SHAREHOLDERS

Key shareholder interests including opportunities for business growth, generating an attractive financial return, clear and transparent communication and robust corporate governance and risk management practices.

Engagement

- Annual General Meeting (Annual)
- Annual Report (Annual) and Quarterly Reports
- One-to-one engagement (Ongoing)
- CSE Announcements (Ongoing)
- Investor forums (Annual)
- Periodic engagement with credit rating agencies
- Extra-Ordinary General Meeting (When Required)
- Investor relations email (Ongoing)
- Media releases and press conferences (As Required)

Our response

We aim to enhance the Bank's earnings capacity through a holistic and comprehensive strategic plan which outlines key areas for driving growth and profitability.

12.71%

Our Return on equity outperformed the industry

CUSTOMERS

Our increasingly sophisticated customers demand affordable and innovative financial solutions and convenient methods of interacting with the Bank.

Engagement

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

Our response

Customer centricity is a core aspect of our strategy and our goal is to create an unmatched customer experience through simple, intelligent solutions.

92% ↑

Consistently improving customer satisfaction rates

EMPLOYEES

The young Nations Trust team pursue an exciting work environment which recognises and rewards their contributions in a transparent and equitable manner.

Engagement

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

Our response

We continue to invest in rewarding and developing our people to equip them with the skills required to thrive in today's dynamic financial services market.

113,883 Training hours

Focus of areas of training included digital capabilities, soft skills and leadership development

SUPPLIERS, SERVICE PROVIDERS AND BUSINESS PARTNERS

Our business partners seek mutually-beneficial long-term relationships, with ease of transacting and opportunities for continued growth.

Engagement

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

Our response

We maintain fair and transparent relationships with all our business partners, leveraging on mutual opportunities for growth.

REGULATORS/GOVERNMENT

Regulators expect compliance to all relevant laws and regulations, timely and full payment of taxes transparent and open communication and widening access to finance.

Engagement

- Continuous dialogue with the Government and regulators (Ongoing)
- Statutory reporting (Ongoing)
- Meetings and industry forums (Ongoing)
- Onsite Surveillance (As Required)

Our response

A dedicated compliance unit ensures ongoing compliance to all rules, regulations and guidelines.

COMMUNITIES

The communities we operate in expect fair business practices, contribution towards generating employment and meaningful community investments.

Engagement

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

Our response

Our dedicated Sustainability Unit conceptualises and formulates a CSR framework aiming of driving meaningful change in line with the Sustainable Development Goals.

LKR 29 Mn

Investment in CSR activities in 2019

MATERIAL MATTERS

Material topics are determined following ongoing assessment of our operating landscape including emerging threats and opportunities, stakeholder considerations and the Bank's long-term approach towards value creation.

Material topics represent the factors that are of most significance to our stakeholders and can potentially impact the Bank's ability to create value. These topics are therefore a key determinant in strategy formulation, risk management and form the anchor of our Annual Report. Material topics are determined following ongoing assessment of our operating landscape including emerging threats and opportunities, stakeholder considerations and the Bank's long-term approach towards value creation. The responsibility for determining material issues lies with the Senior Management team of the Bank.

SCOPE AND BOUNDARIES

The scope of the material topics includes Nations Trust Bank, its subsidiaries as well as the wider value chain including customers, business partners and communities.

The financial information presented from pages 87 to 198 and discussed in the narrative report throughout the Integrated Report represents Consolidated numbers while the non-financial information represents only the Bank.

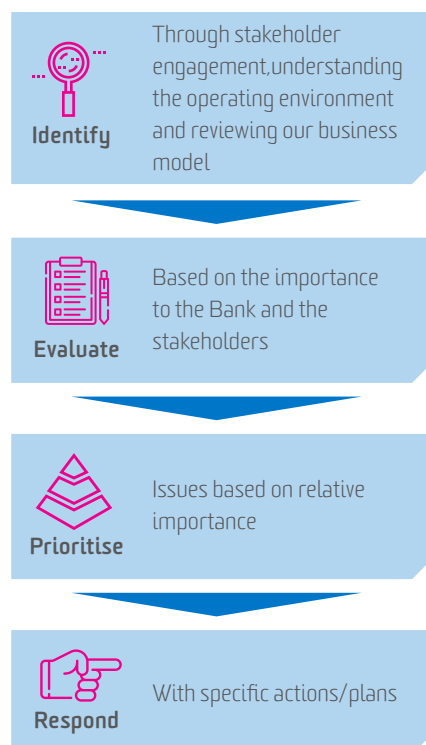
REPORTING CHANGES

There were no significant changes to the Bank's size, structure, shareholding or supply chain during the year under review. There are also no significant restatements of previously reported, economic, social or environmental information.

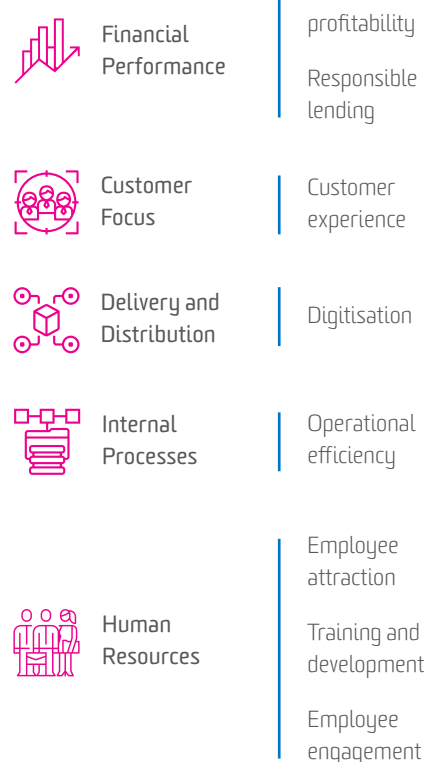
CHANGES TO MATERIAL TOPICS

Growth and profitability
Operational efficiencies
Corporate Social Responsibility

Process for determining material topics is as follows;



STRATEGIC PRIORITIES



OUR BUSINESS LINES



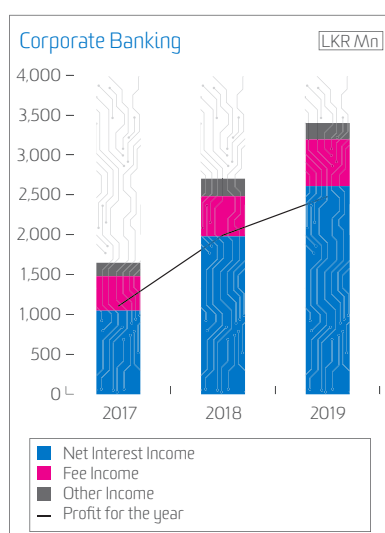
Corporate Banking

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

Nations Trust Corporate Banking has uniquely positioned itself in the intensely competitive corporate segment by offering structured solutions, proactive and relationship-driven customer engagement and superior customer service

HIGHLIGHTS OF 2019

Loans & Advances	16%
Revenue	26%
Deposits	-17%
Cost-to-income ratio	19%



STAKEHOLDER VALUE CREATION

Rupee loan disbursements of
LKR 105 billion

Launch of
Nations Direct Commercial Payment

Harnessing
Cross-Sell Opportunities

PROGRESS IN 2019

The Corporate Division's growth strategy of focusing on client selection and service excellence continues to deliver results and with the Division demonstrating continued resilience to adverse market conditions.

Financial Performance

- An effective segmentation strategy, coupled with the acquisition of new customers and deeper relationships with existing customers resulted in portfolio growth of 16%.
- Net interest income grew by 32%, while net fee and commission too grew by 9% supported by contributions from structured financing transactions.
- Advances to corporates rated above B+ (based on internal risk ratings) accounted for 63% of the portfolio.

Customer Focus

- The Division maintained proactive engagement with customers, offering practical solutions in addressing prevalent cash flow stresses.
- Broadened the customer base by pursuing offshore opportunities in structured financing.
- Expansion of the mid-sized corporate portfolio.

Delivery and Distribution

- Launch of Nations Direct Commercial Payment solutions - the 1st phase of the cash management solution.
- Leveraging synergies across business verticals to harness cross-sell opportunities

Internal Processes

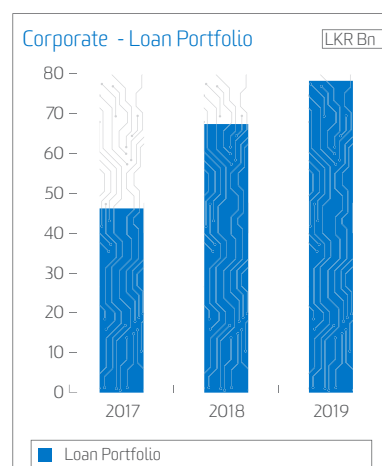
- Ongoing focus on preserving portfolio quality through emphasis on client selection, structuring facilities and risk-based pricing.
- The Division continues to achieve process and cost efficiencies; the cost-to-income ratio stood at 19%.

Human Resources

- Considerable portfolio growth in recent years has been achieved without a parallel increase in headcount, attesting to the significant gains made in employee productivity.

OUTLOOK FOR 2020

With the anticipated recovery in investor sentiments, the Division will continue to drive strategy towards capturing growth opportunities in selected segments. Key areas of focus would be service excellence, relationship-driven portfolio management and pursuing cross-sell opportunities.



OUR BUSINESS LINES



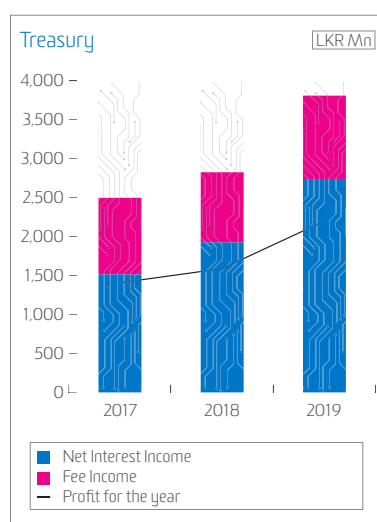
Treasury

Product Portfolio
Foreign exchange trading & hedging | Fixed income trading | Corporate debt issuance

The Treasury Unit plays a vital role in ensuring that the Bank has sufficient funding to drive its strategy while managing the investment portfolio and facilitating foreign exchange trading. It also plays a key role in managing the Bank's market risk exposures including interest rate and liquidity risk through the ALM desk

HIGHLIGHTS OF 2019

Revenue	35%
FIS portfolio	-9%
Customer FX income	1%
Cost-to-income ratio	11.7%



PROGRESS IN 2019

The Treasury Unit's performance is directly impacted by fluctuations in interest and exchange rates and the year 2019 proved to be a year of mixed results. While Forex performance moderated in view of challenging market conditions, the gradual decline in interest rates during the year supported good growth in the fixed income segment.

Financial Performance

- The Unit's performance was upheld by strong results in fixed income, with revenue and profit increasing by 35% and 38% respectively.
- The Unit also generated net trading gains of LKR 283 million during the year.

Fixed Income

- The reduction in policy rates and downward revision of the SRR resulted in a gradual decline in market interest rates.
- As prices strengthened, the Unit sought to divest a portion of its AFS portfolio leading to increased profitability.
- The Division outperformed budgets and was a key contributor to the Treasury Unit's profitability during the year.

Forex Trading

- The Unit's Forex operations comprise customer forex trading and proprietary trading.
- The adverse market conditions which prevailed during the year led to a drop of volumes on customer Forex trading, although this was partially offset by a few large transactions which generated healthy margins.

- The 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.
- Overall the division recorded a 14% decline in FX income.

Asset Liability Management

- The ALM desk ensures that adequate funding is available to drive growth objectives.
- Despite exposure to mark-to-market losses arising from fluctuating SWAP premiums, the Bank continues to benefit from the relatively lower funding costs of the FX swaps compared to rupee deposits.
- The Bank raised USD 16 million through a syndicated loan, LKR 5 billion via securitised borrowings and LKR 4.5 billion via the issue of subordinated redeemable debentures.

OUTLOOK FOR 2020

Policy stability is expected to provide some impetus for improved sentiments in 2020. The accommodative monetary and fiscal policy adopted by the Government is expected to stimulate economic activity, although fiscal slippage is likely given upcoming general elections. We will continue to seek avenues to diversify our funding base in obtaining relatively low-cost funding.

STAKEHOLDER VALUE CREATION

Strengthened Treasury Team

with 424 function specific training hours

Raised

LKR 12.5 billion in New Funding

Enhanced

ALM Capabilities



SME

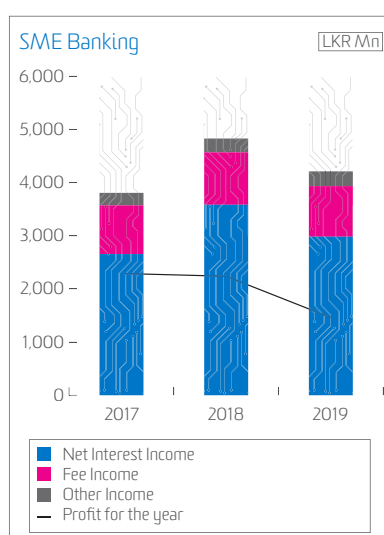
Product Portfolio

Business Banking | Investment products | Business loans
(Working capital financing, Trade financing, Fixed term financing)

The SME Division caters to the lending and investment requirements of the country's SME sector. Aggressive growth was cautiously curtailed during the year considering the prevailed economic conditions.

HIGHLIGHTS OF 2019

Loans & Advances	-6%
Revenue	-13%
Deposits	2%
Cost-to-income ratio	40%



STAKEHOLDER VALUE CREATION

Rupee loan disbursements of
LKR 23 billion

Strengthened
Internal Processes and Efficiencies

95 Certified
Credit Officers

PROGRESS IN 2019

The SME Division's timely strategy of consciously moderating lending and consolidating its portfolio delivered results during the year, and the Division is now aptly positioned to pursue selective growth opportunities in 2020.

Financial Performance

- Having recognised potential macro-economic pressures in 2018, the Division's conscious effort to focused underwriting resulted in the loan portfolio contracting by 6%.
- As anticipated NII and net fee and commission income also declined by a respective 17% and 1% compared to 2018.
- Continued focus on streamlining processes resulted in efficient cost management.

Customer Focus

- Challenging market conditions afforded an opportunity to nurture deeper customer relationships. We sought to segment and proactively engage with distressed customers offering flexible payment options.
- Adopted the RAROC model in clearly identifying profitable customers.

Internal Processes

- Recovery drive with dedicated cross-functional project team appointed to eliminate process bottlenecks.
- Strengthened post-disbursement credit monitoring including policies, processes and mechanisms.

- Strengthened underwriting for new credit including more stringent assessment of collateral and deeper industry analytics among others.
- Streamlined all credit processes in driving increased efficiencies, thereby recording improved audit scores.

Human Resources

- Intense training for credit officers including the introduction of a certification programme.
- Certification for relationship managers covering credit, governance, policies and grooming.
- Increased resources deployed towards recoveries.

OUTLOOK FOR 2020

Given the Government's recent policy measures including concessions granted to the SME sector, we remain optimistic regarding the revival of the economy in 2020. The Division has identified several growth sectors and will pursue a selective lending strategy, with continued focus on portfolio profitability. Having streamlined our processes and client portfolio we are now in a strong footing to capture growth opportunities arising from improved business sentiments and anticipated recovery of the economy.

OUR BUSINESS LINES



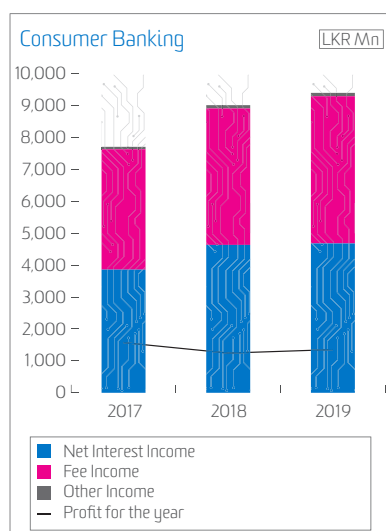
Consumer Banking

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

The Bank's Consumer Division has successfully carved out a niche position in the mass affluent segment through offering innovative products, attractive self-service options, a strong direct banking digital proposition and great customer care. Despite the challenging market conditions, the Division has performed commendably in recent years, recording consistent portfolio and profit growth.

HIGHLIGHTS OF 2019

Loans & Advances	3%
Revenue	4%
Deposits	7%
Cost-to-income ratio	74%



STAKEHOLDER VALUE CREATION

Loan disbursements of
LKR 7 billion

Strengthened
Digital Infrastructure

Ongoing focus on
Internal Efficiencies

PROGRESS IN 2019

Given the operating context, the Division adopted a proactive approach in exiting selected segments, consolidating entry level portfolios and pursuing growth in the mass affluent segment and affluent segment, thereby placing strategic emphasis on portfolio profitability rather than volume growth.

Financial Performance

- The Division pursued an astute strategy of selective growth, resulting in a moderate portfolio expansion of 3%.
- Net interest income increased by 1%, as margins were somewhat affected by the interest rate caps.
- Impairment decreased from specific customer segments, resulting the Divisional profit before tax to increase by 6%.
- Maintained position as the largest issuer of credit cards and highest customer spend, with a YoY growth of 8% in spend.
- Deposits grew by 7% as the Division leveraged on its multi-channel strategy and further strengthened the digital proposition.

Customer Focus

- Adopted the RAROC model with identified profitable customers and evaluating customer lifecycle propositions.
- Focus on customer journey and enhancing overall experience.

Delivery and distribution

- Strengthened self-service channels through increased investments in the digital propositions.

- Transactions performed through digital channels increased to 72%.
- FriMi continued to lead the digital banking space, increasing customer base by 93%, LKR 4 billion in monthly transactions and 3,500 merchants.
- Pursued cross-sell opportunities particularly among the Bank's customer base.

Internal Processes

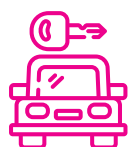
- Continued focus on enhancing process efficiency, accuracy and reliability through investments in digital workflows.
- Use of analytical scorecards for underwriting, enabling better predictability of delinquencies.
- Amalgamation of Bank-wide collection capabilities to establish a dedicated collections unit across business verticals.
- Increased use of Business Intelligence tools and data analytics to support more effective decision making.
- Sales force automation for cards.

Human Resources

- Developed capabilities in underwriting and collections through ongoing training initiatives.

OUTLOOK FOR 2020

The sweeping tax concessions and policy stimuli announced by the Government is likely to lead to a considerable improvement in consumer sentiments over the short to medium term. We hope to capitalise on these opportunities by pursuing selective growth in the mass affluent segment, driving towards increased wallet share through relevant, tailor-made solutions.



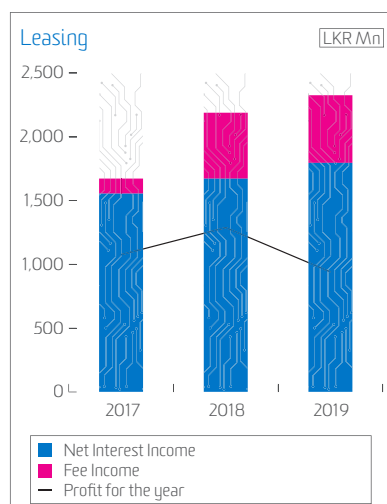
Leasing

Product Portfolio
Vehicle financing | Equipment and machinery financing

The Bank's Leasing Division offers a range of vehicle, equipment and machinery financing solutions. The Division's ability to identify and respond to emerging market dynamics through innovative products, delivery mechanisms and flexible solutions has afforded it an edge in this highly competitive space

HIGHLIGHTS OF 2019

Loans & Advances	-1%
Revenue	6%
Cost-to-income ratio	35%



PROGRESS IN 2019

Following aggressive portfolio growth in the past few years which delivered healthy profits, the Leasing Division consciously curtailed lending in 2019, placing strategic emphasis on preserving portfolio quality.

Financial Performance

- Although the leasing portfolio contracted by 1%, the net interest income increased by 7% compared to last year.
- Cash-flow stresses across several sectors including construction, travel and tourism resulted in an increase in impairments, thereby affected overall profitability.

Customer Focus

- Establishment of a one-stop-shop offering all leasing-related services.
- As customers faced genuine cash-flow difficulties, we maintained close engagement to offer flexible solutions with a view to long-term retention.
- Increased engagement through social media platforms.

Delivery and Distribution

- Initiated processes to digitise the delivery mechanism, First in the leasing industry.

Internal Processes

- Refined collection mechanisms and deployed increased resources towards strengthening collection capabilities.
- Investments in streamlining and automating process with the objective of reducing turnaround times.

Human Resources

- Ongoing investment in team building through numerous engagement initiatives including excursions and adventure-based outdoor trainings.
- Continuous opportunities for training and competency development.

OUTLOOK FOR 2020

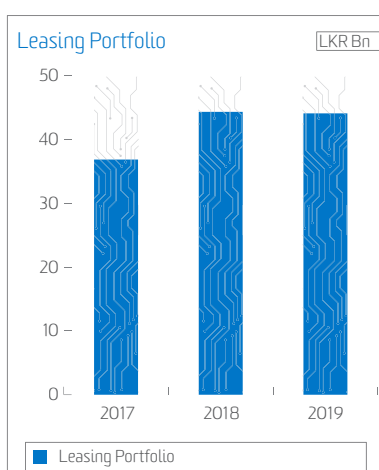
The slowdown in market conditions offered the Division an opportunity to strengthen its internal processes and put in place a strong foundation to pursue growth in 2020. Core areas of focus will be digitisation of delivery mechanisms, increasing penetration in the mass affluent segment and strengthening our presence in the Western Province.

STAKEHOLDER VALUE CREATION

Leasing disbursements of
LKR 21 billion

Investments in
Digital Delivery

Streamlining &
Automating Processes





MOBILE BANKING

Convenience just got an upgrade. Managing your money on the go is now faster, easier and more secure than ever before!

CAPITAL MANAGEMENT

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FINANCIAL CAPITAL

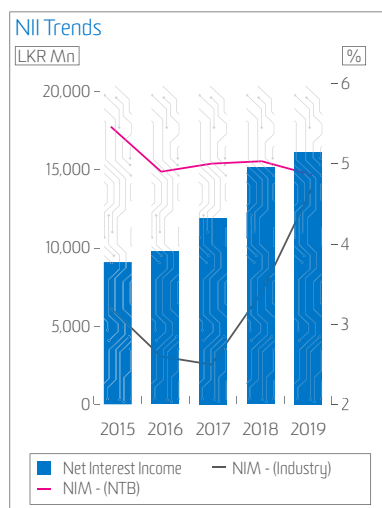


The Group delivered a resilient performance in 2019 with profitability remaining relatively unchanged over the previous year, despite adverse operating conditions. Performance was supported by strategic focus on portfolio profitability, efforts to preserve portfolio quality and ongoing initiatives to drive productivity enhancements.

INCOME STATEMENT ANALYSIS

Net Interest Income (NII)

The Group's NII growth was moderate at 6.4% in 2019, reflecting conscious efforts to consolidate our portfolio in view of subdued economic conditions and an industry-wide deterioration in credit quality. Accordingly, loan growth moderated to 2.4%, with the SME and Leasing portfolios recording respective contractions of 6.1% and 0.5% respectively. Meanwhile the Corporate loan book continued to perform well, expanding by 16.1% as the segment sought to deepen relationships with existing customers and pursue selective client acquisition. During the year strategic focus was placed on portfolio profitability, rather than volume growth, with all business verticals adopting the RAROC model for customer selection. Regulator-imposed caps on interest rates together with the incremental interest suspension on NPLs resulted in the Group's net interest margin (NIM) narrowing to 4.86% from 5.03% in 2018.



Refer to Business line Reviews on pages 29 to 33 for further information

FINANCIAL CAPITAL INPUTS

Shareholders' funds
LKR 31.40 billion

Customer deposits
LKR 226.87 billion

Other borrowings
LKR 40.55 billion

DEVELOPMENTS IN 2019

Pursued selective lending opportunities, resulting in a
loan growth of 2%

Strengthened collection and monitoring mechanisms which enabled preservation of portfolio quality

Capital augmentation through LKR 4.5 billion debenture issue, scrip dividend issue, DFI USD 36 million fundig line and Securitisation of LKR 6 billion

STRATEGIC RELEVANCE

Financial Performance

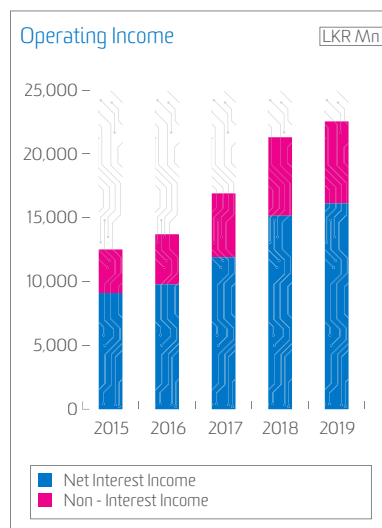
Ongoing focus on driving profitable volume growth

Internal Processes

Enhanced collection and recovery mechanisms while investing in process automation and digitisation

Other Income

The non-interest-income comprises fee and commission income, net trading income and other operating income and increased by 4.4% to reach LKR 6.42 billion during the year. Net fee and commission increased by 1.92% reflecting the Corporate Banking segment's presence in structured financing as well as growth in credit cards, although this was somewhat offset by lower volume growth in the SME segment. Net gains/losses from trading amounted to a loss of LKR 1.32 billion, reflecting losses on derivative financial instruments as the forex rate appreciated during the year. However, a parallel gain was recorded in Net other operating income amounting to LKR 1.57 billion (compared to a loss of LKR 2.67 billion the previous year), reflecting a positive change in the net liability. This reflects the Bank's funding strategy of utilising the FX SWAP book to fund its Rupee loan growth, in order to benefit from the relatively lower funding costs compared to high cost Rupee deposits. Total operating income grew by 5.8% to LKR 22.55 billion during the year under review.



Impairment charges on loans and advances

The increase in impairment charges on loans and advances was contained to 0.8% during the year, despite an industry-wide deterioration in credit quality due to moderating economic conditions post-April attacks. Timely decisions made in 2018 to exit certain customer segments coupled with the Group's conscious efforts to curtail lending, particularly in the SME sector allowed the Group to preserve portfolio quality to a certain extent. Accordingly, the Group's gross NPL ratio for the year clocked in at 6.17% compared to 4.58% the year before. Adoption of the RAROC model and efforts made in strengthening the Group's collection mechanisms, upskilling employees and streamlining recovery processes will augur well for the Group in 2020, placing it on a strong platform to pursue selective lending opportunities.

Cost Management

Driving cost efficiencies through investments in process automation, digitisation and lean initiatives is a key priority for the Group. These initiatives enabled the Group to contain the increase in operating expenses to 4.8% during the year; this was led by a 8.8% increase in personnel expenses and an increased depreciation charge following the implementation of SLFRS 16. On the other hand, other operating expenses declined by 6.9% during the year reflecting the reduction in operating lease expenses in line with SLFRS 16. Overall the Group's cost-to-income ratio improved to 47.92% for the year, a decrease from last year's 48.38% mainly due to the moderation in income growth.

Taxation

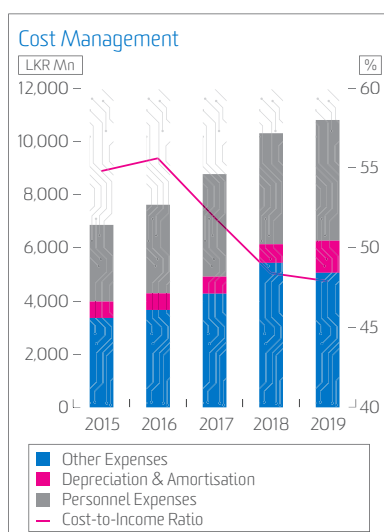
Key components of our taxation for the year included financial VAT, Nations Buildings, Debt Repayment Levy and Income Tax. The Group's total tax contribution increased by 17.6% to LKR 4.73 billion during the year, primarily due to the Debt Repayment Levy which was in place during the year. Accordingly, taxes and levies on financial services amounted to LKR 2.67 billion (+42.5%) while the Group's income tax expense remained relatively unchanged at LKR 2.07 billion.

Value Created/Delivered

Profitable Growth	Preservation of Portfolio Quality	Stronger Balance Sheet
2% growth in lending portfolio	Gross NPL ratio of 6.17% (2018: 4.58%)	LKR 4.5 billion raised through BASEL III compliant redeemable debenture
Profit for the year: LKR 3.71 billion	Increase in impairment charges contained at 0.8%	Total capital ratio enhanced to 17.96%
Earnings per share: LKR 13.08		

CAPITAL MANAGEMENT

Financial Capital



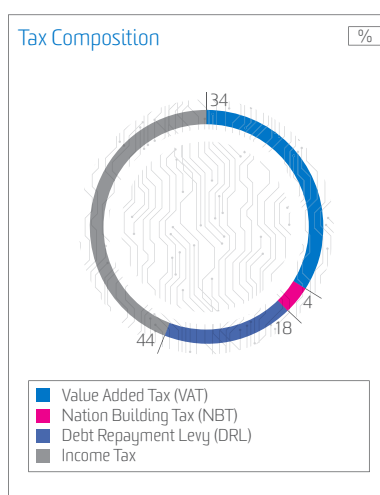
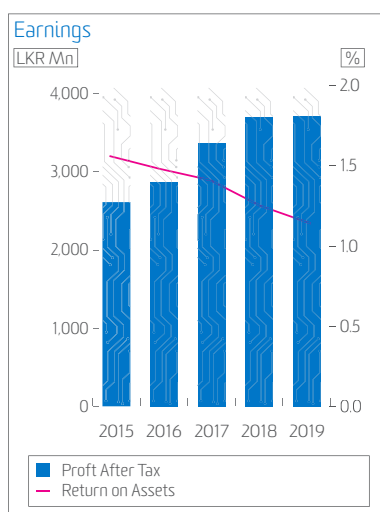
Profitability

Despite the extremely challenging operating conditions that prevailed in 2019, the Group delivered a commendable performance with profit after tax increasing marginally to LKR 3.71 billion, compared to LKR 3.70 billion the previous year. Performance reflects the Group's focus on customer profitability, smart margin and cost management as well as proactive efforts in curtailing impairments.

Meanwhile, the Group's Return on Assets and Return on Equity declined marginally to a respective 1.14% and 12.71%, from 1.25% and 15.26% respectively in 2018 reflecting a stronger equity base following capital augmentation during the year.

Other Comprehensive Income (OCI)

The Group's Other Comprehensive Income amounted to LKR 664 million during the year (compared to a loss of LKR 288 million) mainly due to gains generated on the net change in fair value of investment securities available for sale, as interest rates gradually tapered off. The Bank's Available for Sale portfolio is subject to mark to market valuation and comprises government securities which are maintained primarily for regulatory requirements on liquidity.



BALANCE SHEET ANALYSIS

Asset growth

Strategic emphasis on consolidating our portfolio in 2019 resulted in the total asset base remaining relatively unchanged at LKR 325.37 billion. Loan growth was curtailed at 2.4%, as the Group pursued only selective lending opportunities primarily in the Corporate and Consumer segments while the Leasing and SME portfolios recorded contraction during the year. The asset composition tilted more towards liquidity assets following a stronger funding position and the relatively slow loan growth during the year, with liquid assets (DBU) accounting for 23.78% of total assets (compared to 22.32% the previous year). Credit assets accounted for 70% of the Group's total assets as at end-December 2019.

Capital and Funding

Liabilities declined by 1.3% to LKR 294 billion during the year, reflecting a 2.0% contraction in the deposit base as the Group did not actively pursue deposit mobilisation given subdued loan growth. Borrowings increased by 40% as the Bank obtained a USD 36 million funding line from a Development Finance Institution and increased exposure to securitised borrowings. The Group strengthened its tier 2 capital with the issue of BASEL III LKR 4.5 billion subordinated, redeemable debenture issue in December 2019 which was oversubscribed. The Group also enhanced its core capital with the issue of a scrip dividend and conversion of non-voting shares to voting shares during the year. Following these initiatives, the Group's tier 1 and overall capital adequacy ratios strengthened to 13.30% and 17.96% respectively by end-December 2019 and Nations Trust Bank is now aptly positioned to capture emerging growth opportunities in the mid to long-term.

Outlook

With economic conditions expected to improve following policy stability and the relatively accommodative fiscal and monetary policy stance, we are well positioned to pursue selective growth opportunities across all key business verticals. The prevalent conditions in 2019 afforded an opportunity to strengthen our internal processes including underwriting, collection and recovery mechanisms and the Group has built a solid platform to drive profitable asset growth in 2020 and beyond. We are also encouraged by the tax concessions granted to the Banking sector, which is expected to result in a considerable decline in the effective tax rate.



MANUFACTURED CAPITAL

MANUFACTURED CAPITAL INPUTS

Network of
96 branches

Other physical assets
LKR 2,390 million

DEVELOPMENTS IN 2019

LKR 185 million
Investment in upgrading
physical infrastructure

Consolidation of
Branch network

STRATEGIC RELEVANCE

Financial Performance

Ongoing focus on branch level profitability

Delivery and Distribution

Pursuing cross-sell opportunities

Our physical infrastructure primarily comprises our branch network, which is the key contact point for customer engagement, facilitating asset and liability growth.

ISLAND-WIDE BRANCH REACH

Nations Trust's channel strategy continues to reflect more emphasis on digital channels while consolidating and optimising the physical network. The island-wide network of 96 branches are used as a platform to drive regional growth and increase the CASA base.

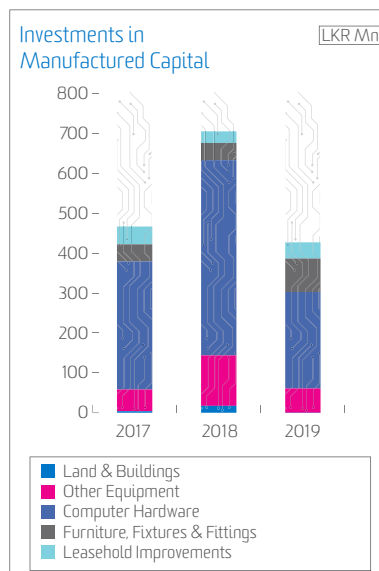
We adopt a three-tiered branch structure, which facilitates more effective deployment of resources. In line with our overall strategy, we focused on enhancing branch profitability during the year. Branch performances are assessed through a robust monitoring system which comprises of KPI dashboards and business intelligence tools. During the year under review 97% of our branches were profitable.

As the Bank continues to pursue cross-sell opportunities across its verticals, our branch network has also evolved to sell multiple products. During the year, cross-sold cards, Personal Loans, Leasing, Factoring and Mid Corporate Loans contributed to 23% of the total branch revenue.

VALUE ADDITION IN 2019

In 2019, the Bank invested LKR 185 million in upgrading its physical infrastructure. Key avenues of investment included the following:

- Relocation of the data centre to a strategic location outside the Bank
- Establishment of a one-stop-shop for leasing in Colombo
- Opened two new branches
- Upgraded of two branches



Value Created/Delivered

Portfolio growth and Deposit mobilisation

Deposit base of LKR 227 billion
27% CASA ratio

2% growth in loans
and advances

Cross-sell

LKR 27.8 billion cross - sell
portfolio in branch network

Profitability contribution

40% contribution to profits
from branches

93 profitable branches

CAPITAL MANAGEMENT



DIGITAL CAPITAL

DIGITAL CAPITAL INPUTS

Computer hardware
LKR 708 Mn

Software licenses
LKR 1,376 Mn

Tech-savvy team

DEVELOPMENTS IN 2019

LKR 567 Mn

Investment in upgrading digital infrastructure

Enhance mobile banking platform and FriMi user interface

Process efficiencies through data analytics and RPA

STRATEGIC RELEVANCE

Customer Focus

Emphasis on user experience and customer service

Delivery and Distribution

Offering customers a seamless, omni-channel experience

Internal Processes

Increased efficiency, reliability and accuracy of processes

Our journey of digital transformation has laid a solid foundation for driving unparalleled improvements in customer service, facilitating business value addition and ultimately sharpening our competitive edge.

Digital investments

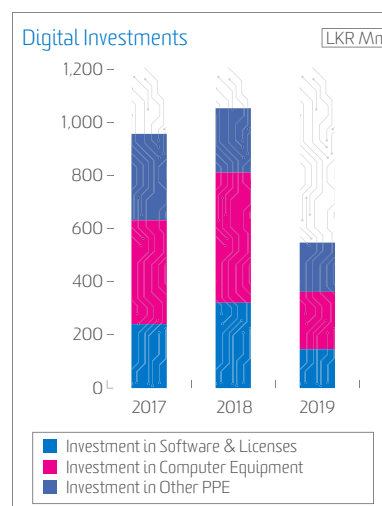
Digital capital continues to be the key focus of investment for the Bank, accounting for 75% of total capital expenditure in 2019. It is reflected in the balance sheet at a Net Book Value of LKR 2,083 million which amounts to 47% of Property, Plant and Equipment. Aligned to the strategic priorities of customer focus, delivery and distribution and internal processes, our digital strategy aims to use technology as an enabler in creating simple, intelligent and inclusive solutions for both internal and external customers.

IT Governance

The Board is ultimately responsible for the Bank's IT strategy while executive responsibility for implementation lies with the Chief Information Officer and Chief Digital Officer. The IT Steering Committee assists the CEO by providing oversight on the implementation of the digital strategy and ensures that IT and cyber-risk exposures are managed within defined parameters. As IT has gained a strategic importance, the time devoted to the IT agenda has grown in tandem, ensuring that investment objectives are met.

IT security measures in place include the following:

- Compliance to ISO 27001:2013-Policies and procedures, Security Governance and Regulatory Compliance
- Cyber drills
- Security testing and assurance
- Access controls and firewalls
- Event correlation, log reviews, alerts and monitoring
- Malware protection
- Web security
- CERT support

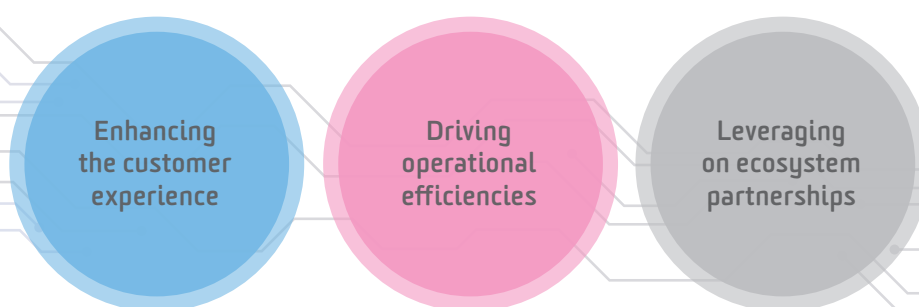


Value Created/Delivered

Digital transactions	Customer onboarding	Process improvements
72% transactions performed through digital channels	29% increase in mobile/online banking subscribers	Improved turnaround time in SME credit processing
55% increase in digital transaction volumes	93% increase in FriMi customer base	

We have prioritised investments that enhance user experience and product functionality beyond traditional banking products. Digital channels now account for 72% of transactions performed, confirming increasing client preferences for self-service channels which are more accessible and convenient.

OUR DIGITAL STRATEGY IS AIMED AT

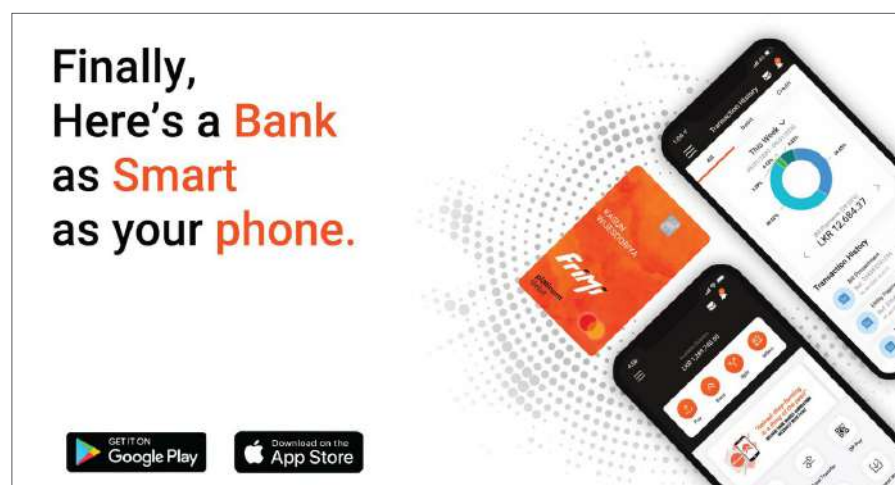


Old	New Offering
Product focused proposition	Integrated offering digital enablement
Branch centric interaction	Convenient 24/7 self-service platforms
Lack of agility and adaptability	Simplicity and agility through digitised customer processes

- Automation of repetitive manual tasks through RPA
- Upgrade of the credit card system
- Launch of SME workflow system
- Launch of the open API Banking platform enabling business to directly link their bank accounts for transactions and information sharing

WAY FORWARD

Digital capital will continue to be a key area of investment in 2020 as we seek to further sharpen our competitive edge through enhancing our digital proposition. Key areas of focus will include adding lifestyle solutions and commercialising FriMi, launch of an excess management system, upgrading the Treasury system and further strengthening digital onboarding of customers among others.



CUSTOMER EXPERIENCE

Our goal is to offer our customers simple, intelligent and inclusive solutions through a seamless, omni-channel experience. We have prioritised investments that enhance user experience and product functionality beyond traditional banking products. Digital channels now account for 72% of transactions performed, confirming increased client preferences for self-service channels which are more accessible and convenient.

Key achievements in 2019 include,

- Enhanced the mobile banking proposition through added features and continuous improvements to user experience

- Launch of the corporate internet banking platform with cash management solutions
- Revamped the FriMi user interface and enhanced functionality
- Enhanced customer responsiveness through increased interaction on social media

DRIVING OPERATIONAL EFFICIENCIES

We leverage on our digital capabilities in optimising business and operating models to drive operational efficiencies and simplify processes. Key areas of focus during the year included,

- Increased use of data analytics in improving predictability

CAPITAL MANAGEMENT

Digital Capital



SRI LANKA'S LEADING DIGITAL BANKING EXPERIENCE

"SRI LANKA'S LEADING FULLY-FLEDGED DIGITAL BANKING EXPERIENCE, FRIMI HAS REDEFINED INDUSTRY STANDARDS IN CONVENIENCE AND CUSTOMER EXPERIENCE BY COMBINING BANKING, MOBILE WALLET AND PAYMENT SOLUTIONS INTO A SINGLE PLATFORM. AS THE UNDISPUTED MARKET LEADER IN THIS SPACE, FRIMI HAS EMERGED AS A LIFESTYLE BRAND OFFERING AN ARRAY OF SERVICES AND FEATURES TO THE DISCERNING, DIGITALLY SAVVY SRI LANKAN CONSUMER"



Send money

Send cash instantly to other FriMi users



Request money

Request funds from other FriMi users



Fund transfer

Inter-bank or Intra-bank fund transfers



Bill payments

Over 70 billers including insurance, leasing, utility bills, club membership payments, credit card payments, education etc



QR payments

Secure payment through merchant QR codes



Cash token

Transfer funds to a person's mobile number, enabling withdrawal through any Nations Trust ATM



Payments via mobile number

Payments to leading supermarkets and top retailers through the mobile number



Savings

An account with attractive interest rates

Highlights of 2019

- Awarded the Best New Fin-Tech Bank in Sri Lanka by the prestigious Global Banking and Finance Awards for 2019.
- Ranked among the Top 20 E-Commerce brands of Sri Lanka by the LMD Brands Annual report 2019.
- Value additions/features added during the year,
- Launch of a chatbot on the website frimi.lk
- Bill split
- Revamp of app user interface
- Credit card settlement of 13 banks
- Numerous customer engagement initiatives

93% increase in customer base

Monthly transaction value of over LKR 4 billion

Island-wide merchant network of over 3,500

70% market share in Justpay internet banking transactions



INTELLECTUAL CAPITAL

INTELLECTUAL CAPITAL INPUTS

Collective knowledge of

3,151 employees

Robust systems and processes

Brand equity

Culture of innovation

DEVELOPMENTS IN 2019

Automation of customer onboarding process

Continued automation of back office functions

Introduction of SME credit approval workflow

STRATEGIC RELEVANCE

Customer Focus

Product and process development to create simple and intelligent customer experiences

Delivery and Distribution

Simple customer onboarding experiences

Internal Processes

Investments in RPA, workflow systems

Our Intellectual capital consisting of our collective knowledge, systems, processes and culture of innovation drives brand equity, keeping us ahead of our competition in a rapidly evolving and increasingly digitised banking environment.

COLLECTIVE KNOWLEDGE

Our collective knowledge comprises the tacit knowledge, skills and experience that our diverse employee base brings to the table. These skills have played a vital role in positioning the Bank as a future-fit, digitally savvy institution. We continue to harness and retain this knowledge within the bank by promoting a culture of knowledge-sharing and mentoring across the Bank. (Please refer section on HR capital for details of training and development initiatives.)

SYSTEMS AND PROCESSES

We continue to upgrade our systems and processes in line with our strategic focus on digitisation and lean management. Process automation continued during the year with the customer on-boarding process and several back office processes being automated. Online tools such as Flow Finity, the internally developed system 'Nations TIDE', and applications such as Microsoft 365 and BoardPAC are increasingly utilised to bring about greater efficiencies while the SME workflow introduced during the year has resulted in a significant decline in the turnaround time of SME loan processing. Meanwhile we continue to use data analytics to improve predictability and drive process efficiencies. (Please refer Digital Capital for further information.)

OUR BRAND

Our brand is consistently ranked amongst the top brands in the country. In 2019, the Nations Trust Brand was ranked 29th amongst the Brand Finance top 100 Consumer Brands with a brand value of LKR 5.6 billion and was recognised as one of the fastest growing brands in banking sector with a growth of 39% compared to 2018. Driving this growth in brand equity is our agility and adaptability to new technology which has provided us with the flexibility to meet the dynamic needs of a new and younger customer base. We were also recognized as one of the top 15 business establishments in Sri Lanka in 2019 by the Business Today Magazine while also being ranked among the top 50 Most Respected entities in Sri Lanka for 2019 by LMD.

A CULTURE OF INNOVATION

We are committed to transforming the banking experience through digitisation and continue to nurture a culture of innovation to drive this transformation. Product and process innovation continued during the year with several game changing digital propositions in customer experience and FriMi being introduced during the year. We were awarded four awards, including the Silver award for 'Most Innovative Bank of the Year' at the Technovation Awards 2019, a clear validation of our commitment to finding innovative solutions for our customer needs. As part of our efforts to encourage innovative thinking amongst our employees we launched a 'Tech portal' where employees are provided the opportunity to submit innovative ideas to management and track their progress through idea world.

Value Created/Delivered

39% growth in Brand Equity

LKR 567 million invested in technology upgrades

Significant reduction in turnaround time of SME loan processing

Many new innovative ideas through tech portal

Silver Award for Most Innovative Bank of the Year - Technovation Awards 2019

CAPITAL MANAGEMENT



HUMAN CAPITAL

HUMAN CAPITAL INPUTS

3,151

Employees

43%

Female Representation

DEVELOPMENTS IN 2019

Launch of a new Competency Framework focusing on banking in the digital world

Launch of 'Create Tomorrow' - the new employer brand

Maintained a high level of engagement

STRATEGIC RELEVANCE

Human Resources

Building an agile and diverse team which can deliver our digitisation agenda and create unique customer experience

As a young and agile team with an average age of 29, our employees are critical in driving our digitisation agenda, facilitating unique customer experiences while living our brand values.

MANAGING OUR PEOPLE

We ensure the fair and equitable treatment to all employees through a clearly defined HR framework comprising a Board-approved suite of policies governance structure, systems and processes and a unique organisational culture which promotes teamwork and empowerment. The framework is structured to ensure compliance with all legal frameworks as well as industry best practices. 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. All policies are reviewed and updated at least on an annual basis. The Bank does not have collective agreements in place.

STRATEGIC FOCUS

In recent years, the Bank's People Strategy has been aligned 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, engagement and training agenda.

Key areas of focus in 2019 included the following:

Attracting employees with the right skills

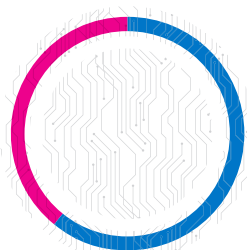
Team Profile

The skill profile we seek in new recruits has changed in line with our overall strategy, with increased focus on IT, digital and data analytics. Selection procedures are designed to identify these critical skills and recruit employees 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. We are 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. The remuneration ratio between men and women at entry level is 1:1. During the year, we added 960 new recruits to our team, the profiles of whom are presented in the charts.

Value Created/Delivered

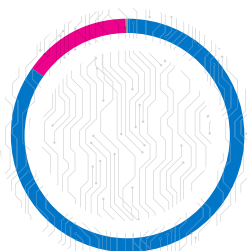
A skilled workforce	Building diverse teams	Talent pipelines
LKR 102 million invested in training and development	28% female representation at senior management level	59% internal recruitment ratio
36 average hours of training per employee	Among the employees promoted, 55% are women	636 employees were promoted

New Hires by Gender - Mix



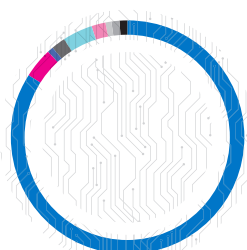
Male - 582 (61%) Female - 378 (39%)

New Hires by Age - Mix



Below 30 years - 814 (84.8%)
30-50 years - 144 (15%)
Above 50 years - 2 (0.2%)

New Hires by Region - Mix



Western Province - 813 (85%)
Central Province - 35 (4%)
North Central Province - 7 (1%)
Eastern Province - 18 (2%)
Southern Province - 37 (4%)
North Western Province - 19 (2%)
Uva Province - 5 (1%)
Sabaragamuwa - 14 (1%)
Northern Province - 12 (1%)

Employee Development

A key achievement in 2019 was the development of a new competency model, centred on developing skills required to conduct banking in a digital world. The new framework is designed to equip employees with the skills required to drive our customer experience with focus on our digital proposition.

The Bank's lifecycle training programme was also reviewed and updated in line with the new competency framework, with new elements added on design thinking, analytics and mentoring. Significant investments were also made in upskilling the branch staff, who are

the key customer contact point and effectively facilitate the customer experience.

Average Training Hours

	Male	Female
Corporate Managers	44	12
Senior Managers	34	36
Managers	65	51
Assistant Managers	65	47
Senior Banking Assistants	40	40
Banking Assistants	27	27
Banking Trainees	16	18
Fixed Term Contractees	31	9
Minor & Other Staff	10	8
Total	41	29

Objective	Training interventions in 2019
Entrepreneurial/ Business awareness	<ul style="list-style-type: none"> Raise awareness on global financial changes through knowledge forums such as AI Asia Summit, Disrupt Asia, Fintech and BASEL Familiarisation of global concepts using company leaders through e-learning platforms
Drive unparallel customer experience	<ul style="list-style-type: none"> Certifications for customer service Mandatory customer service training through the E-learning platform with 60% of employees completing the training 4 modules for branch operations and back-office through digital platforms 7 training modules on bank operations
Innovative leadership	<ul style="list-style-type: none"> Enhancing bank level communication and report writing through 'Minto Pyramid' an online platform Design thinking through Reward and Recognition
Committment to excellence	<ul style="list-style-type: none"> 135 employees underwent a SME credit specialised online programme
Data-centric decision making	<ul style="list-style-type: none"> 50+ employees trained on analytics through an online programme to enhance data driven decision making.

CORE COMPETENCIES

Entrepreneurial/Business Awareness

Demonstrate an entrepreneurial spirit and understanding of business situations to capitalise on market opportunities.

Drive Unparallel Customer Experience

Care about what our customers care about and work towards always delivering beyond their expectations while building strong and lasting relationships.

Innovative Leadership

Leverage on technology and drive transformative change. Collaborate and lead our teams to stay ahead of the game.

Commitment to Excellence

Be the best in everything we do, ensuring quality, consistency and continuous improvement in pursuing perfection.

Data-Centric Decision Making

Use a data-driven approach for everyday problem solving and decision making.

CAPITAL MANAGEMENT

Human Capital

Building the Employer brand

During the year, we launched the new Nations Trust Employer brand 'Create Tomorrow,' focusing on unique attributes of our organisational culture such as digitally savvy, agile, empowered and dynamic. The brand is specifically designed to attract millennials who typically seek out flexible, fun, start-up organisational cultures. All recruitment related communication and engagement centred on the new branding.

Employee engagement

We continue to focus on digital 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 addition to the engagement mechanisms listed on page 27, the following were conducted during the year;

- Nations Colours Night (an event to appreciate the sportsmen and women within the Bank)
- Annual Trust Awards (in appreciation of the high performers in Consumer Sales)
- International Women's Day Celebrations
- Magnus Awards (the annual awards ceremony for Nations Trust Bank)
- Nations Music Club (various choir, singing opportunities for members)
- Nations Photography Club (street photography workshop)
- Nations Service Awards (appreciating employees who have been in the organisation for 20, 15 and 10 years)
- Awurudu celebrations
- Annual Dinner Dance
- Sports Day
- Kiddies Party

Measuring employee satisfaction: Following a fully fledged employee survey in 2018, we conducted a dip stick study in 2019 to ensure that the learnings of the survey are incorporated to our people proposition.

Creating diverse teams

The Bank's overall female representation amounted to 43% during the year while at senior and corporate management the representations were relatively low at 28%. Focused engagement with female branch employees during the year, revealed an unwillingness to aspire to leadership positions, primarily due to domestic and other responsibilities. We hope to adopt a systematic approach to empowering women at the Bank and encourage them to take on leadership roles, offering flexible working models and creating a more conducive environment for women

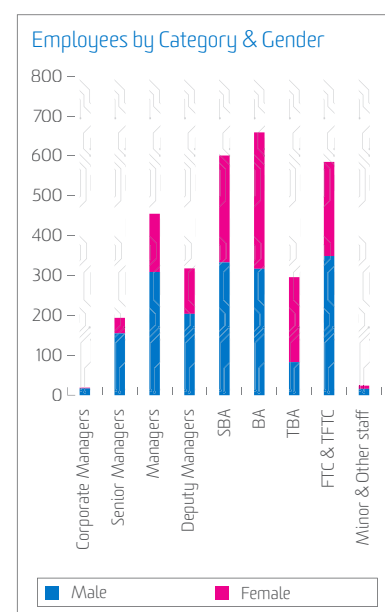
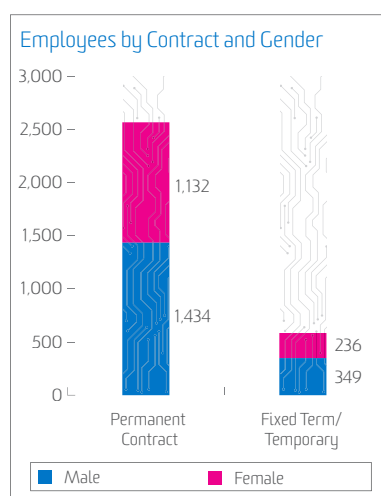
Employment by Region and Contract

	Permanent	Temporary
Western Province	2,006	512
Central Province	110	15
North Central	20	6
Eastern Province	38	4
Southern Province	157	17
North Western	93	13
Uva Province	46	8
Sabaragamuwa	47	5
Northern Province	47	5
Overseas	2	0
Total	2,566	585

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%	0.2%	0.1%
Senior Managers	0.0%	0.0%	4.7%	1.1%	0.2%	0.1%
Managers	0.7%	0.5%	9.0%	4.0%	0.1%	0.1%
Deputy Managers	1.9%	1.1%	4.6%	2.4%	0.0%	0.1%
SBA	5.5%	6.1%	5.0%	2.4%	0.0%	0.0%
BA	8.7%	9.9%	1.3%	1.0%	0.1%	0.0%
TBA	2.6%	6.8%	0.0%	0.0%	0.0%	0.0%
FTC & TFC	10.5%	7.4%	0.4%	0.1%	0.1%	0.0%
Minor & Other staff	0.1%	0.1%	0.3%	0.1%	0.1%	0.0%
Total	30.1%	32.0%	25.6%	11.1%	0.8%	0.4%

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



REWARDS AND REMUNERATION

Total value created to our employees in the form of rewards and remuneration amounted to LKR 4,540 million, an increase of 9% compared to the previous year. 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. There were no major changes to our reward schemes during the year under review.

Guaranteed Cash and allowances	Variable Pay	Reimbursable expenses	Subsidized loan Benefits	Retirement Benefits & Other perquisites
Fuel/Travelling/Vehicle Allowance	Performance Bonus	Professional & Club subscriptions	Housing/ Vehicle/ Education loans	EPF/ETF/Gratuity
Skills Allowance	Sales Bonus	Education assistance for job specific education programmes	SMART loan for smart devices	Surgical & Hospitalisation Insurance scheme
Accommodation assistance	Overtime to eligible staff	Education assistance for employees completing MBAs		Personal Accidental Cover
Relocation Allowance	Risk allowance to eligible staff			Maternity Allowance and maternity gift pack
Communication Allowance	Shift allowance to eligible staff			Nations Sports Club, Photography Club, Music Club & Toastmasters
	Employee share appreciation rights for senior staff			

SUCCESSION PLANNING

A systematic process is in place to identify employees with critical skills and groom them to be the next generation of leaders within the Bank. During the year, we also offered job rotations with the objective of providing a well rounded, holistic experience to high performing employees. In 2019, we maintained a good internal hire ratio with 59% vacancies filled by existing employees; attesting to the strength of our internal talent pipeline.

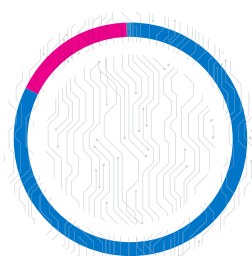
RETENTION

The Bank's overall retention ratio improved to 85%, from 83% the year before (higher turnover is mainly impending from the outsourced recruitment model and lower grade staff cadre). Retention continues to be an industry-wide challenge with intense competition for trained young talent. We strive to retain employees by investing in conducive work environments and offering unique opportunities for development. The profile of exit employees during the year is presented alongside;

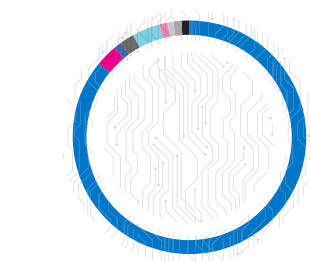
HEALTH AND SAFETY

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 and workshops on sexual exploitation. During the year, there were no significant workplace related injuries.

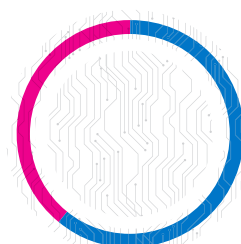
Turnover by Age - Mix



Turnover by Region - Mix



Turnover by Gender - Mix



CAPITAL MANAGEMENT



SOCIAL AND RELATIONSHIP CAPITAL

SOCIAL AND RELATIONSHIP CAPITAL INPUTS

Over 850,000

Customers

Business partners

Industry networks

Community

DEVELOPMENTS IN 2019

Focus on developing simple, intelligent and inclusive solutions

Upgrade digital platforms including mobile banking and FriMi

LKR 29 million investments in CSR activities

STRATEGIC RELEVANCE

Delivery and Distribution

improved through digitisation

Customer Focus

through placing strategic emphasis on the customer journey

Our stakeholders are at the heart of everything we do, and we strive to nurture meaningful win-win relationships with them through unique value propositions and integration of their legitimate needs into our corporate strategy.

CUSTOMER VALUE CREATION

The Bank caters to a wide array of individual, corporate and SME customers across the island, focusing primarily on the mass affluent segment. Unprecedented changes in customer expectations and sophistication have compelled financial institutions to rethink the way they engage with customers, and as an agile and digitally savvy Bank, Nations Trust is well positioned to cater to these changing dynamics. Customer Focus is therefore a key pillar of our Corporate Strategy and key areas of focus in enhancing the customer experience in 2019 included the following:

Simple, Intelligent, Inclusive solutions (SI2)

Our long-term goal is to make the banking experience an enjoyable one by offering simple, intelligent and inclusive solutions which extend beyond traditional banking products. To this end, we have focused on the entire customer journey, offering solutions which are relevant at each stage of the customer's lifecycle. This approach is supported by the Bank's capabilities in data analytics, which has given us deep insights into customer behaviour.

Convenience

Nations Trust has redefined customer convenience through the introduction of game changing digital and self-service platforms. FriMi continues to lead the market in the digital banking space and the subscriber base grew by 93% in 2019. Continued focus on user experience and addition of value added features have enabled FriMi to maintain its competitive edge despite intensifying competition in this space. During the year we also upgraded our mobile banking platform and cash management platform for corporate customers. Digital transactions now account for 72% of total transactions, among the highest in the industry.

Customer Service

The Bank's customer satisfaction levels continue to be relatively high at 92% while complaints have been on a declining trend, reducing to 0.61% in 2019. Business Intelligence tools are used to observe customer interactions at branches and combine intelligence across channels to identify service drops and design personalised customer service. Monthly grievance statistics are reported to the Customer Service Steering Committee which holds responsibility for ensuring customer complaints are addressed and resolved.

Value Created/Delivered

Customer Satisfaction of 92%	72% of transactions performed through digital channels	Social and Environmental Beneficiaries: 27,661
Customer Complaints Ratio of 0.61%	93% Increase in FriMi base	Volunteer hours: 2,182

Measuring customer satisfaction

92%

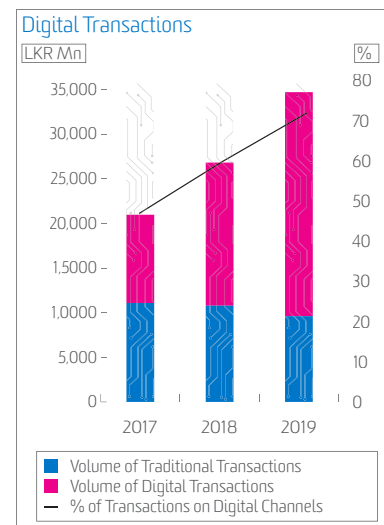
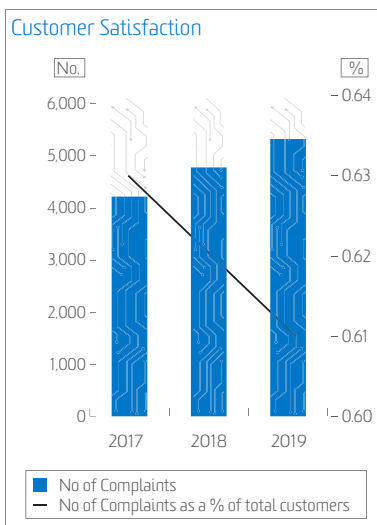
Satisfaction Rate

408 feedback devices

Across the Branch Network

Feedback received to the Call Centre and Centralised Customer Service Unit

Engagement with Customer Service Experience Champions at each branch



Responsible lending practices

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 (Sinhala, English, Tamil). We are cognisant that our increased thrust towards digital platforms could present higher risks in preserving data privacy. We continue to invest in strengthening our IT Security Infrastructure and comply with ISO27001: Information Security Management System.

Incidents of non-compliance concerning product and service information and 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 laws and regulations in the social and economic area	Nil

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 employee holds membership in the Sri Lanka Bank's Association, Institute of Bankers of Sri Lanka, Ceylon Chamber of Commerce, Leasing Council of Bankers of Sri Lanka and Sri Lanka Sustainable Banking Initiative among others.

The Kaffeine Lab

We are keen to collaborate with other ecosystems such as non financial sector industries, academics, start-ups and customers in further enhancing our digital proposition to solve real customer problems. Our innovation centre, the Kaffeine Lab facilitates this by engaging with stakeholders to prototype, pilot and implement solutions which transforms the way the Bank works.

Collaborators

- Correspondent banks: 34
- Exchange houses: 18
- International Development Financial Institutions: 4

Key partner in our digital drive, facilitating ease of transactions, offering exciting promotions and enhancing the customer experience

Other service providers

- Utility providers
- Security services
- Maintenance
- Operations

We source a range of consumables, computer equipment and other supplies required for our day-to-day activities

BUSINESS PARTNERS

The Bank engages with over 2,344 business partners who are an integral part of our value creation process. These partners range from business collaborators, franchise partners, merchant networks and outsourcing partners to suppliers. Mutual value is created through active engagement, fair and transparent business practices, timely payments and opportunities for business growth. The Bank's ecosystem of business partners is graphically shown below;

Facilitates the Bank's global connectivity.

Franchise/Merchant network
AMEX | Master Card | Diners Club

Essential for business continuity and the smooth functioning of the Bank's operations.

Suppliers

- Local suppliers: 2,224
- Foreign suppliers: 65
- Total payments: LKR 12.6 billion

CAPITAL MANAGEMENT

Social and Relationship Capital

We believe that the key to the success of our CSR activities are the solid partnerships we form to initiate, monitor and sustain action in identified areas and the high degree of employee engagement we continue to garner.

COMMUNITY ENGAGEMENT

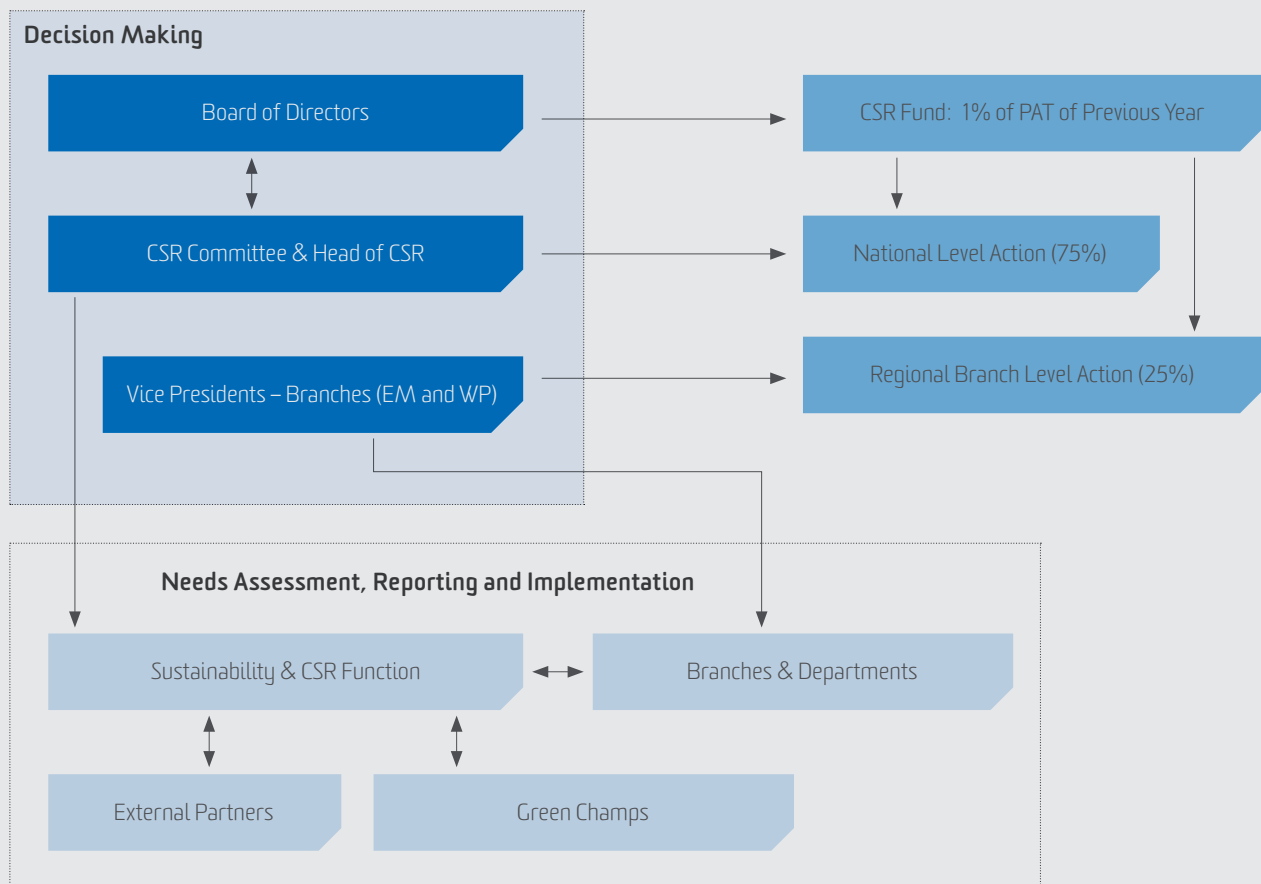
The Bank's CSR initiatives are undertaken within the broader theme of 'Empowering the Next Generation' with a particular focus on enabling quality education (SDG 4) and in contributing towards Environmental Stewardship (SDG 13, 14, and 15). In addition, the Bank's CSR fund also has the mandate to provide immediate relief to those who are affected by disasters. In 2019, the Bank

mobilised LKR 29 million in achieving the aforementioned outcomes. (Details of programmes relating to environment are described more fully in the Natural Capital section of the report.)

We believe the key to the success of our CSR activities are the solid partnerships we form to initiate, monitor and sustain action in identified areas and the high degree

of employee engagement we continue to garner. With a workforce comprising mostly millennials, we depend on social media and social networking platforms to generate interest and awareness about our CSR initiatives among staff. Meanwhile a clear governance structure as depicted alongside ensures accountability and responsibility.

Governance and Fund Administration





EMPOWERING THE NEXT GENERATION

Socio-emotional (Soft) Skills development

Beneficiaries: 314

Total Investment: LKR 0.54 Mn

Nations Trust Bank, in partnership with the University of Colombo Alumni Association and international corporate training firm 'Bridge Partnership' has been conducting workshops on socio-emotional skills for undergraduates since 2017. The programme seeks to develop emotional intelligence, interpersonal communication and personal resilience of students to be effective in a professional environment. The programme also includes a mentoring component, where members of Bank's Senior Management team volunteer to guide undergraduates over a period of three months on their transition from university life to career. During 2019, the programme saw four intakes with a total of 111 undergraduates taking part, whilst 19 Management members from the Bank volunteered as mentors.

A Socio-Emotional Skills and Future Orientation Programme was also conducted for children at the Kadawatha Catholic School to create awareness on soft-skills such as empathy and interpersonal communication.

School Infrastructure and Supplies

Beneficiaries: 1,106

Total Investment: LKR 3.38 Mn

The Bank continued its ongoing programme to strengthen infrastructure and provide for education consumables (stationery and school supplies) for four selected rural schools: Galgamuwa Nithalawa Kanishta Vidyalaya, Ratnapura Amunuthenna Kanishta Vidyalaya, Mulaitivu Mullivaikkal East GTM School and Kebethigollewa Wahalkada D-5 Viduhala. Students were supplied with stationery requirements (books, bags, lunch boxes and water bottles), whilst the consumable/equipment needs of schools (lab material and books for library, etc.) was also provided. The intent is to make it easier for students from

economically disadvantaged backgrounds (mostly children of farmers affected by climate change impacts) to pursue their education.

Digital Literacy

Beneficiaries: 834

Total Investment: LKR 3.0 Mn

The Bank places emphasis on digital literacy given its importance in equipping the next generation with requisite skills to succeed in the age of the fourth Industrial Revolution. In commemorating its 20th Anniversary, the Bank set the ambition to upgrade 20 ICT labs by 2020 in scaling-up its ongoing efforts to enhance digital infrastructure for education of children and youth. To this end, in 2019, we engaged in revamping and upgrading computer labs in six schools. Computer labs of Thakshila Vidyalaya in Mahavilachchiya, Moragoda Vidyalaya in Galenbindunuweva and C.W.W. Kannangara Vidyalaya in Borella were handed over to the schools after completion within the year, whilst work is still ongoing on three other labs (Handessa Maha Vidyalaya in Pilimathalawa, Thirugnanasampanthar Vidiyalayam in Vavuniya, and Holy Rosary School in Colombo 02, where work has been initiated during the year).

During the year, the Bank facilitated the conversion of a class room at Nithalawa School to a smart classroom by funding the civil works and digital infrastructure. A Raspberry-pi device loaded with educational content developed by Shilpa Sayura Foundation was installed, enabling an effective e-learning platform.



ICT Lab at C W W Kannangara Vidyalaya Borella

Entrepreneurial Education and Education for Sustainability

Beneficiaries: 130

Total Investment: LKR 0.74 Mn

Recognizing the importance of sustainable entrepreneurship in advancing the economy and quality of life, Nations Trust Bank organized programmes for current and prospective entrepreneurs on the theme of 'Sustainable Business'. Three workshops were held under this programme in Embilipitiya, Negombo and Galle to build awareness among small and medium business owners on aspects such as resource efficiency, energy management and green productivity along with brief awareness on financial literacy and solar loan scheme offered by the Bank.

During the year, Bank also supported Sri Lanka Association for Advancement of Science (SLAAS) to organize a workshop for undergraduates from government and private universities on 'Biotechnology Entrepreneurship'



Sustainable Business Workshop Embilipitiya

Disaster Relief and Recovery

Beneficiaries: 255

Total Investment: LKR 1.08 Mn

In the aftermath of the Easter Sunday bombings, the Bank's CSR fund, its Sports Club and employees reached out to Archdiocese of Colombo in offering support to children affected by the calamity. Funds were channelled to provide school shoes for 230 children affected by the disaster and significant sums of money were deposited in favour of 25 children who were severely affected (where they were injured or a parent is incapacitated), so they would have the necessary means to pursue higher education in the future. Bank's staff also volunteered to support Seth Sarana in organizing the information relating to victims.

CAPITAL MANAGEMENT



NATURAL CAPITAL

NATURAL CAPITAL INPUTS

8.2 Mn kWh
Energy Consumption

86 MT
Paper Consumption

DEVELOPMENTS IN 2019

Ongoing capacity building of E&S risk assessment and management

Launch of branch level renewable energy buy back programme and soft loan scheme.

Continuation of paperless initiative through lean transformation and digitisation drive

STRATEGIC RELEVANCE

Improved Financial Performance

Through Responsible Lending

Delivery and Distribution

Improved through digitisation

With the effects of climate change being increasingly felt across the globe, we are proactively seeking to manage environmental impacts arising from our own operations as well as those arising from the businesses we finance. Meanwhile we continue to create awareness on climate action and responsible consumption of resources through our strategic CSR agenda.

MANAGING OUR ENVIRONMENTAL IMPACTS

Our approach to manage direct and indirect environmental impacts are governed by comprehensive policy frameworks, operating manuals and external certifications. There were no instances of non compliance to any environmental laws and regulations during the year.

As a financial services organisation, the Bank is exposed to climate change primarily through its lending to the agriculture, plantation and tourism sectors which are extremely vulnerable to climatic conditions. Meanwhile, natural disasters and erratic weather conditions which affect the balance of the eco-system could have long-term implications on the smooth continuity of business. We are yet to quantify the impacts of climate change on the Bank.

Energy

The Energy Policy is gradually shifting to renewable energy sources while energy efficiency is being enhanced through employee awareness.

platforms for communication. Useful life of obsolete computers is extended in placing them in school IT labs. Once the computers are beyond repair the Bank hands over the E-waste to CEA approved service providers.

Materials

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

Emissions

Carbon conscious certification for hub operations.

Comprehensive carbon management programme to measure the Bank's carbon footprint.

Waste

Employees are encouraged to re-use and recycle paper and adopt paperless

Value Created/Delivered

Carbon footprint of 3,549 tCO₂e

1.84 tCO₂e per employee

17% (or 14.5 MT) of paper recycled

Energy efficiency increased by 2% to 2,595 kWh per employee

Over 6,390 people educated on bio-diversity

In partnership with eight leading environmental organisations

RESPONSIBLE LENDING

We are committed to developing a sustainable finance portfolio and strive to integrate environmental and social considerations into all our lending decisions. All Corporate and SME facilities above LKR 25 million undergo a rigorous screening process to assess potential environmental impacts and ensure environmental compliance. Meanwhile we continue to build capacity by organising knowledge sharing and awareness programmes on environmental and social risk assessment and management for our staff.

Programs conducted during the year	No. of Participants
Awareness programme on 'Biodiversity Considerations in Lending' conducted in collaboration with Biodiversity Sri Lanka	20
Awareness programme on 'Going Net Zero' conducted by Carbon Consulting Company	15
Knowledge sharing session on carrying out risk assessments for climate finance	18
Technical awareness programme on 'Financial Product Prototyping for Climate Financing' held in collaboration with National Cleaner Production Centre and Adelphi Consulting	21

REDUCING OUR ENERGY CONSUMPTION

The Bank's total electricity consumption amounted to 8,177,312 kWh during the year. Efforts to reduce our dependence on grid electricity by installing solar panels at our Nawam Mawatha office continued to generate returns with the system generating 48,109 kWh of renewable energy during the year. Meanwhile ongoing efforts to increase energy efficiency within our premises resulted in electricity intensity declining by 2% to 2,595 kWh per employee.

In line with the Carbon Emission study conducted, electricity consumption of three main offices (Union Place, Nawam Mawatha and Kotahena) amounted to 3,311,102 kWh in 2019 while the electricity efficiency is 2,245 kWh per employee.

As part of the Bank's climate action agenda, we also engaged with over 80 lessors of our branch properties, encouraging them to consider green building investments for branch premises. The Bank offered a soft loan scheme to fund any such investment together with a buy back arrangement for solar renewable energy units, if the lessors chose to invest in solar rooftop systems.

REDUCING PAPER CONSUMPTION

Paper consumption amounted to 86 MT in 2019, reflecting the Bank's ongoing lean transformation and digitisation drive. Most approvals, correspondence and transactions across the Bank are now carried out digitally, with the use of online tools which has significantly reduced paper usage. Meanwhile we continued to expand our paper-less drive, introducing several process improvements during the year. (Please refer table alongside)

Paperless Drive-Key initiatives during the year

- Introduction of e-learning platform
- Replacing class-room handouts with tablets for classroom-based training
- QR code system for training attendance
- Digital feedback on training
- Digital pay-slips
- Increase in digital marketing
- Digitisation of Bank statements
- Sales force automation
- Digital Annual Report



MANAGING OUR EMISSIONS

The carbon footprint of our three main offices (Union Place, Nawam Mawatha and Kotahena) are proactively monitored and managed externally by The Carbon Consulting Company, and further verified independently by The Sustainable Future Group towards retaining our 'CarbonConscious® Office' Certifications. In addition, during the previous year, the Bank expanded the boundary of the assessment by adding 10 more branches (boundary now includes locations covering 60% of our total staff).

Tonnes of CO2e	2019	2018	% change
Scope 1	177.2	187.6	-6%
Scope 2	2,373.0	2,143.4	11%
Scope 3	999.1	1,127.4	-11%
Total*	3,549.3	3,458.4	3%
Tonnes of CO2e per employee	1.84	1.78	3%

*Carbon Footprint of 3 hub operations and 10 branches

*The Carbon Footprint of the 10 branches only includes Scopes 1 & 2

MANAGING OUR WASTE

Waste generated by our operation consists mainly of paper waste, E-waste and food waste. 14.5 MT of paper was recycled during the year which is approximately 17% of total paper usage. E-waste is disposed in a responsible manner through approved third parties. Accordingly, 1,787 e-waste items were safely disposed in 2019. Food waste is segregated at the point of generation and food waste stats are generated on a weekly basis and displayed on lunchroom notice boards. During the year, food waste generated at main three offices (Union Place, Nawam and Kotahena) amounted to 38 MT.

ENVIRONMENTAL STEWARDSHIP

We continue to partner with environmental interest groups such as the Wildlife Conservation Society of Galle (WCS-G), Wildlife and Nature Protection Society (WNPS), Biodiversity Sri Lanka platform, Environmental Foundation Limited and Young Zoologists' Association in conservation efforts and to create awareness on biodiversity conservation.

CAPITAL MANAGEMENT

Natural Capital



ENVIRONMENTAL STEWARDSHIP

Conservation through Education

Sponsored a session at the Association for Tropical Biology – Asia Pacific Conference, where effective partnerships for conservation were showcased.

Supported a programme conducted by Wildlife and Nature Protection Society to educate media on responsible reporting

Together with the Sustainable Banking Initiative, engaged with industry to mainstream discourse on sustainable finance.

Ongoing sponsorship of several annual publications (Loris; Warana/Waranam) of the Wildlife and Nature Protection Association.

Partnered with Environmental Foundation Limited to raise awareness on deforestation, climate change, and energy future in Sri Lanka.

Awareness programme on biodiversity for Opatha Maha Vidyalyaya in partnership with IUCN and BSL.

In collaboration with National Cleaner Production Centre and Janathakshan, conducted workshops in Galle, Embilipitiya and Negombo to raise awareness of small businesses on sustainable business practices.

Sponsored Nature Walks conducted by Wildlife and Nature Protection Society in Beddagana in Kotte and Udawatta Kele in Kandy for interested customers and employees.

Direct Conservation Efforts

Reforestation Initiative

In commemorating our 20th anniversary the Bank commenced an initiative to restore 20 acres of forest. The first phase of the initiative is already underway in restoring eight acres of forests in buffer zone of Wilpattu National Park in partnership with the Sri Lanka Army.

'Life' Forest Restoration Project

Through this project the Bank provides financial support for the restoration of 1ha. of degraded land over a period of five years. The project is coordinated by The Biodiversity Sri Lanka platform, with the support of IUCN and Forest Department.

Conservation of Hiyare Sanctuary

The Bank continued its partnership with the Wildlife Conservation Society of Galle to fund environmental education programmes and animal rescue and rehabilitation programmes at Hiyare Sanctuary in Galle.

Hog Deer Breeding Program in Honduwa

The bank also funds the Wildlife Conservation Society of Galle on the Hog Deer Breeding Program in Honduwa, in Lunuganga in partnership with Geoffrey Bawa Trust.

Railway Station Clean-up and Waste Segregation Bin Placement Initiative

In commemorating its 20th anniversary, the Bank scaled up its efforts to promote responsible waste management under its CSR focus on environmental stewardship by cleaning 20 railway stations (Bambalapitiya, Wellawatta, Moratuwa, Panadura, Kalutara, Aluthgama, Ambalangoda, Hikkaduwa, Galle, Matara, Nugegoda, Kurunegala, Anuradhapura, Jaffna, Kandy, Nanu Oya, Bandarawela, Ella, Badulla and Peradeniya) through an employee volunteerism exercise and in setting up waste segregation bins to facilitate railway commuters to dispose their waste responsibly. Over 270 volunteers from the Bank were involved in the clean up exercise.

GHG emissions data for Nations Trust Bank's Union Place, Nawam and Kotahena offices, and 10 selected branches for the period 1st January to 31st December 2019

Carbon dioxide equivalent emissions (tonnes of CO ₂ e)							
	2019	2018	3 Main Offices 2017	2016	2015	10 Selected Branches 2019	2018
Scope 1	129.3	183.0	141.7	313.5	100.3	47.9	4.6
Scope 2	1,935.3	1,780.6	1,856.3	1,930.8	1,856.0	437.7	362.8
Scope 3	999.1	1,127.4	1,361.0	1,472.9	1,327.2		
Total	3,063.66	3,090.96	3,358.99	3,717.25	3,283.51	485.56	367.39
% change previous year	-0.88%	-7.98%	-9.64%	13.21%		32.17%	
% change base year	-17.58%	-16.85%	-9.64%				
Number of NTB employees	1,475	1,442	1,398	1,351	1,303	454	497
% change previous year	2.29%	3.15%	3.48%	3.68%		-8.65%	
% change base year	9.18%	6.74%	3.48%				
Tonnes of CO ₂ e per employee	2.08	2.14	2.40	2.75	2.52	1.07	0.74
% change previous year	-3.10%	-10.79%	-12.68%	9.19%		44.68%	
% change base year	-24.51%	-22.10%	-12.68%				

INDEPENDENT ASSURANCE REPORT



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INDEPENDENT ASSURANCE REPORT TO NATIONS TRUST BANK PLC ON THE SUSTAINABILITY REPORTING CRITERIA PRESENTED IN THE INTEGRATED ANNUAL REPORT- 2019

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- 2019 ("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 13 January 2020. We disclaim any assumption of responsibility for any reliance on this report to any person other than the Company or for any purpose other than that for which it was prepared. In conducting our engagement, we have complied with the independence requirements of the Code for Ethics for Professional Accountants issued by the CASL.

Key assurance procedures

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

- Interviewing relevant the company's personnel to understand the process for collection, analysis, aggregation and presentation of data.

- Reviewing and validation of the information contained in the Report.
- Checking the calculations performed by the Company on a sample basis through recalculation.
- Reconciling and agreeing the data on financial performance are properly derived from the Company's audited financial statements for the year ended 31 December 2019.
- Comparison of the content of the Report against the criteria for a Global Reporting Initiative, GRI Standards: 'In accordance' – Core guidelines.

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

Limitations and considerations

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

Conclusion

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

- 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.

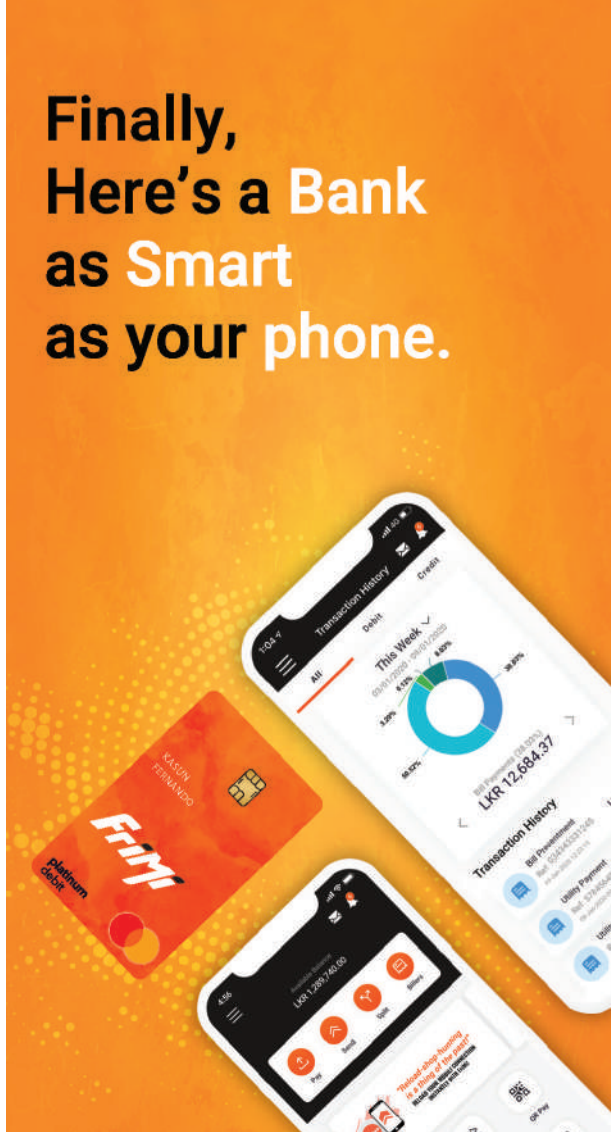
Ernst & Young
Chartered Accountants

27th February 2020
Colombo

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

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COPORATE GOVERNANCE & RISK MANAGEMENT

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CORPORATE GOVERNANCE

Nations Trust's approach to corporate governance underpins its performance, promotes strategic decision making that balances the often conflicting interests of stakeholders and defines business conduct.

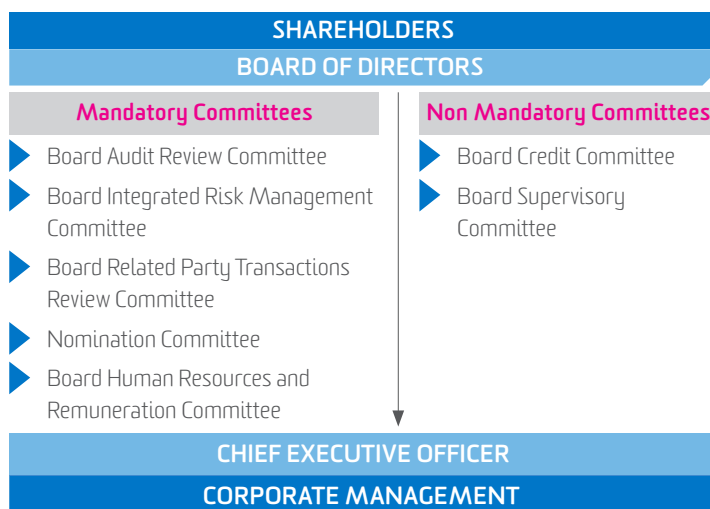
The concise report below sets out the key elements of our governance framework and demonstrates how we achieved our governance outcomes during the year. Please refer to the Compliance tables from page 229 to 249 of this Report for detailed governance and compliance related information.

GOVERNANCE FRAMEWORK

Our governance framework extends beyond compliance, embracing industry best practice to drive effective leadership and greater transparency. It enables the Board to effectively oversee key aspects of our value creation including the strategic direction, resource allocation, non financial performance and to hold the management team accountable for the implementation of strategy. Key elements of our governance framework are;

Governance structure

Shareholders appoint the Board of Directors who hold apex responsibility for the affairs of the Bank. The Board has appointed seven sub-committees to facilitate oversight of specific areas to assist in the discharge of its responsibilities. Related roles and responsibilities of the Board and Subcommittees are clearly defined in respective committee reports together with insights into activities taken place during the year on pages 75 to 86. Executive Committees appointed for specific roles ensure that the management sets the tone for good governance facilitating empowerment and joint decision making.



Policy Framework

The Bank's clearly defined Policy Framework enables that we conduct business the right way, ensuring ethical and transparent business practices. The Policy Framework ensures compliance with several key regulatory requirements and voluntary adopted standards and codes. Policies are reviewed and revised regularly.

External instruments

Regulatory

- Companies Act, No 7 of 2007
- Banking Act No. 30 of 1988 (as amended)
- All directions for licensed commercial banks issued by the Central Bank of Sri Lanka
- Continuing listing requirements of the Colombo Stock Exchange
- Inland Revenue Act, No 24 of 2017

Voluntary

- Code of Best Practice on Corporate Governance (2017) issued by CA Sri Lanka
- Integrated Reporting Framework issued by the International Integrated Reporting Council (IIRC)
- GRI Sustainability Reporting Standards issued by the Global Reporting Initiative

Internal instruments

- Articles of Association
- Board and Sub-Committees Terms of Reference
- Code of Ethics
- Code of Conduct
- Board approved Policy Framework

KEY GOVERNANCE OUTCOMES

Our Governance Framework has been designed to facilitate the achievement of the following governance outcomes;

Effective leadership

Driving good performance

Culture and values

Risk management

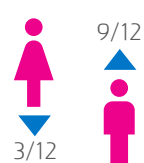
Effective leadership

Directors combine diverse experience and industry insights, collectively ensuring the creation and protection of shared value. The Board comprises twelve Directors, including five Independent Non-Executive Directors, six Non-Executive Directors and one Executive Director.

Board Composition

Chairman (Non-Executive)	1
Independent (Non-Executive Directors)	5
Non-Independent (Non-Executive Directors)	5
Executive Directors	1

Gender Balance



Age Representation

30-40 years	2
40-50 years	2
50-60 years	5
Older than 60 years	3

Director induction: Newly appointed Directors receive a comprehensive induction pack (comprising Articles of Association, Policies and Board procedure manuals among others) while an overview of all compliance requirements and policies are provided by the Board Secretary. The induction is complemented by a presentation by the CEO and a visit to the Bank's processing centre by the new directors.

Director training: Directors undertake training in their personal capacity and attend forums organised by the Central Bank of Sri Lanka and other institutions. Auditors and other experts make presentations from time to time on relevant topics.

CORPORATE GOVERNANCE

BOARD AND BOARD SUB-COMMITTEE MEETINGS

Director	Board	Audit Review Committee	Board Supervisory Committee	HR and Remuneration Committee	Credit Committee	Integrated Risk Management Committee	Nomination Committee	Related Party Transactions Review Committee
Mr. Gihan Cooray (Chairman)	13/13			01/01	12/12		01/01	
Mr. Prasanna De Silva	13/13		12/12	01/01	12/12		01/01	
Ms. Renuka Fernando	13/13				12/12	05/08		04/04
Mr. Suran Wijesinghe	13/13	13/14	12/12	01/01		08/08		
Mr. Conrad D'Souza	13/13						00/00	
Ms. Rachini Rajapaksa	13/13	13/14		00/00		08/08		
Mr. Russell De Mel	13/13				12/12			04/04
Mr. Sumit Maheshwari	10/13							
Mr. Savanth Sebastian	13/13	09/14	10/12					
Ms. Sherin Cader	13/13	13/14	11/12			06/08		
Mr. Chanaka Wickramasuriya	13/13				12/12		00/00	00/00
Mr. Arjun Fernando	13/13	14/14	05/05			08/08		
Mr. Murtaza Jafferjee ¹	11/13		10/12	01/01			01/01	

¹Retired with effect from 15th December 2019

DRIVING GOOD PERFORMANCE

The Board consistently reviews the Group's performance against strategic objectives, ensuring long term success and sustainability. During the year the Board met 12 times and key areas of focus included strategy, risk management, digitisation of the Bank and talent management among others.

Corporate management team: Management of the day to day business of the Group has been delegated to the CEO and Corporate Management team. The CEO is accountable to the Board for implementing strategy and ensuring performance is in line with the set strategic agenda.

Since the end of 2018, considerable time has been dedicated to determining the succession plan of the CEO and Corporate Management. The following transparent process was carried out in

selecting the new CEO, who will take over from the current CEO upon her retirement in April 2020.

Self-assessment: The Board annually appraises its performance to ensure that they are discharging their responsibilities effectively. Each member of the Board carries out a self-assessment of his/her own effectiveness as an individual as well as effectiveness of the Board as a team. In 2019, a formal process was implemented to assess performance of the Sub committees which are now required to update the Board on their performance during the year, ensuring that TORs are met.

Culture and Values

The Board of Directors set the ethical tone for the Bank and collectively ensure that the conduct of the team is aligned to the organisational vision and values. Shared stakeholder value is delivered by ensuring regulatory compliance and balancing the diverse needs of our stakeholder universe.

The Code of Ethics and Conduct signed off by all employees clearly articulates the expectations for employee conduct and processes for dealing with perceived deviations.

Risk Management and Internal Controls

The Board of Directors holds apex responsibility for ensuring the effectiveness of the Bank's risk management framework and internal control systems. The Board is supported by a dedicated Integrated Risk Management Committee (BIRMC) and Board Audit Committee in the discharge of its risk management responsibilities. (Please refer to the Committee Reports on pages 75 and 84 for an overview of the functions performed by the Committees during the year.)

Cyber security: The Bank's strategic thrust towards digitisation exposes it to a range of information and cyber security related risks which are managed through effective governance structures, clearly articulated procedures and security frameworks. Cyber security risk exposures are consistently monitored and communicated to the BIRMC as part of the regular risk update. Meanwhile, the Bank has deployed an independent consultant reporting to the Chief Risk Officer, who is responsible for identifying and reporting all IT related risks. A dedicated Information Security Officer also functions within the IT department, ensuring that all cyber security related risk exposures are monitored on an ongoing basis.

360-degree appraisal of all Executive Vice President staff

Obtained the services of an external consultant in developing and conducting psychometric tests on shortlisted candidates

CEO and Deputy CEO succession plan determined by the Board

Inviting short-listed candidates to make presentations to the Board of Directors

ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE BANK

The Directors of Nations Trust Bank PLC (‘the Bank’) have pleasure in presenting their Report on the Affairs of the Bank together with the Audited Financial Statements for the year ended 31st December, 2019. The details set out herein provide the pertinent information in accordance with the statutory requirements, requirements of relevant regulatory authorities for the listed companies in the financial industry and best accounting practices.

GENERAL

Nations Trust Bank PLC is 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 on the Affairs of the Bank and the Audited Financial Statements were approved by the Directors on 27th February, 2020.

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 other 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 approved by the Board of Directors on 27th February 2020 are given on pages 91 to 198 of this Annual Report.

INDEPENDENT AUDITORS' REPORT

The Auditors of the Bank, Messrs Ernst & Young, Chartered Accountants have carried out the audit of the consolidated Financial Statements for the financial year ended 31st December 2019 and their Report on the Financial Statements is given on page 88 of this Annual Report.

SIGNIFICANT ACCOUNTING POLICIES

The Accounting Policies adopted in the preparation of the Financial Statements are given on pages 96 to 198.

DIRECTORS' SHAREHOLDING

Directors' shareholding as at 31st December, 2019 and 2018 are given below.

Name of the Director	No. of Shares	
	2019	2018
Mr. Gihan Cooray	8,804 (V) 1,532 (NV)	8,618(V) 1,497 (NV)
Mr. Suran Wijesinghe	41,562(V) 7,242(NV)	40,680(V) 7,074 (NV)
Ms. Renuka Fernando	72,014(V)	70,486(V)
Mr. Prasanna De Silva	-	-
Mr. Conrad D'Souza-Senior Director	-	-
Ms. Rachini Rajapaksa	-	-
Mr. Russell De Mel	-	-
Mr. Sumit Maheshwari	-	-
Mr. Savanth Sebastian	-	-
Ms. Sherin Cader	-	-
Mr. Chanaka Wickramasuriya	-	-
Mr. Arjun Fernando	-	-
Mr. Murtaza Jafferjee (Retired w.e.f. 15th December 2019)	N/A	447,283(V) 136,800(NV)

DIRECTORS' REMUNERATION

Directors' fees and emoluments paid during the year are given in Note 44.

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 61 of this Report.

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 – 29th March 2019.
2. Pursuant to scrip dividend issue, allotment of ordinary voting shares and ordinary non voting convertible shares to Mr. Gihan Cooray, Mr. Murtaza Jafferjee and Mr. Suran Wijesinghe and issue of ordinary voting shares to Ms. Renuka Fernando on 22nd March 2019.
3. Reclassification/conversion of ordinary non-voting convertible shares to ordinary voting shares in the name of Mr. Murtaza Jafferjee on 18th April 2019.
4. Purchase of ordinary voting shares by Mr. Murtaza Jafferjee, on 16th May 2019 and 2nd September, 2019.

CORPORATE DONATIONS

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

ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE BANK

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
Non-Executive Directors			
Mr. Gihan Cooray	13	13	Nil
Mr. Prasanna De Silva	13	13	Nil
Mr. Suran Wijesinghe	13	13	Nil
Mr. Sumit Maheshwari	13	10	03
Ms. Sherin Cader	13	13	Nil
Mr Arjun Fernando	13	13	Nil
Independent Non-Executive Directors			
Mr. Conrad D'Souza - Senior Director	13	13	Nil
Ms. Rachini Rajapaksa	13	13	Nil
Mr. Russell De Mel	13	13	Nil
Mr. Savanth Sebastian	13	13	Nil
Mr. Chanaka Wickramasuriya	13	13	Nil
Mr. Murtaza Jafferjee - Senior Director (Retired with effect from 15th December, 2019)	13	11	02
Executive Director			
Ms. Renuka Fernando	13	13	Nil

Independent Senior Director, Mr Murtaza Jafferjee retired from the Board with effect from 15th December 2019 upon completion of nine years service on the Board, in compliance with the Section 3(2)(ii) of the Banking Act Direction No.11 of 2007 on Corporate Governance for Licensed Commercial Banks in Sri Lanka. Mr Arjun Fernando was appointed to the Board as a Non-Executive Director with effect from 18th January 2019 and elected by the shareholders pursuant to Article 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 at the Annual General Meeting held on 29th March 2019.

Mr. Conrad D'Souza was appointed as the Senior Director of the Bank with effect from 16th December 2019. Mr Prasanna De Silva, Mr Suran Wijesinghe and Ms. Rachini Rajapaksa 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.

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, The 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

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

LKR '000	Bank	Group
Audit Fees	10,170	11,368
Fees for Other Services	4,648	4,648
	14,818	16,017

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.

The retiring Auditors, Messrs Ernst & Young have expressed their willingness to be re-appointed and as such, the Board recommends an adoption of a resolution to re-appoint them as Auditors and authorize the Directors to fix their remuneration.

RESULTS AND DIVIDENDS

Consolidated Income Statement along with the Bank's Income Statement for the year is given on page 92 Statement of Financial Position of the Bank and the Group are given on page 91.

Having satisfied the solvency test requirement under the Companies Act No. 7 of 2007, the Directors have declared a first and final cash dividend of LKR 2.30 per share to holders of both Ordinary Voting shares and Ordinary Non Voting Convertible shares of the Bank registered in the Books of the Bank as at 6th March 2020.

INFORMATION ON SHARES AND DEBENTURES

Information relating to holdings of shares and debentures is given in pages 205 to 209 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 50 to the Financial Statements contained on page 198.

CAPITAL ADEQUACY

The Group's capital adequacy ratios as at 31 December, 2019 were 13.30% for Tier I and 17.96% for Tier I & II 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

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

Category of Related Party LKR '000	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	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Items in the Statement of Financial Position												
Assets												
Accommodation												
Loans and Advances	-	-	3,073	6,954	84,119	81,470	31,737	28,443	-	815,514	82,956	59,881
Credit Cards	-	-	2,278	2,844	10,385	7,641	2,184	1,876	260	-	187	4,100
Derivative Financial Assets	-	-	-	-	-	-	-	-	-	-	-	61,637
Other Assets	-	1,124	-	-	-	-	-	-	-	-	17,674	13,146
Letter of Credit/Guarantees	-	-	-	-	-	-	-	-	108,969	42,764	281,235	446,291
Undrawn Facilities	-	-	11,836	3,776	38,197	52,969	2,744	8,305	1,907,296	6,737	1,094,328	743,658
Total Accommodation	-	1,124	17,187	13,575	132,701	142,080	36,665	38,624	2,016,525	865,015	1,476,380	1,328,713
Less: Cash Collaterals against												
Total Accommodations	-	-	18,596	14,058	65,303	48,755	37,257	49,874	-	-	-	-
Total Net Accommodation	-	1,124	-	-	67,398	93,325	-	-	2,016,525	865,015	1,476,380	1,328,713
Total Net Accommodation % of												
Total Regulatory Capital	0.00%	0.00%	0.00%	0.00%	0.17%	0.29%	0.00%	0.00%	5.20%	2.69%	3.81%	4.14%
Liabilities												
Due to Customers	8,471	472,399	137,363	105,372	146,588	162,300	166,314	127,310	1,355,588	5,567,281	591,066	1,439,098
Borrowings & Others	846,219	102,348	-	-	-	1,504	-	-	3,438,788	2,559,503	1,260,414	352,252
Debt Issued	-	-	-	-	-	-	-	-	-	-	57,000	629,500
Other Liabilities	-	-	104	1	76	-	20	-	1,056	9,942	105,185	257,148
Derivative Financial Liabilities	-	-	-	-	-	-	-	-	-	-	-	721
Equity												
Dividends (Net)	-	-	251	1,102	60	110	14	14	370,592	379,572	-	-
Commitments												
Forward - Foreign Exchange Contracts	-	-	-	-	-	-	-	-	-	-	-	562,945
Items in statement of profit or loss												
Interest Income Earned	-	798	893	581	7,143	7,317	2,221	2,755	28,018	50,813	12,127	5,987
Interest Expenses Paid	58,701	39,051	10,050	8,085	12,448	15,246	15,474	9,909	248,313	659,844	49,316	161,371
Other Income Earned	7,620	8,046	703	511	574	378	495	120	1,932	5,741	261,672	141,890
Dividends Received (Gross)	-	290,529	-	-	-	-	-	-	-	-	-	-

ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE BANK

Category of Related Party LKR '000	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	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Share Repurchase	-	-	-	-	-	-	-	-	-	-	-	-
Expenses Paid	86,925	80,777	723	716	68	159	-	-	25,060	37,399	61,134	89,830
Compensation paid												
Short Term Employee Benefits	-	-	72,009	71,127	266,317	276,773	-	-	-	-	-	-
Post Employment Benefits	-	-	4,026	3,728	40,414	28,382	-	-	-	-	-	-
No. of Shares of the Bank acquired												
Voting	-	-	2,596	379,491	-	-	-	-	-	-	-	-
Non-Voting	-	-	203	145,371	-	-	-	-	-	-	-	-
No. of Shares of the Bank disposed	-	-	-	-	-	-	-	-	-	-	-	-

* 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.

Key Management Personnel (KMP) consists of the 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

Directorates of the Bank's subsidiary companies are as follows;

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

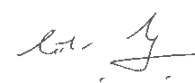
GOING CONCERN

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 6th Floor, CA Sri Lanka, 30A, Malalasekera Mawatha, Colombo 07, Sri Lanka on 31st March, 2020 at 10.00 a.m.

For and on behalf of the Board



Gihan Cooray
Chairman



Renuka Fernando
Director/Chief Executive Officer



Theja Silva
Company Secretary

Colombo
27th February, 2020

DIRECTORS' INTEREST IN CONTRACTS WITH THE BANK

The Bank Carried out transactions in the ordinary course of its business as commercial rates with the following Director related entities.
Details of the transaction carried out Director related entities during the year 2019

Name of the related party	Name of Director	Relationship	Details
Allied Properties Limited	Mr. Prasanna De Silva	Director	A sum of LKR 29,440,619.43 was paid as Interest Expense
	Mr. Suran Wijesinghe	Director	A sum of LKR 86,924,508.00 was paid as Rent Expenses
	Ms. Renuka Fernando	Director	
Asian Hotels & Properties PLC	Mr. Gihan Cooray	Director	A sum of LKR 31,139,523.00 was paid as Interest Expense
			A sum of LKR 550.00 was received as Other Income
			A sum of LKR 6,546,760.92 was paid as Other Expenses
Central Finance Company PLC	Mr. Prasanna De Silva	Director	A sum of LKR 28,018,387.00 was received as Interest Income
	Mr. Arjun Rishya Fernando		A sum of LKR 205,668,874.82 was paid as Interest Expense
			A sum of LKR 1,604,833.36 was received as Other Income
			A sum of LKR 25,059,957.00 was paid as Other Expenses
Ceylon Cold Stores PLC	Mr. Gihan Cooray	Director	A sum of LKR 193,464.00 was paid as Interest Expense
			A sum of LKR 154,990.37 was received as Other Income
CF Growth Fund Limited	Mr. Prasanna De Silva	Director	A sum of LKR 27,104,592.90 as Dividend
CF Insurance Brokers (Pvt) Ltd.	Mr. Prasanna De Silva	Director	A sum of LKR 147,351.15 was received as Other Income
			A sum of LKR 27,289,558.01 as Dividend
Gymara Fernando Trust	Ms. Renuka Fernando	Director	A sum of LKR 2,155,863.06 was paid as Interest Expense
Hedqes Court Res. (Pvt) Ltd.	Mr. Prasanna De Silva	Director	A sum of LKR 564,901.00 was paid as Interest Expense
			A sum of LKR 5,000.00 was received as Other Income
Jaykay Marketing Services (Private) Limited	Mr. Gihan Cooray	Director	A sum of LKR 88,150.00 was received as Interest Income
			A sum of LKR 1,559,429.00 was paid as Interest Expense
			A sum of LKR 104,575.00 was received as Other Income
			A sum of LKR 26,071,968.32 was paid as Other Expenses
John Keells Holdings PLC	Mr. Gihan Cooray	Director	A sum of LKR 42,644,464.00 was paid as Interest Expense
			A sum of LKR 33,784.50 was received as Other Income
			A sum of LKR 120,836,766.45 as Dividend
John Keells Hotels PLC	Mr. Gihan Cooray	Director	A sum of LKR 1,150 was received as Other Income
John Keells PLC	Mr. Gihan Cooray	Director	A sum of LKR 282,325.00 was paid as Interest Expense
			A sum of LKR 9,050.00 was received as Other Income
John Keells Stock Brokers (Pvt) Ltd.	Ms. Sherin Cader	Director	A sum of LKR 77,773.97 was received as Interest Expense
			A sum of LKR 258,625.00 was paid as Other Income
Keells Food Products PLC	Mr. Gihan Cooray	Director	A sum of LKR 5,050.00 was received as Other Income
Nations Insurance Brokers Limited	Ms. Rachini Rajapaksa	Director	A sum of LKR 20,851,175.19 was paid as Interest Expense
	Ms. Renuka Fernando	Director	A sum of LKR 6,985,236.00 was received as Other Income
Rajawella Holdings Limited	Mr. Gihan Cooray	Director	A sum of LKR 1,455,457.00 was received as Interest Income
			A sum of LKR 320,911.00 was paid as Interest Expense
			A sum of LKR 272,350.81 was received as Other Income
Trans Asia Hotels PLC	Mr. Gihan Cooray	Director	A sum of LKR 5,750.00 was received as Other Income
			A sum of LKR 211,292.16 was received as Other Expense
Waldock Mackenzie Limited	Mr. Prasanna De Silva	Director	A sum of LKR 8,409,629.28 was paid as Interest Expense
	Mr. Suran Wijesinghe	Director	A sum of LKR 634,826.56 was received as Other Income
	Ms. Renuka Fernando	Director	
Walkers Tours Limited	Mr. Gihan Cooray	Director	A sum of LKR 983,994.00 was paid as Interest Expense
			A sum of LKR 189,534.56 was received as Other Income
			A sum of LKR 306,666.66 was paid as Other Expense

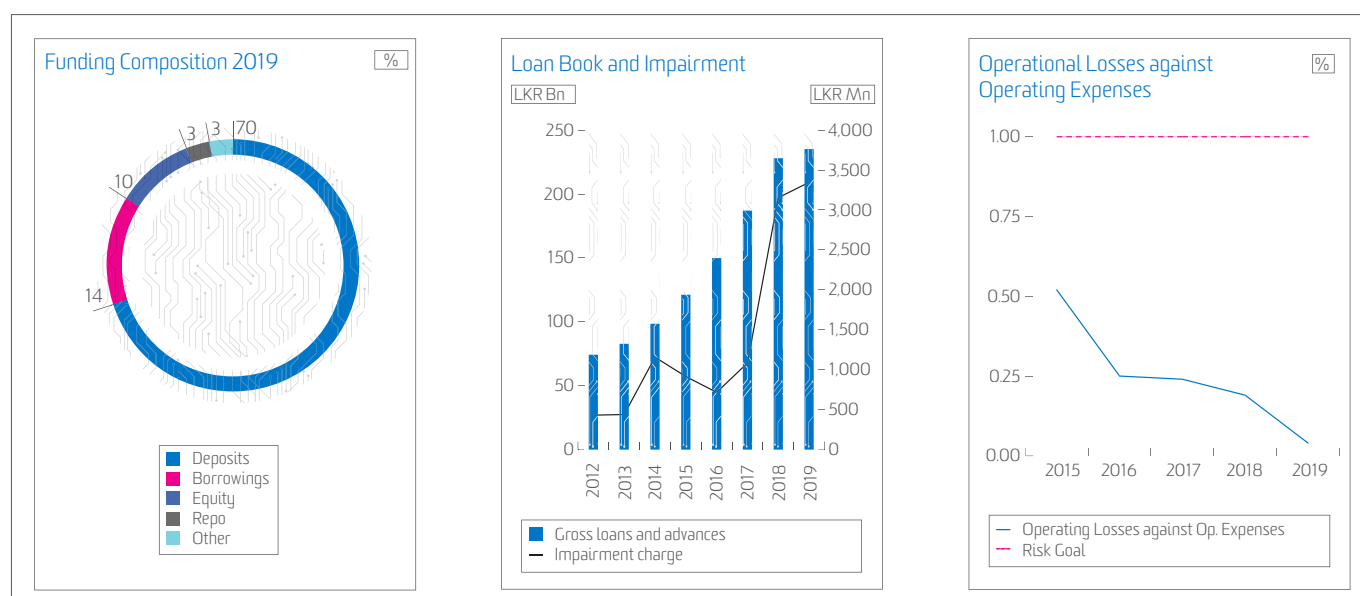
Details of accommodation granted and balances outstanding as at 31 December 2019

Name of the related party	Name of Director	Relationship	Accommodation Granted	Limit - LKR	Outstanding as at 31 December 2019
Rajawella Holdings Limited	Mr. Gihan Cooray	Director	Working Capital Financing	53,000,000	27,110,261
Central Finance Company PLC	Mr. Prasanna De Silva	Director	Working Capital Financing (Bank Guarantee-Off Balance Sheet)	2,000,000,000	108,969,003

RISK MANAGEMENT REVIEW

At Nations Trust Bank, the sustainable creation of stakeholder value is underpinned by a 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 changes 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.



(A) LINKING BUSINESS STRATEGY TO RISK MANAGEMENT

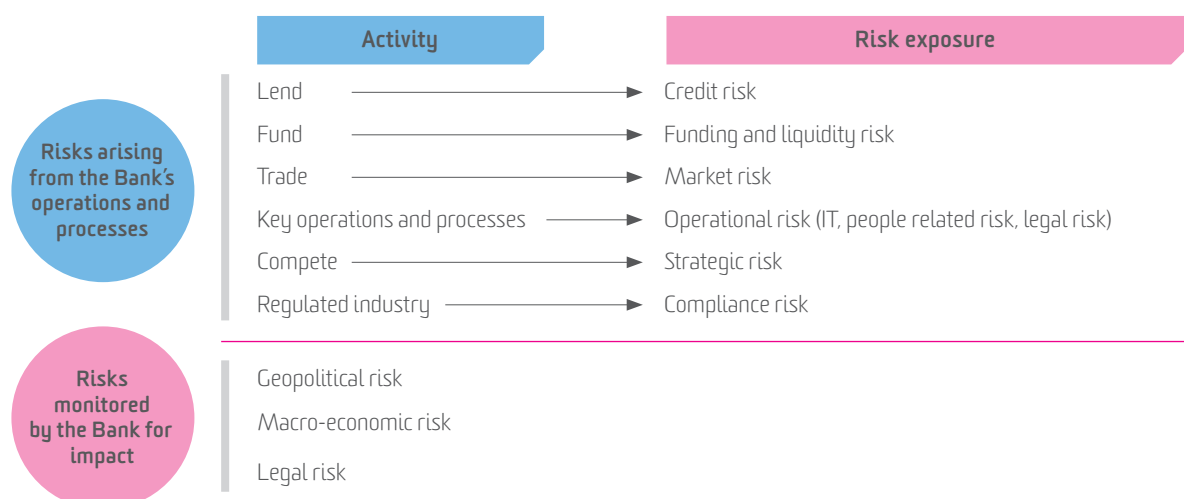
At Nations Trust Bank, risk management is embedded into strategic planning including projects and all daily operations. In addition to regulatory requirements, our risk management framework embraces globally accepted best practices in identifying, assessing, measuring

and managing the key risks faced, including the critical interdependencies between the risks.

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;



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 characterised as the risk appetite.

- 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.

(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.

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 maximise 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.
- 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 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 optimise our risk profile
- Establish an IRM feedback loop and provide effective reporting to the Board and Senior Management

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:

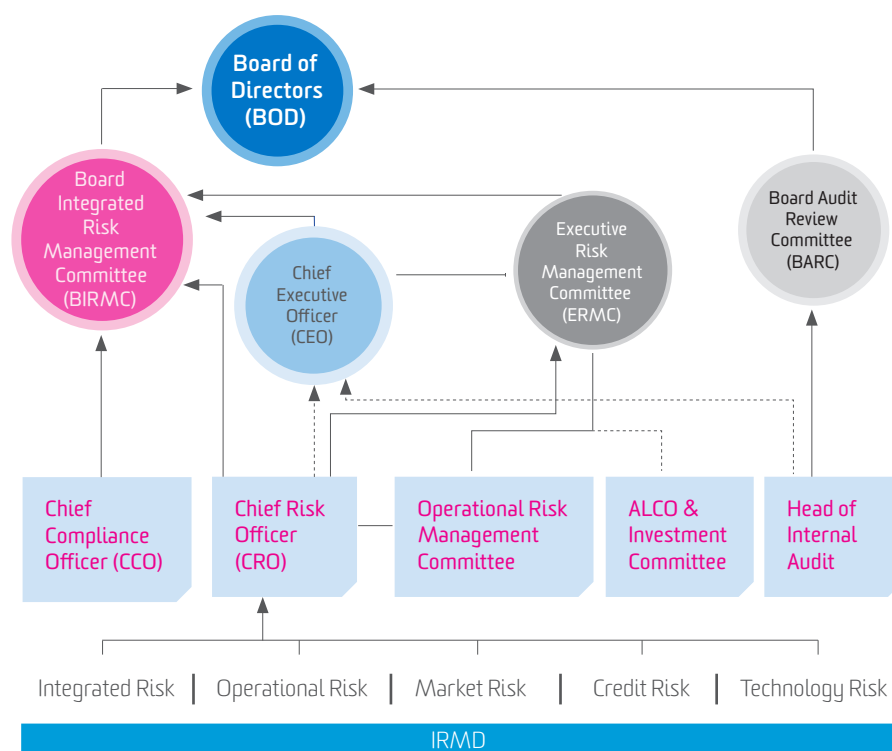
RISK MANAGEMENT REVIEW

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 End 2019	Limit/Range for 2019	Limit/Range for 2018
Credit Risk			
Impairment Ratio	3.22%	2.5% - 3.5%	1.5% - 2.25%
Market Risk			
Sensitivity of the Trading portfolio against interest rate fluctuations	0.24%	Below 2%	Below 2%
Operational Risk			
Operational Losses to Operating Expenses Ratio	0.04%	1%	<1%

(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 policies 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.



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 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 review and approve the Asset and Liability Management (ALM) and Liquidity Management Policy of the Bank, periodic review of the contingency funding plan and deposit pricing strategy to ensure sustainable funding for the balance sheet while ensuring correct pricing of the Bank's asset book to ensure that the target NIM is achieved.

IT Steering Committee (ITSC)

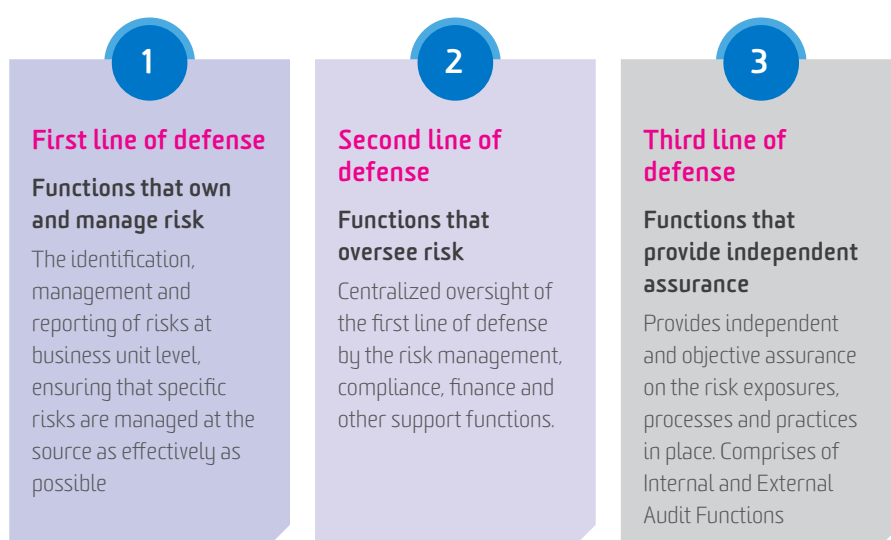
In addition to implementing the Bank's digital strategy, the Committee is responsible for ensuring that mechanisms are in place to effectively monitor and manage the Bank's IT projects, systems and information security. Committee membership is held by the CEO, CIO, and business line heads, COO, CFO and 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 Operation, 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 ERM and subsequently to BIRMC if required.

Three lines of Defense Model

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



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 Awareness Culture	Risk Measurement	Risk Monitoring	Risk Management
Nurtures an organization wide risk awareness 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 includes the Risk and Control Self-Assessment (RCSA) Process and Transaction In

RISK MANAGEMENT REVIEW

Difficulty (TID)/Operation Loss Events (OLE) reporting has 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	
Credit Risk	Probability of Default (PD), Loss Given Default (LGD) and Exposure At Default (EAD), Trends and Sector Concentration, NPL Ratios, Early Warning 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 and 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 and Stress testing/Key Risk Indicators
Reputational Risk	Customer Feedback/Complaints, Positive/Negative Publicity through Qualitative Scorecard Approach
Strategic Risk	Bank's Financial Performance/Peer Performance and Strategic Initiatives through Qualitative Scorecard Approach
Technology Risk	Vulnerability Assessments, Security Reviews and Key Risk Indicators

(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 and is 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/ageing and 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/ageing and Trend Analysis, Analysis of Impairment Assessment.
		Early Warning Signals Summary	Analysis of Early Warnings/Exposures
		Watch Lists	Management Watch List Customer Updates

Risk Exposure	Reporting line	Risk Reporting	Content
Market Risk	Board of Directors	Exception Report	Breaches of FX Net Open Position Limits, Stop Loss Limits, Counterparty Limits and Other Market Risk limits
		FIS Performance	Fixed Income Government Security, Mark to Market Movement and Performance
		USD and Other Currency Investments Report	Performance on Investment in Foreign Currency Securities and Corporate Debt Securities
		Market Risk Dash-board	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	Stress Testing based on Historical Market Rate Movements , as well as Forward Views of Market Expectations
	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, Net Stable funding 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
		Quarterly Stress Testing	Scenarios based on historical events from internal and external loss data
	Management/ Management Sub Committees	Monthly Operational Risk Management Report	Operational Risk - Risk Appetite, Detailed Analysis of Operational Losses
Technology Risk	Board of Directors	Technology Risk Dashboard	Priority 1 and 2 Information Security Incidents, Critical System Downtimes, Information Security Vulnerability Remediation Progress, etc.

(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.

Credit Risk	▶ Deterioration in asset quality increase in large NPLs shifts in NPL categories	Potential impact on, <ul style="list-style-type: none"> ▪ Earnings ▪ Capital adequacy ▪ Funding capability/liquidity
Interest Rate Risk	▶ Movements in interest rate by +/- 100 bps and 200 bps	
Foreign Exchange Risk	▶ Forex risk on net open position	
Liquidity Risk	▶ Funding capability of a cash outflow in a liquidity stress scenario - up to 1 month	
Operational Risk	▶ Scenarios based on historical events from internal and external loss data	

RISK MANAGEMENT REVIEW

(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.

- **Risk Scoring**

Tailor-made risk scorecards which adopt advanced statistical data analytics are utilised when underwriting consumer credit facilities 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 corporate, 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 programmes.

Areas of focus in 2019

- **Strengthened pre-credit sanctioning and collections:** Proactively providing independent assessments for approvals while increasing vigilance on certain high risk sectors. Focused collection efforts and restructuring to revive stressed facilities.
- **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 improvements:** Introduced analytical and statistical mechanisms to strengthen the impairment assessment methodology in line with the requirements of SLFRS 9. In addition portfolios were further stratified into homogenous sub portfolios to better reflect risk profiles.
- **Training:** Employee training on credit appraisal, risk acceptance and overall awareness on credit risk. Focused knowledge sharing on how expected credit loss models should be aligned with credit value chain.

Credit Risk Performance in 2019

Operating Context: The Bank increased 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 counterparties.

Meanwhile, economic shocks due to Easter Sunday attacks, the weaker agriculture sector performance, sluggish economy and global developments affected the working capital and cash cycles of the trading, manufacturing and construction sectors leading to an increase in NPLs from the SME portfolio. Deterioration was evident in the consumer portfolios as well. The Bank continued to realign its loan portfolio towards segments with lower sensitivity to economic slowdown in order to better manage its credit risk.

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

Pre-credit sanctioning

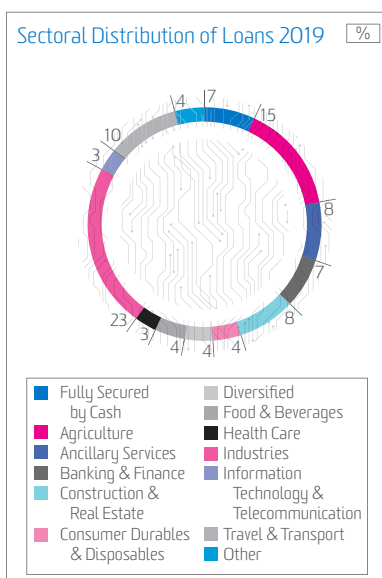
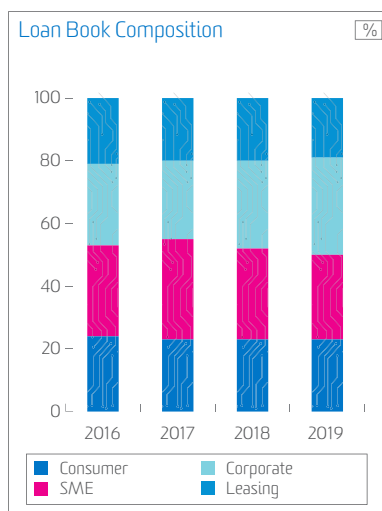
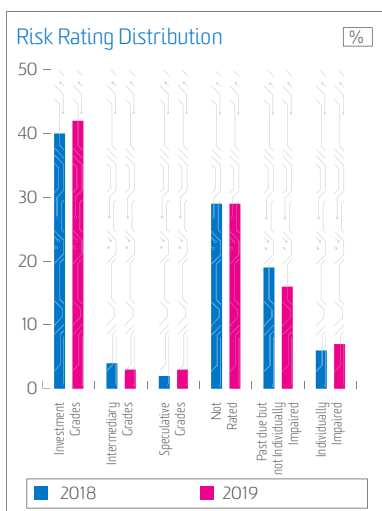
- Multiple levels of approval authority
- Sophisticated risk rating and scoring system
- Prudential limits for concentration risk
- Structured and comprehensive credit appraisal and defined credit criteria

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



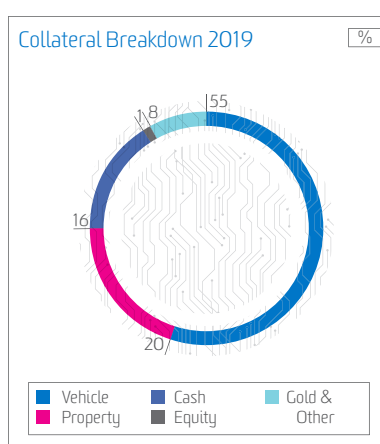
CONCENTRATION RISK

Concentration risk is measured through the Normalised (Herfindahl-Hirschman Index HHI) and is computed as part of the Bank's ICAAP process in which concentration related to different industrial sectors of the economy, different customer segments, product types and maturity patterns are monitored. Moderate 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.

Further details on portfolio status and impairment reserves as at 31.12.2019 are available on page 210.

3-Large exposures

Large exposures	% of total portfolio (Cumulative)
Top 5	5.72%
Top 10	8.75%
Top 20	13.10%
Other	86.90%



Further details of exposures subject to credit risk by major types, geographical areas, sectors and residual maturity are available in Notes, 13, 45 and 47 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 are 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)

Please refer page 211 for Composition of trading and non trading book.

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 limits relating to foreign exchange, interests rates and counterparties.

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 risk is managed

RISK MANAGEMENT REVIEW

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.

Refer Page 212 for Net Open Position of Foreign Currency Denominated Assets and Liabilities of Domestic Banking Units (in millions of respective currency).

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 risk arises 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 risk primarily through asset liability repricing gap analysis, 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.

Refer page 214 for Interest Rate Sensitivity Gap Analysis (in millions of respective currency).

The ALCO regularly monitors trends in market interest rates, as well as results of interest rate stress testing analysis.

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). Bank has a comprehensive risk management process in place that effectively identifies, measures, monitors and controls the IRRBB exposures, and that is subject to appropriate board and senior management oversight.

Refer Page 214 for Interest Rate Sensitivity gap analysis (in millions of respective currency).

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.

Liquidity indicators were maintained comfortably within regulatory minimums and the limits defined by the Risk Appetite statement. Refer page 215.

Listed below 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

IX. Liquidity Simulations: Stress Testing and Scenario Analysis

X. Other Liquidity Stock Ratios

Refer page 213 for Maturity Gaps in Major Currencies (in millions of respective currency)

Sound and 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, Market 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. As and when emerging risk are identified, policies are reviewed and updated accordingly.

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, PVBP 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 and 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 2019

New Policies, Revision of Policies and procedures

A detailed policy on classification of Treasury Products based on SLFRS guidelines was formulated. The Bank's Investment Management Policy have been revised to facilitate the emerging requirement of the market activities.

The Stress Testing Policy has been revised in line with regulatory guidelines and global best practices with historical risk measurement tools (e.g VaR) and forward-looking measures (e.g expectations of market participants)

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 emphasises 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 materialises. 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 the 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.

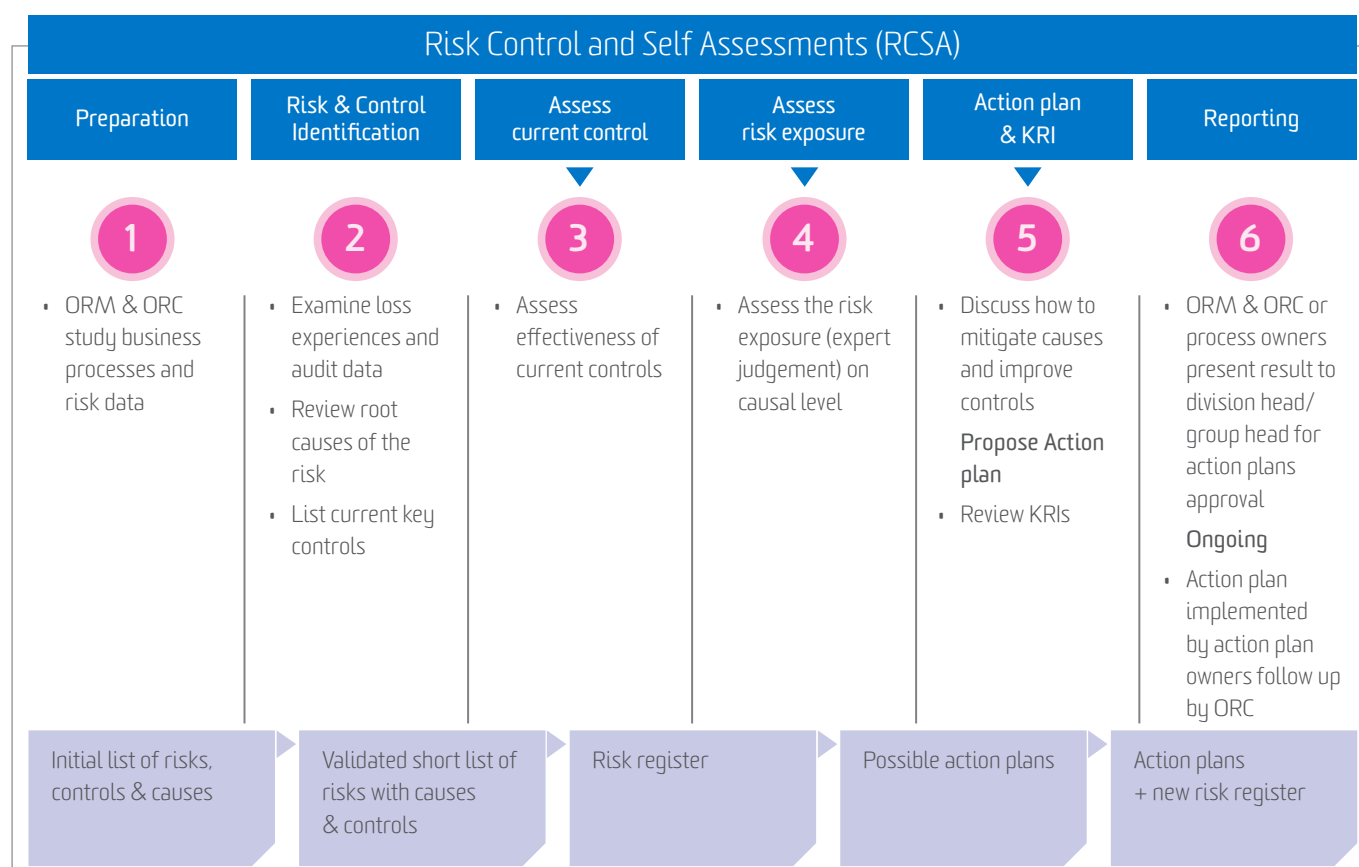
The Key Risk Indicators (KRIs) being implemented will ensure that early indicators of risks are given due recognition and appropriate action is taken to reduce possible losses arising from such risks.

▪ 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



RISK MANAGEMENT REVIEW

capture all operational loss events including near misses, which are then categorised as specified in a BASEL document in order to use them for future modelling activities. The loss events are linked to the RCSA & KRI Programme to ensure that repeat errors are minimised.

• Outsourced services

The Bank outsources some of its non-critical activities including cash transportation, labour 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. These activities provide an assurance on the ability of service provider to maintain required levels of service at all times.

Areas of focus in 2019

- **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 40 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 0.04% in 2019
- **Increased Employee Engagement And Awareness on 'Operational Risk':** Information related to operational risk continued to be shared through operational risk updates for all employees. This has enabled the prompt sharing of knowledge, notifications of operational risk incidents and nurturing a risk culture across the Bank. Operational risk training programmes 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 2019

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 2019.

INFORMATION SECURITY (IS) AND GOVERNANCE FUNCTION

The information technology risk, including constantly shifting nature of cyber-risks has evolved with the Bank's digital journey where the bank continues to institutionalise capabilities to mitigate such threats while building resilience.

There are multiple initiatives underway to strengthen existing infrastructure on system capabilities, data management and internal controls led by the Bank's information security unit.

The technology risk management function established under CRO provides insights and feedbacks for cyber risk resilience and continuous improvement of information security over operations, changes in infrastructure and new projects while ensuring compliance for regulatory requirements across the bank.

Identification and Risk Assessments

Review the adequacy and effectiveness of the identification, analysis, management, monitoring and reporting of Information Technology risks, ensuring that management establishes, appraises and addresses the risks to the Bank, sufficiently and swiftly.

Independent assessment of existing programmes, procedures and controls in place to manage key risks.

Maintain oversight over technology risks on an ongoing basis through KRIs (Key Risk Indicators) and an independent risk register.

Areas of Focus in 2019

Independent risk assessments were specifically focused on cyber, network, infrastructure, projects and regulatory requirements during 2019.

Reporting

Monitor actual risk profiles, advising on appropriate actions and regular reporting to the Management and Board-Integrated Risk Management Committee of its activities, findings, decisions, deliberations and recommendations.

		NTB 2019	
		Value in Million	%
BASEL II LOSS EVENT TYPE CATEGORY	Internal Fraud	-	-
	External Fraud	2.24	44%
	Employment Practices and Workplace Safety	0.04	1%
	Clients Products and Business Practices	1.30	25%
	Damage to Physical Assets	-	-
	Business Disruption and System Failure	0.24	5%
	Execution Delivery & Process Management	1.24	25%
	Total Operating Losses	5.06	100%

Provide insights and feedback for cyber risk resilience and continuous improvement of information security to the Information Security Committee (established during 2019) as the apex management level body of information security management.

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 organizational 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 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 its 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 - Standardised Approach
- Market risk - Standardised 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.

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 assesses 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 three to four years. The amount of dividend distributions and mode of payment through cash and scrip dividend are decided based on this future capital requirements of the Bank.

Capital allocation: Capital is allocated to business lines based on Risk Adjusted Return on Capital (RAROC) targets in order to optimise 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 a three to four-year period which is updated during the annual budgeting cycle and approved by the Board of Directors.

Component of Capital	01.01.2018	01.01.2019
Bank Assets Less than LKR 500 billion		
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%
Bank with Assets LKR 500 billion and above		
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%

RISK MANAGEMENT REVIEW

Key highlights for the year:

1. Total Group capital ratio under Basel III Pillar I risks is 17.96% as at 31.12.2019 (15.59% 31.12.2018). The total capital ratio including Pillar II risks is currently being assessed.
2. The Bank raised LKR 4.5 billion Basel III complaint tier 2 capital in December 2019.

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 the banking industry to the next level. BASEL III continued to follow a three-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.

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 1 216
	2	Basel III Computation of Capital Ratios	Table 2 217
	3	Basel III Computation of Leverage Ratio	Table 3 218
	4	Basel III Computation of Liquidity Coverage Ratio (All currency)	Table 4 219
	5	Main Features of Regulatory Capital Instruments	Table 5 220
Risk Weighted Assets	6	Summary discussion on adequacy/meeting current and future capital requirements	Capital Management Section of this review 73-74
	7	Credit Risk under Standardised Approach: Credit Risk Exposures and Credit Risk Mitigation (CRM) Effects	Table 6 222
	8	Credit Risk under Standardised Approach: Exposures by Asset Classes and Risk Weights	Table 7 224
	9	Market Risk under Standardised Measurement Method	Table 8 226
	10	Operational Risk under Basic Indicator Approach/The Standardised Approach/The Alternative Standardised Approach	Table 9 226
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 10 228
	12	Explanations of differences between accounting and regulatory exposure amounts	Table 10 228
Risk Management	13	Bank Risk Management Approach	Risk Management review is outlined in Sections (a) to (h) in this Review 62-74
	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, 2019 was as follows;

Mr. Suran Wijesinghe
- Chairman (Non-Executive Director)

Ms. Rachini Rajapaksa
(Independent Non-Executive Director)

Ms. Sherin Cader
(Non-Executive Director)

Mr. Arjun Fernando
(Non-Executive Director)¹

¹ Appointed with effect from 18th January 2019

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. Priyantha Talwatte
- Deputy Chief Executive Officer

Mr. Ajith Akmeemana
- Chief Financial 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. Sajith Sameera
- 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:

- Setting up of risk appetite limits and periodic monitoring of risk reports
- Reviewing the overall stress testing framework and monitoring the results of such tests
- Reviewing the Bank risk grid taking into consideration material changes in the Bank's risk profile and the external environment and providing necessary guidance and recommendations
- 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
- Monitoring the effectiveness of Management committees overseeing broad areas of risk management

- Periodically reviewing the Internal Capital Adequacy Assessment Process (ICAAP) and the resultant report
- Approving annual compliance plan and reviewing periodic compliance reports
- Setting objectives and carrying out performance appraisal of Chief Risk Officer & Chief Compliance Officer

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 eight (08) meetings during the year under review and the Directors' attendance at such meetings is given on page 56 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 2020
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 2019 was as follows;

Mr. Gihan Cooray
- Chairman (Non-Executive Director)

Mr. Prasanna De Silva
(Non-Executive Director)

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

Mr. Chanaka Wickramasuriya
(Independent Non-Executive Director)

The Committee held twelve meetings during the year under review and the Directors' attendance at such meetings is given on page 56 of this Annual Report. The Committee also approves credit proposals by circulation.

The mandate of the Board Credit Committee includes the following;

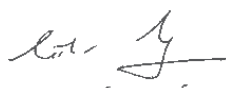
- Approve/Decline all credit facilities above the level of authority granted to 'Head Office Credit Committee' by the Board of Directors. BCC will constitute the final credit approval authority of the bank having been vested with the full powers to approve /decline credit by the Board of Directors.
- Approve/Decline Interest Waivers and Principal Write-offs in order to facilitate settlement of bad debts or to rehabilitate/restructure bad debts.
- Review the quality of the credit portfolio of the bank including Top 20 Exposures, Watch-listed Customers etc.
- Review, provide input and make recommendations on credit origination, appraisal, approval and administration processes/procedures.
- Any other matter referred by the Board of Directors.

In addition to the regular duties of the Board Credit Committee,

- Special guidance and knowledge sharing was provided to the management to fulfil their initiative in growing the bank's offshore banking book including loan syndication.
- The members of the Board Credit Committee oversaw and provided guidance for the special recovery initiative launched by the bank.

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 2020
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 as at 31st December, 2019 was as follows;

Mr. Suran Wijesinghe
- Chairman (Non-Executive Director)

Mr. Prasanna De Silva
(Non-Executive Director)

Mr. Savanth Sebastian
(Independent Non-Executive Director)

Ms. Sherin Cader
(Non-Executive Director)

Mr. Arjun Fernando
(Non-Executive Director)
Appointed with effect from 1st August 2019.

Mr. Murtaza Jafferjee, Non Executive Director/Senior Director who was a member of the Board Supervisory Committee retired from the Board with effect from 15th December 2019.

The Company Secretary functions as the Secretary to the Committee.

The Committee meets monthly in advance of the Board meeting and the 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 twelve meetings during the year under review and the Directors' attendance at such meetings is given on page 56 of this Annual Report.

TERMS OF REFERENCE

The mandate of the BSC includes the following;

- 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.
- Approving expenditure within limits delegated by the Board of Directors.
- 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.
- 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.
- 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 2020
Colombo

BOARD NOMINATION COMMITTEE REPORT

The members of the Nomination Committee are appointed by the Board of Directors and the Committee's composition as at 31st December, 2019 was as follows;

Mr. Conrad D'Souza
- Chairman (Independent Non-Executive Director/Senior Director)
Appointed with effect from 23rd December 2019

Mr. Gihan Cooray
(Non-Executive Director)

Mr. Prasanna De Silva
(Non-Executive Director)

Mr. Chanaka Wickramasuriya
(Independent Non-Executive Director)
Appointed with effect from 23rd December 2019

Mr. Murtaza Jafferjee, Non Executive Director/Senior Director who was the Chairman of the Committee retired from the Board with effect from 15th December 2019.

The Company Secretary functions as the Secretary to the Committee.

The Committee held one meeting during the year under review and the Directors' attendance at such meeting is given on page 56 of this Annual Report.

During the year under review the Committee reviewed and approved the process to select/recruit the Chief Executive Officer and Key Management Personnel. Committee also considered the appointments of Chief Information Officer, Chief Internal Auditor and Chief Marketing Officer and determined that they are fit and proper persons to hold such offices. Affidavits and declarations by the continuing Directors were considered by the Committee and recommended them as fit and proper persons to hold directorships of the Bank.

The proceedings of the meeting were reported to the Board.

The Committee's main responsibilities include the following:

- 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.
- 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.
- 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.
- 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.



Conrad D'Souza
Chairman
Board Nomination Committee

27th February 2020

HUMAN RESOURCES AND REMUNERATION COMMITTEE REPORT

The Human Resources and Remuneration Committee (HRRC) comprised of the following Directors.

Mr. Gihan Cooray-Chairman
(Non-Executive Director)

Mr. Suran Wijesinghe
(Non-Executive Director)

Mr. Prasanna De Silva
(Non-Executive Director)

Mr Murtaza Jafferjee, Non-Executive Director/Senior Director who was a member of the Committee retired from the Board with effect from 15th December 2019.

During the year under review one HRRC meeting was held. 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 workings of the Committee are governed by the Remuneration Committee Charter, the objectives of which are:

- To assist the Board of Directors in the establishment of remuneration policies and practices.
- 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.
- To set goals and targets for the CEO and other Key Management Personnel.
- To evaluate the performance of the CEO and other Key Management Personnel against the set goals and targets.

In performing this role, the Committee ensures that:

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

In keeping with the objectives of the Charter, the Committee during 2019, placed great emphasis in ensuring that the Compensation & Benefits policies of the Bank 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 and long term strategic objectives of the Bank.

In March 2019 at the HRRC meeting, a review of the Bank's Compensation and Benefits structure was presented to the Committee along with a comparison to the industry and the recommended changes were approved by the Committee.

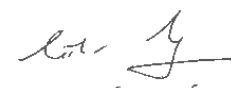
In creating a performance driven culture, the Bank administers a variable bonus scheme linked to the Bank's performance for the year vis-à-vis the annual budget and the performance of a peer group of banks. Individuals are rewarded based on their individual performance and responsibility levels.

During the latter half of 2018, 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 2019. The bank also identified critical skills & critical roles to meet the future strategic objectives powered through technology, digitalisation and data analytics.

During 2019, the Committee also evaluated the 2018 performance of the CEO and other Key Management Personnel of the Bank against their pre-agreed objectives and targets and approved the goals and objectives of CEO & KMP for the year 2019.

The Committee held one meeting during the year under review and the Directors' attendance is given on page 56 of this Annual Report



Gihan Cooray
Chairman
Human Resources and Remuneration
Committee

27th February 2020
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 as at 31st December, 2019 was as follows;

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

Ms. Renuka Fernando
(Executive Director)

Mr Chanaka Wickramasuriya
(Independent Non-Executive Director)
Appointed with effect from 23rd December 2019

Mr Murtaza Jafferjee, Non-Executive Director/Senior Director who was a member of the Committee retired from the Board with effect from 15th December 2019.

Company Secretary functions as the Secretary to the Committee.

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 56 of this Annual Report.

The Committee's main responsibilities include the following:

- 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.

- Ensuring that a robust framework exists for approving, managing and reporting related party transactions in accordance with applicable rules.
- 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 related party transactions remains appropriate.

The Committee regularly reviewed the mechanism/process for recording, monitoring and reporting related party transactions and provided necessary guidance and advice to ensure the effectiveness of the process.



Russell De Mel
Chairman
Related Party Transactions Review Committee

Colombo
27th February 2020

DIRECTORS' STATEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

RESPONSIBILITY

In line with the Banking Act Direction No. 11 of 2007, section 3 (B) (ii) (b), the Board of Directors presents 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 frauds.

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 checks 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 84.

- 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, 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 necessitates the accounting for impairment of financial assets on the basis of expected credit loss from an incurred credit loss model in previously adopted LKAS 39. The Bank is progressively improving the required policies, procedures, financial models and underlying data used in its impairment assessments and related calculations.

The Board will continuously take steps to strengthen the processes and controls around management information systems and reports required for validating and complying with SLFRS 9.

DIRECTORS' STATEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

- SLFRS 16 replaced Sri Lanka Accounting Standard – LKAS 17 (Leases) and related interpretations. SLFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on – balance sheet model similar to the accounting for finance leases under LKAS 17.

The Bank adopted SLFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. The Bank, being the lessee is required to 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) at the commencement date of the lease. Furthermore, the Bank, is required to separately recognize the interest expense on the lease liability and depreciation expense on the right-of-use asset.

Lessor accounting under SLFRS 16 is substantially unchanged from LKAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in LKAS 17. Therefore, SLFRS 16 did not have an impact for leases where the Bank is the lessor.

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 2019 and reported to the Board that nothing has come to their attention that causes them to believe that the statement is inconsistent with their understanding of the process adopted by the Board in the review of the design and effectiveness of the internal control over financial reporting of the Bank. External Auditors' report on statement of internal controls over financial reporting is given on page 83 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 2020
Colombo

AUDITOR'S STATEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING



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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 2019.

MANAGEMENT'S RESPONSIBILITY

Management is responsible for the preparation and presentation of the Statement in accordance with the "Guidance for Directors of Banks on the Directors' Statement on Internal Control" issued in compliance with section 3(8)(ii)(b) of the Banking Act Direction No. 11 of 2007, by the Institute of Chartered Accountants of Sri Lanka.

OUR INDEPENDENCE AND QUALITY CONTROL

We have complied with the independence and other ethical requirement of the Code of Ethics for Professional Accountants issued by the Institute of Chartered Accountants of Sri Lanka, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

The firm applies Sri Lanka Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical

requirements, professional standards and applicable legal and regulatory requirements.

OUR RESPONSIBILITIES AND COMPLIANCE WITH SLSAE 3050 (REVISED)

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

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

This Standard required that we plan and perform procedures to obtain limited assurance about whether Management has prepared, in all material respects, the Statement on Internal Control 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 2020
Colombo

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

A member firm of Ernst & Young Global Limited

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 31st December 2019 was as follows;

Ms. Rachini Rajapaksa
- Chairperson (Independent Non-Executive Director)

Mr. Suran Wijesinghe
(Non-Executive Director)

Mr. Savanth Sebastian
(Independent Non-Executive Director)

Ms. Sherin Cader
(Non-Executive Director)

Mr. Arjun Fernando
(Non-Executive Director)¹

¹ Appointed as a member with effect from 18th January 2019

Brief profiles of the BARC members are given on pages 12 to 15 of the Annual Report.

Head of Internal Audit reports directly to the Chairperson of the BARC as a best practice that strengthens the independence of the position and acts as the secretary to the BARC. Mr. Nanda Bandara, Executive Vice President - Internal Audit held the position of Head of Internal Audit during the year under review. Upon his retirement effective end December 2019, Ms. Kushlani Allis, Senior Vice President- Internal Audit succeeded him assuming duties as the current Head of Internal Audit.

MEETINGS

The BARC met on 14 occasions during the year under review and the Directors' attendance at such meetings are given on page 56 of this Annual Report.

The minutes of BARC meetings are regularly tabled at Board meetings to enable all Board members to have access to meeting proceedings.

Chief Executive Officer and Corporate / 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 for approval.

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 29th 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 fulfilling its general oversight responsibilities on financial reporting process, internal controls and functions relating to internal and external audit.

ROLE AND RESPONSIBILITIES

The Committee is mainly responsible for;

- i. Reviewing financial information of the Bank in order to monitor the integrity of the Bank's financial statements prepared for disclosure and significant financial reporting judgements contained therein, prior to submission to the Board of Directors.
- ii. Making recommendations on 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 of non-audit services provided by the external auditors.

- iii. Discussing and agreeing with the external auditors the nature and scope of the audit including the preparation of financial statements in accordance with relevant accounting principles and their compliance with the applicable statutes, regulations and accounting standards.
- iv. Reviewing the effectiveness of the Bank's system of internal controls
- v. Ensuring the independence of the Internal Audit function and that it is performed with impartiality, proficiency and due professional care.
- vi. Reviewing internal audit reports and liaising with Corporate Management of the Bank in taking precautionary measures to minimise control weaknesses, procedure violations, frauds and errors
- vii. Reviewing Audit Completion Letter (External Audit Management Letter) and CBSL onsite examination reports and follow up to ensure proper remedial action is being taken to address their findings and recommendations.

ACTIVITIES DURING THE YEAR

Following are some of the activities performed by the BARC during 2019:

Financial Reporting

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

- a) The underlying assumptions for estimates and judgments
- b) Any changes made in accounting policies and practices
- c) Significant adjustments arising from the annual audit
- d) Disclosures made under financial reporting

- e) Compliance with Sri Lanka accounting standards (SLFRS / LKAS) and other regulatory provisions
- f) 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 and in making an overall assessment on the integrity of the financial reporting system, the BARC considered reports from Chief Financial Officer, Chief Risk Officer, Chief Credit Officer, Internal Audit Department and Audit Completion Letter issued by the External Auditor.

The BARC has taken into consideration the requirements of the SLFRS 16 – Leases which is effective from 1st January 2019 and reviewed the accounting adjustments and its impact on financial statements.

The Committee regularly reviewed the refinements made on the implementation of SLFRS 9 during 2019. Few key areas of review were:

- Deferment of consumer write off point after assessing internal & external data
- Stratification of SME portfolio and have separate LGD ratios for Secured & Unsecured exposures
- Consideration of market values instead of FSV for individual impairment

Internal Audit

The risk and significance based audit plan covering all significant operational areas and mandatory regulatory audits which included branches, departments and special reviews for 2019 was approved at the beginning of the year by the BARC. The committee periodically reviewed the progress of the Internal Audit plan.

The BARC provides a forum for review of Internal Audit Reports including the evaluation of the Bank's Internal Control Systems,

audit observations, recommendations and corrective action to be taken to mitigate recurrence of identified issues. The issues identified during the year were discussed and deliberated with the Management with a broad view of managing significant business risks and strengthening the control gaps. The department/unit heads attended the meetings when their respective audit reports were discussed. A follow up process is implemented by the Internal Audit and monitored by the BARC periodically to ensure pending significant issues are rectified by the Management.

The BARC reviewed the significant findings of internal investigations carried out during the year and ensured appropriate action were taken and mitigating controls were implemented.

During the year, as a measure of providing independent assurance over the impairment process the Internal Audit Department evaluated the effectiveness of the credit risk assessment, measurement systems and processes to ensure the acceptability of credit judgements performed by the management. Credit risk assessment models, inputs and assumptions were also validated to obtain further comfort on the adequacy of the impairment provisions made in the financial statements.

The BARC appointed an outsourced service provider to evaluate the effectiveness of the internal controls in the Finacle Core Banking System. This initiative is expected to be completed in the early part of 2020.

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, reviewed by 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 Heads of the units on the remedial action taken in order to maintain the effectiveness of internal controls. Any significant non-compliance was 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 Department performed verifications to ensure compliance to applicable regulatory requirements during their process audits ensuring that systems and procedures are in place to enable adherence to such requirements.

EXTERNAL AUDIT

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

- (1) In the engagement and determining the remuneration of the External Auditor for audit services with the approval of the shareholders
- (2) In reviewing the non-audit services to ensure that provision of such services 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, Securities and Exchange Commission of Sri Lanka and Colombo Stock Exchange

BOARD AUDIT REVIEW COMMITTEE REPORT

In order to discharge its responsibilities, the BARC met with the External Auditor on fourteen occasions including two occasions 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 External 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 further strengthening of internal controls where applicable and adequacy of impairment provisions.
- (5) Discussed the Key Audit Matters to understand why the matter was considered by the External Auditor to be one of most significant risk areas in the audit and how the matter was addressed during the audit.
- (6) Discussed 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 27th February 2019 with a view to further strengthen the process by which employees could raise their concerns in confidence on suspected fraud, possible inconsistencies/shortcomings in financial reporting, internal controls or other matters. Concerns raised are investigated professionally and the identity of the person raising the concern is kept strictly confidential. A process has been established to track such whistle blowing incidents and take necessary action as required.

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 2020 subject to the approval of the shareholders at the next Annual General Meeting.



Rachini Rajapaksa

Chairperson
Board Audit Review Committee

27th February 2020
Colombo



INTERNET BANKING

Banking on the move with Nation Trust Bank

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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 88 of the Report.

The Companies Act No. 07 of 2007, requires that the Directors prepare financial statements for each financial year and place before a General Meeting. Financial Statements comprise of the Statement of Financial Position as at 31 December 2019, and the Statement of Profit or Loss, Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year then ended and notes thereto.

The financial statements of the Bank and its subsidiaries give a true and fair view of the financial position of the Bank and its subsidiaries as at 31 December 2019; and the profit or loss of the Bank and its subsidiaries for the financial year then ended.

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

- the appropriate accounting policies have been selected and applied in a consistent manner and material departures, if any, have been disclosed and explained;
- all applicable Accounting Standards have been followed (SLFRS/LKAS);
- 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 Bank and the Group 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.

Further, as required by Section 56 (2) of the Companies Act No 7 of 2007, the Directors have confirmed that the Bank, based on the information available, satisfies the solvency test immediately after the distribution of dividends, in accordance with Section 57 of the Companies Act No 7 of 2007, and has obtained a certificate from the auditors, prior to declaring a first and final cash dividend of LKR 2.30 per share.

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, 2020

INDEPENDENT AUDITOR'S REPORT



Ernst & Young
Chartered Accountants
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INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF NATIONS TRAUST 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 2019, Statement of Profit or Loss and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements of the Bank and the Group give a true and fair view of the financial position of

the Bank and the Group as at 31 December 2019, and of their financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Basis for Opinion

We conducted our audit in accordance with Sri Lanka Auditing Standards ("SLAuSs"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Group in accordance with the Code of Ethics issued by CA Sri Lanka ("Code of Ethics") and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional 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>Allowance for impairment Losses for Loans and Advances in compliance with SLFRS 9:</p> <p>We considered the estimation of the Allowance for Impairment Losses for Loans and Advances as a Key Audit Matter due to the use of a model that involves complex manual calculations along with significant judgements & assumptions of the management. As at 31 December 2019, Loans and Advances, net of Allowance for Impairment Losses amounted to LKR 226,794 Mn, which represents 70% of the Group's total assets.</p> <p>Notes 2.9(iii), 13 and 36 to the financial statements provide descriptions and details of the allowance for impairment losses for loans and advances, basis of its calculation including key judgements & assumptions used in its estimation.</p>	<p>Our audit effort included the following procedures:</p> <ul style="list-style-type: none"> • We evaluated the design and operating effectiveness of financial controls over the identification of individually significant customers subjected to increase in credit risk which require individual assessment of allowance for impairment. • 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; • The following key focused procedures were also performed: <ul style="list-style-type: none"> A. For a sample of loans & advances individually assessed for impairment: <ul style="list-style-type: none"> > Where impairment indicators existed, we evaluated the reasonableness of management's estimate of future recoveries including the future cash flows, discount rates and valuation of collateral held. We also compared the actual recoveries against previously estimated amounts of future recoveries; > For loans & advances granted to customers in industries with higher risk of credit loss, we assessed the main criteria used by management in its assessment of expected credit losses and reasonableness of impairment losses made thereof; B. For loans and advances collectively assessed for impairment: <ul style="list-style-type: none"> > 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; > We also considered the reasonableness of macro-economic conditions and other factors used by management in their judgemental overlays for various types of loan portfolios, by comparing them with publicly available data; • We assessed the adequacy of the related financial statement disclosures as set out in notes 2.9(iii), 13 and 36.

Key audit matter	How our audit addressed the key audit matter
<p>Preparation of Financial Statements inclusive of Significant disclosures</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 is heavily dependent on information derived from generating and collating reports from such multiple systems.</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"> Understanding and evaluating the design and operating effectiveness of key automated, IT dependent and manual controls implemented by management over generation of multiple system reports and collation of required information underpinning the preparation and presentation of financial statements inclusive of significant disclosures. Test-checking; <ul style="list-style-type: none"> > the reports used to generate significant disclosures for accuracy and completeness; > source data of the report with those of the related IT systems; > calculations made by management and > reasonableness of classification/categorizations made by management; Where we considered necessary, performing additional audit procedures to assess management's assertion of integrity of systems.

Other information included in the Group's 2019 Annual Report

Other information consists of the information included in the Annual Report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information.

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.

INDEPENDENT AUDITOR'S REPORT

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.



27th February 2020

Colombo

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

A member firm of Ernst & Young Global Limited

STATEMENT OF FINANCIAL POSITION

As at 31 December	Notes	Bank		Group	
		2019 LKR'000	2018 LKR'000	2019 LKR'000	2018 LKR'000
Assets					
Cash and Cash Equivalents	6	8,755,848	6,437,519	8,755,930	6,437,573
Balances with Central Bank of Sri Lanka	7	8,377,478	12,762,122	8,377,478	12,762,122
Reverse Repurchase Agreements	8.1	13,827,423	180,593	13,827,423	180,593
Derivative Financial Instruments	9.1	192,714	2,403,787	192,714	2,403,787
Financial Assets - Recognised through Profit or Loss	10	634,075	668,812	634,075	668,812
Financial Assets at Fair Value through Other Comprehensive Income	11	38,315,147	57,463,831	38,315,147	57,463,831
Financial Assets at Amortised Cost - Debt Instruments	12	19,062,606	15,941,247	19,062,606	15,941,247
Financial Assets at Amortised Cost – Loans and Advances	13	226,791,569	221,500,656	226,794,190	221,505,692
Other Assets	14	2,134,422	2,626,586	2,180,238	2,680,894
Investments in Subsidiaries	15	678,710	678,710	-	-
Property, Plant and Equipment	16	3,023,776	2,867,825	4,072,538	3,668,502
Right of Use (ROU) Assets	17	1,870,729	-	1,780,957	-
Intangible Assets	18	1,375,581	1,301,248	1,376,159	1,302,940
Total Assets		325,040,078	324,832,936	325,369,455	325,015,993
Liabilities					
Due to Banks	19	6,484,157	18,474,545	6,484,157	18,474,545
Derivative Financial Instruments	9.2	311,971	484,373	311,971	484,373
Financial Liabilities at Amortised Cost					
Due to Depositors	20	226,880,034	231,936,769	226,871,563	231,462,599
Repurchase Agreements	20	11,033,047	7,784,017	10,186,828	7,681,669
Due to Other Borrowers	20	27,380,678	20,248,816	27,284,828	20,248,816
Debt Securities Issued	21	13,263,434	8,745,611	13,263,434	8,745,611
Retirement Benefit Obligations	22	652,473	505,031	659,454	511,602
Current Tax Liabilities	23	1,337,499	1,547,833	1,362,108	1,574,972
Other Liabilities	24	6,358,395	7,683,056	6,389,960	7,722,738
Deferred Tax Liabilities	25.2	995,073	960,783	1,159,506	1,050,358
Total Liabilities		294,696,761	298,370,834	293,973,809	297,957,283
Equity Attributable to Equity Holders of the Parent					
Stated Capital	26	9,408,135	8,865,523	9,408,135	8,865,523
Statutory Reserve Fund	27	1,371,853	1,199,130	1,371,853	1,199,130
Retained Earnings	28	18,465,483	15,820,900	19,082,807	16,179,448
OCI Reserve	29.1	301,976	(98,082)	301,976	(98,082)
Revaluation Reserve	29.2	795,870	674,631	1,230,875	912,691
Total Equity		30,343,317	26,462,102	31,395,646	27,058,710
Total Liabilities and Equity		325,040,078	324,832,936	325,369,455	325,015,993
Contingent Liabilities and Commitments	47	199,355,131	190,599,308	199,359,256	190,602,464
Net Assets Value per Ordinary Share (LKR)	49.2	106.90	95.27	110.61	97.42
Memorandum Information					
Number of Employees		3,122	3,105	3,151	3,128
Number of Branches		96	94	96	94
Number of Offsite ATMs & CRMs		47	45	47	45

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. 07 of 2007.

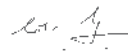


Ajith Akmeemana
Chief Financial Officer

The Notes to the Financial Statements from pages 96 to 198 form an integral part of, and should be read in conjunction with, these Financial Statements.

The Board of Directors is responsible for 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 2020

STATEMENT OF PROFIT OR LOSS

For the Year Ended 31 December	Notes	Bank		Group	
		2019 LKR'000	2018 LKR'000	2019 LKR'000	2018 LKR'000
Gross Income		46,026,494	43,444,310	46,314,300	43,461,437
Interest Income	30	39,570,860	37,034,354	39,571,531	37,050,409
Interest Expense	31	(23,510,084)	(21,924,562)	(23,437,059)	(21,886,502)
Net Interest Income		16,060,776	15,109,792	16,134,472	15,163,907
Fee and Commission Income	32.1	6,194,715	6,016,153	6,481,836	6,306,234
Fee and Commission Expense	32.2	(325,106)	(265,349)	(325,106)	(265,349)
Net Fee and Commission Income		5,869,609	5,750,804	6,156,730	6,040,885
Net Gain/(Loss) from Trading	33	(1,315,658)	2,778,248	(1,315,658)	2,778,420
Net Fair Value Gains/(Losses) From Financial Instruments at Fair Value Through Profit or Loss	34	11,030	(3,758)	11,030	(3,758)
Net Other Operating Income/(Loss)	35	1,565,547	(2,380,687)	1,565,561	(2,669,868)
Total Operating Income		22,191,304	21,254,399	22,552,135	21,309,586
Impairment Charges	36	(3,294,033)	(3,272,708)	(3,300,554)	(3,274,036)
Net Operating Income		18,897,271	17,981,691	19,251,581	18,035,550
Personnel Expenses	37	(4,508,124)	(4,143,993)	(4,539,979)	(4,173,771)
Depreciation of Property, Plant and Equipment	16	(441,150)	(367,437)	(472,323)	(395,736)
Depreciation of Right of Use (ROU) Assets	17	(476,541)	-	(386,769)	-
Amortization of Intangible Assets	18	(347,461)	(302,733)	(348,575)	(305,948)
Other Operating Expenses	38	(5,012,625)	(5,480,714)	(5,060,114)	(5,434,055)
Total Operating Expenses		(10,785,901)	(10,294,877)	(10,807,760)	(10,309,510)
Operating Profit before Taxes and Levies on Financial Services		8,111,370	7,686,814	8,443,821	7,726,040
Taxes and Levies on Financial Services	39	(2,659,543)	(1,863,948)	(2,660,742)	(1,866,739)
Profit before Income Tax		5,451,827	5,822,866	5,783,079	5,859,301
Income Tax Expense	40	(1,997,362)	(2,054,898)	(2,069,540)	(2,157,418)
Profit for the Year		3,454,465	3,767,968	3,713,539	3,701,883
Attributable to:					
Equity Holders of the Parent		3,454,465	3,767,968	3,713,539	3,701,883
Earnings Per Share					
Basic / Diluted Earnings Per Share - LKR	41	12.17	13.33	13.08	13.10
Dividend Per Share - LKR	42	2.30	2.10	2.30	2.10

The Notes to the Financial Statements from pages 96 to 198 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	
		2019 LKR'000	2018 LKR'000	2019 LKR'000	2018 LKR'000
Profit for the Year		3,454,465	3,767,968	3,713,539	3,701,883
Other Comprehensive Income / (Expense) that will be Reclassified to Profit or Loss in Subsequent Periods:					
Debt Instruments at Fair Value through Other Comprehensive Income					
Net Change in Fair Value during the year	29.1	555,636	(424,559)	555,636	(424,559)
Income Tax related to the above	29.1 & 25.2	(155,578)	118,877	(155,578)	118,877
Net gains/(losses) on Financial Instruments at Fair Value through Other Comprehensive Income		400,058	(305,682)	400,058	(305,682)
Total items that will be reclassified to the Statement of Profit or Loss		400,058	(305,682)	400,058	(305,682)
Other Comprehensive Income / (Expense) that will not be Reclassified to Profit or Loss in Subsequent Periods:					
Actuarial Gain / (Loss) on Defined Benefit Plan	22.2	(74,847)	24,551	(75,254)	25,125
Income Tax related to the above	25.2	20,957	(6,874)	21,066	(7,061)
Net Gains / (Losses) on Actuarial Valuation of Defined Benefit Plan		(53,890)	17,677	(54,188)	18,064
Gain on Revaluation of Land & Buildings	29.2	168,387	-	441,922	-
Income Tax related to the above	29.2 & 25.2	(47,148)	-	(123,738)	-
		121,239	-	318,184	-
Total items that will not be reclassified to the Statement of Profit or Loss		67,349	17,677	263,996	18,064
Other Comprehensive Income for the Year, net of tax		467,407	(288,005)	664,054	(287,618)
Total Comprehensive Income for the Year, Net of Tax		3,921,872	3,479,963	4,377,593	3,414,265
Attributable to:					
Equity Holders of the Parent		3,921,872	3,479,963	4,377,593	3,414,265

The Notes to the Financial Statements from pages 96 to 198 form an integral part of, and should be read in conjunction with, these Financial Statements.

STATEMENT OF CHANGES IN EQUITY

For the Year Ended 31 December		Stated Capital		Statutory Reserve Fund	Retained Earnings	OCI Reserve	Revaluation Reserve	Total
		Voting	Non-Voting					
BANK	Notes	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000
As at 01 January 2018		5,101,369	-	1,010,732	13,813,403	207,600	674,631	20,807,735
Impact of First Time Adoption of SLFRS 9		-	-	-	(1,021,253)	-	-	(1,021,253)
Restated Opening Balance under SLFRS 9		5,101,369	-	1,010,732	12,792,150	207,600	674,631	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	26	-	3,208,449	-	-	-	-	3,208,449
Scrip Dividend for 2017	26 & 28	473,347	82,358	-	(568,497)	-	-	(12,792)
Conversion of Non-Voting Shares to Voting Shares	26	165,200	(165,200)	-	-	-	-	-
Transfers to the Statutory Reserve Fund	27.2	-	-	188,398	(188,398)	-	-	-
As at 31 December 2018		5,739,916	3,125,607	1,199,130	15,820,900	(98,082)	674,631	26,462,102
Profit for the Year		-	-	-	3,454,465	-	-	3,454,465
Other Comprehensive Income		-	-	-	(53,890)	400,058	121,239	467,407
Total Comprehensive Income		-	-	-	3,400,575	400,058	121,239	3,921,872
Scrip Dividend for 2018	26 & 28	466,410	76,202	-	(583,269)	-	-	(40,657)
Conversion of Non-Voting Shares to Voting Shares	26	82,981	(82,981)	-	-	-	-	-
Transfers to the Statutory Reserve Fund	27.2	-	-	172,723	(172,723)	-	-	-
As at 31 December 2019		6,289,307	3,118,828	1,371,853	18,465,483	301,976	795,870	30,343,317

For the Year Ended 31 December		Stated Capital		Statutory Reserve Fund	Retained Earnings	OCI Reserve	Revaluation Reserve	Total
		Voting	Non-Voting					
GROUP	Notes	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000
As at 01 January 2018		5,101,369	-	1,010,732	14,237,649	207,600	912,691	21,470,041
Impact of First Time Adoption of SLFRS 9		-	-	-	(1,021,253)	-	-	(1,021,253)
Restated Opening Balance under SLFRS 9		5,101,369	-	1,010,732	13,216,396	207,600	912,691	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	26	-	3,208,449	-	-	-	-	3,208,449
Scrip Dividend for 2017	26 & 28	473,347	82,358	-	(568,497)	-	-	(12,792)
Conversion of Non-Voting Shares to Voting Shares	26	165,200	(165,200)	-	-	-	-	-
Transfers to the Statutory Reserve Fund	27.2	-	-	188,398	(188,398)	-	-	-
As at 31 December 2018		5,739,916	3,125,607	1,199,130	16,179,448	(98,082)	912,691	27,058,710
Profit for the Year		-	-	-	3,713,539	-	-	3,713,539
Other Comprehensive Income		-	-	-	(54,188)	400,058	318,184	664,054
Total Comprehensive Income		-	-	-	3,659,351	400,058	318,184	4,377,593
Scrip Dividend for 2018	26 & 28	466,410	76,202	-	(583,269)	-	-	(40,657)
Conversion of Non-Voting Shares to Voting Shares	26	82,981	(82,981)	-	-	-	-	-
Transfers to the Statutory Reserve Fund	27.2	-	-	172,723	(172,723)	-	-	-
As at 31 December 2019		6,289,307	3,118,828	1,371,853	19,082,807	301,976	1,230,875	31,395,646

The Notes to the Financial Statements from pages 96 to 198 form an integral part of, and should be read in conjunction with, these Financial Statements.

STATEMENT OF CASH FLOWS

For the Year Ended 31 December	Notes	Bank		Group	
		2019 LKR'000	2018 LKR'000	2019 LKR'000	2018 LKR'000
Cash Flows from Operating Activities					
Receipts of Interest Income		38,725,874	36,742,998	38,726,545	36,754,782
Receipts of Fees and Commission Income		6,196,954	6,071,711	6,474,451	6,351,140
Payments of Interest Expense		(22,233,385)	(19,188,583)	(22,183,407)	(19,149,770)
Payments of Fees and Commission Expense		(322,980)	(267,935)	(322,980)	(267,935)
Net Trading Income		723,012	593,535	723,012	593,706
Receipts from Other Operating Income		1,565,549	(2,371,078)	1,565,549	(2,661,607)
Gratuity Payments Made		(72,291)	(60,162)	(73,587)	(60,162)
Payments for Operating Expenses		(9,329,637)	(9,047,695)	(9,415,353)	(9,025,292)
Payments for VAT & NBT on Financial Services		(1,742,097)	(1,719,257)	(1,743,321)	(1,722,670)
Payments for Debt Repayment Levy (DRL)		(838,801)	(125,625)	(838,801)	(125,625)
Net Cash Flows from Operating Activities before Income Tax (A)		12,672,198	10,627,909	12,912,108	10,686,567
Income Tax Paid		(2,343,052)	(1,475,104)	(2,406,062)	(1,561,683)
Tax Paid on Dividends		(40,429)	(12,495)	(40,429)	(44,777)
Operating Profit before Changes in Operating Assets and Liabilities		10,288,717	9,140,310	10,465,617	9,080,107
(Increase)/Decrease in Operating Assets	43.1	(4,390,685)	(58,562,145)	(4,384,194)	(58,297,244)
Increase/(Decrease) in Operating Liabilities	43.2	(11,786,077)	41,279,987	(12,056,413)	41,102,831
Net Cash Flows from Operating Activities		(5,888,045)	(8,141,848)	(5,974,990)	(8,114,306)
Cash Flows from Investing Activities					
Purchase of Property, Plant and Equipment	16	(384,758)	(660,636)	(397,239)	(691,945)
Proceeds from Sale of Property, Plant and Equipment and Intangible Assets		1,019	23,821	1,033	25,169
Purchase of Intangible Assets	18	(425,691)	(303,957)	(425,691)	(303,957)
		(809,430)	(940,772)	(821,897)	(970,733)
Cash Flows from Financing Activities					
Net change in Debt Issued and Other Borrowed Funds		1,195,726	7,723,977	1,195,726	7,723,977
Proceeds from the issue of Subordinated Debt	43.4	4,500,000	3,500,000	4,500,000	3,500,000
Repayment of Subordinated Debt		-	(3,000,000)	-	(3,000,000)
Proceeds from Rights Issue	26	-	3,208,449	-	3,208,449
Operating Lease Rentals Paid	17.3	(547,361)	-	(447,921)	-
Interest Paid on Subordinated Debt		(1,077,028)	(1,150,600)	(1,077,028)	(1,150,600)
Dividends Paid to Equity Holders of the Parent		(228)	(297)	(228)	(297)
		4,071,109	10,281,529	4,170,549	10,281,529
Net Increase/(Decrease) in Cash and Cash Equivalents		(2,626,366)	1,198,909	(2,626,338)	1,196,490
Cash and Cash Equivalents at the Beginning of the Year		19,113,358	17,914,449	19,113,412	17,916,922
Cash and Cash Equivalents at the End of the Year		16,486,992	19,113,358	16,487,074	19,113,412
Reconciliation of Cash and Cash Equivalents					
Cash in Hand	6	5,867,701	5,419,519	5,867,724	5,419,542
Balances with Central Bank of Sri Lanka*	7	8,377,478	12,762,122	8,377,478	12,762,122
Balances with Banks	6	787,329	1,018,271	787,388	1,018,302
Money at Call & Short Notice	6	2,101,864	-	2,101,864	-
Deposits from Other Banks	19	(647,380)	(86,554)	(647,380)	(86,554)
		16,486,992	19,113,358	16,487,074	19,113,412
A. Reconciliation of Operating Profit					
Profit before Income Tax		5,451,827	5,822,866	5,783,079	5,859,301
(Profit) / Loss on Disposal of Property, Plant and Equipment and Intangible Assets		2	9,609	(12)	8,261
Impairment Charge / (Reversal) for Loans and Receivables	36	3,294,033	3,272,708	3,300,554	3,274,036
Provision for Gratuity	37	136,997	110,127	138,296	111,348
(Increase) / Decrease in Interest Receivable		(2,552,173)	732,863	(2,552,173)	728,805
Increase/ (Decrease) in Interest Payable		211,977	1,564,325	204,674	1,565,077
Increase / (Decrease) in Financial Guarantee Liabilities & Deferred Income		(25,766)	318,844	(27,173)	317,815
(Increase) / Decrease in Fees & Commission Receivable		24,437	(39,095)	16,062	(48,720)
Increase / (Decrease) in Fees & Commission and Operating Expenses Payable		(408,907)	259,174	(317,003)	262,854
Other Non - Cash Items	43.3	4,987,673	(2,513,950)	4,914,442	(2,482,648)
Operating Lease Rentals Paid	17.3	547,361	-	447,921	-
Interest Paid on Subordinated Debt		1,077,028	1,150,600	1,077,028	1,150,600
Gratuity Payments Made		(72,291)	(60,162)	(73,587)	(60,162)
		12,672,198	10,627,909	12,912,108	10,686,567

* As at 31 December 2019, LKR 8,388.17 Mn (2018 - LKR 12,570.47 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 2019 comprises the Bank and its subsidiaries: Waldock 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
Waldock Mackenzie Limited	Carrying out the business of an investment manager including 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 Waldock 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.

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 87.

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 1988.

2.2 Directors' Responsibility Statement

The Board of Directors of the Bank is responsible for these Financial

2.3 Approval of Financial Statements by Directors

The Consolidated Financial Statements of Nations Trust Bank PLC, for the year ended 31 December 2019 were authorized for issue in accordance with the resolution of the Board of Directors on 27 February 2020.

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
- Derivative financial instruments
- Land and buildings are measured at cost at the time of acquisition and subsequently measured at fair value 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 presents 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 45.

2.7 Materiality and aggregation

In compliance with Sri Lanka Accounting Standard - LKAS 01 - Presentation of Financial Statements, each material class of similar items are 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 Group has applied SLFRS 16 Leases for the first time. The nature and effect of the changes as a result of adoption of this new accounting standard are described in Note 2.8.1.1 below. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

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

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

2.8.1.1 SLFRS 16 - Leases

SLFRS 16 supersedes LKAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the statement of financial position.

Lessor accounting under SLFRS 16 is substantially unchanged from LKAS

17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in LKAS 17. Therefore, SLFRS 16 did not have an impact for leases where the Bank is the lessor.

The Bank adopted SLFRS 16 using the modified retrospective method of adoption with the date of initial application of 01 January 2019. The Bank elected to use the transition practical expedient to not reassess whether a contract is or contains a lease at 01 January 2019. Instead, the Bank applied the standard only to contracts that were previously identified as leases applying LKAS 17 and IFRIC 4 at the date of initial application.

The Bank has lease contracts for various branches and other equipment. Before the adoption of SLFRS 16, the Bank classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. Refer to Note 48.3.1 for the accounting policy prior to 01 January 2019.

Upon adoption of SLFRS 16, the Bank applied a single recognition and measurement approach for all leases except for short-term leases (leases with a lease term of 12 months or less) and leases of low-value assets. Refer to Note 48.3.2 for the accounting policy beginning 01 January 2019. The standard provides specific transition requirements and practical expedients, which have been applied by the Bank.

Leases previously accounted for as operating leases

The Bank recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases (leases with a lease term of 12 months or less) and leases of low-value assets. The right-of-

NOTES TO THE FINANCIAL STATEMENTS

use assets for most leases were recognised based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application. In some leases, the right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Group also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics
- Relied on its assessment of whether leases are onerous immediately before the date of initial application
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months of the date of initial application
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application
- Used hindsight in determining the lease term where the contract contained options to extend or terminate the lease

Based on the above, as at 01 January 2019:

- Right-of-use assets of LKR 2,090 Mn (Bank) were recognised and presented in the statement of financial position within "Right-of-use assets".
- Additional lease liabilities of LKR 1,839 Mn (included in "Due to Other Borrowers") were recognised.

- The adoption of SLFRS 16 had no material impact on the Bank's retained earnings and no material impact on its capital adequacy ratios.

The lease liabilities as at 01 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018, as follows:

Assets	Bank LKR'000
Operating lease commitments as at 31 December 2018	2,022,217
Less:	
Commitments relating to short-term leases (leases with a lease term of 12 months or less)	39,383
	1,982,834
Weighted average incremental borrowing rate as at 01 January 2019	11%
Discounted operating lease commitments as at 01 January 2019	1,353,952
Add:	
Lease payments relating to renewal periods not included in operating lease commitments as at 31 December 2018	485,638
Lease liabilities as at 01 January 2019	1,839,590

2.9 Significant Accounting Judgements, Estimates and Assumptions

The preparation of the Bank's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amount of revenues, expenses, assets, 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 judgments 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 judgment and/or estimates are collated below with respect to judgments/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 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. Judgments 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 46.

(iii) Impairment losses on financial assets

The measurement of impairment losses under SLFRS 9 across all categories of financial assets requires judgment, 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) 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 land 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 the Note 46 to the financial statements.

(v) 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. Judgment of the management is exercised in the estimation of these values, rates, methods hence they are subject to uncertainty. (Note 16).

(vi) 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 22.

(vii) Share-Based Payments

The Group measures the cost of cash 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 appreciation rights scheme,

NOTES TO THE FINANCIAL STATEMENTS

volatility and dividend yield and making assumptions about those. (Note 24.2).

(viii) Taxation

The Group is subject to Income Taxes and other taxes including VAT on Financial Services and Debt Repayment Levy. 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 & 40).

(ix) 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 25.2 to the financial statements.

(x) 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 Bank 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 Bank has less than a majority of the voting or similar rights of an investee, the Bank 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
- 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 Bank.

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 fair value through profit or loss (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

The Bank classifies all of its financial assets based on the business model for managing the assets and the assets' 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) as explained in Notes 3.3.2 (vii)

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).

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

The Bank measures due from banks, loans and advances to customers and other financial investments at amortised cost only 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:

- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed
- How managers of the business are compensated (for example, whether the compensation is based on the

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fair value of the assets managed or on the contractual cash flows collected)

The expected frequency, value and timing of sales are also important aspects of the Bank's assessment.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Bank's original expectations, the Bank does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

b. The Solely Payment of Principal and Interest (SPPI) test

As a second step of its classification process, the Bank assesses the contractual terms of financial instruments 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 does 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 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

The Bank classifies debt instruments 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

FVOCI debt instruments are subsequently measured at fair value with gains or 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 13. Where the Bank holds more than one investment in the same security, they are deemed to be disposed 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

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 or 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 are part of a group of financial liabilities 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 contain 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 or 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 issues 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 an ECL provision as set out in Note 24.3

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 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 in the Statement of Financial Position. The nominal values of these instruments together with the corresponding ECLs are disclosed in Note 47 and Note 24.3 respectively.

3.3.3 Reclassification of financial assets and liabilities

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.

NOTES TO THE FINANCIAL STATEMENTS

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 purchased or originated credit impaired (POCI).

When assessing whether or not to derecognise a loan to a customer, amongst others, the Bank considers the following factors:

- Change in currency of the loan
- Change in counterparty
- Introduction of an equity feature
- 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. For financial liabilities, the Bank considers a modification substantial based on qualitative factors and if it results in a difference between the adjusted discounted present value and the original carrying amount of the financial liability of, or greater than, ten percent. For financial assets, this assessment is based on qualitative factors.

(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 expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

3.3.5 The effective interest rate method

Under SLFRS 9, 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 of fixed rate financial assets' or liabilities' cash flows are revised for reasons other than credit risk, then changes to future contractual cash flows are discounted at the original EIR with a consequential adjustment to the carrying amount. The difference

from the previous carrying amount is booked as a positive or negative adjustment to the carrying amount of the financial asset or liability on the statement of financial position with a corresponding increase or decrease in interest income/expense calculated using the effective interest method.

For floating-rate financial instruments, periodic re-estimation of cash flows to reflect the movements in the market rates of interest also alters the effective interest rate, but when instruments were initially recognized at an amount equal to the principal, re-estimating the future interest payments do not significantly affect the carrying amount of the asset or the liability.

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 Recognition of Income and Expenses

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 specific recognition criteria must for recognition of income is explained in Notes 30, 32, 33, 34 and 35.

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.

3.8 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 cash receipts and cash payments of operating activities, financing activities and investing activities

NOTES TO THE FINANCIAL STATEMENTS

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.

3.9 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 2019 reporting period.

- SLFRS 17: Insurance Contracts
- Amendments to SLFRS 3: Definition of a Business
- Amendments to LKAS 1 and LKAS 8: Definition of Material

The Institute of Chartered Accountants of Sri Lanka issued amendments to LKAS 1 - Presentation of Financial Statements and LKAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of 'Material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information

is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity'.

However, none of these standards and amendments will have an impact on the financial statements of the Bank / Group.

4 SEGMENT INFORMATION

The Group's segmental reporting is based on the following operating segments: Corporate Banking, Consumer and 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 and SME Banking: Primary focus of business is deposit mobilization from high network, mass affluent and emerging mass customer segments and providing personal financing including personal, home loans and credit card facilities and 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 on margin trading, money market operations and fund and fee based activities.

Insurance Broking: Primary focus on insurance broking.

Property Management: Primary focus 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.

4.1 Operating Segments

For the Year Ended 31 December 2019 LKR '000	Corporate Banking	Consumer & SME Banking	Leasing	Treasury Functions	Investment Banking	Insurance Brokering	Property Management	Unallocated/ Eliminations	Total Group
Operating Income									
Impairment Charges	3,376,728 (273,170)	13,716,288 (2,386,019)	2,348,882 (623,150)	3,209,307 (71,300)	11,084	257,099 (6,521)	176,126	(543,379) 59,606	22,552,135 (3,300,554)
Net Operating Income	3,103,558	11,330,269	1,725,732	3,138,007	11,084	250,578	176,126	(483,773)	19,251,581
Extracts of Results									
Interest Income	8,163,778	16,828,271	7,152,392	7,416,831	9,080	20,851	29,441	(49,113)	39,571,531
Inter Segment	(4,750,429)	7,595,343	(5,381,395)	2,536,481	-	-	-	-	-
Interest Expense	(804,185)	(16,692,460)	-	(5,827,199)	-	(935)	(1,421)	(110,859)	(23,437,059)
Net Interest Income	2,609,164	7,731,154	1,770,997	4,126,113	9,080	19,916	28,020	(159,972)	16,134,472
Fees and Commission Income	584,526	5,383,911	419,102	97,814	2,639	244,168	148,106	(398,430)	6,481,836
Fees and Commission Expense	(23,117)	(274,399)	-	(27,591)	(635)	(6,985)	-	7,621	(325,106)
Net Fees and Commission Income	561,409	5,109,512	419,102	70,223	2,004	237,183	148,106	(390,809)	6,156,730
Net Gain/(Loss) from Trading	206,155	382,258	-	(1,904,071)	-	-	-	-	(1,315,658)
Net Fair Value Gains/(Losses) From Financial Instruments at									
Fair Value Through Profit or Loss	-	-	-	11,030	-	-	-	-	11,030
Net Other Operating Income/(Loss)	-	493,364	158,783	906,012	-	-	-	7,402	1,565,561
Depreciation of Property, Plant and Equipment	(25,007)	(463,451)	(21,191)	(20,500)	-	(13,587)	(6,585)	77,998	(472,323)
Depreciation of Right of Use (ROU) Assets	-	(370,812)	-	-	-	(5,295)	-	(10,662)	(386,769)
Amortization of Intangible Assets	(31,235)	(257,175)	(26,526)	(31,162)	-	(1,898)	(579)	-	(348,575)
Profit before Income Tax	2,408,202	2,113,183	785,483	2,689,258	9,129	193,790	138,896	(2,554,862)	5,783,079
Income Tax Expense	-	-	-	-	(2,892)	(58,076)	(11,210)	(1,997,362)	(2,069,540)
Profit for the Year	2,408,202	2,113,183	785,483	2,689,258	6,237	135,714	127,686	(4,552,224)	3,713,539
Capital Expenditures									
Property, Plant and Equipment	29,066	228,018	14,440	755	-	-	5,723	154,982	432,984
Intangible Assets	169,711	38,656	4,911	4,472	-	-	-	107,437	325,187
Total Assets (as at)	75,626,503	114,121,828	44,292,078	89,048,577	121,193	357,372	906,142	895,762	325,369,455
Total Liabilities (as at)	17,636,108	208,731,713	663,792	60,183,662	3,531	42,240	19,850	6,692,913	293,973,809

NOTES TO THE FINANCIAL STATEMENTS

4 SEGMENT INFORMATION (CONTD.)

4.2 Operating Segments

For the Year Ended 31 December 2018	Corporate Banking	Consumer & SME Banking	Leasing	Treasury Functions	Investment Banking	Insurance Brokering	Property Management	Unallocated/ Eliminations	Total Group
LKR '000									
Operating Income	2,679,721	13,675,209	2,321,815	2,298,131	21,800	237,290	171,475	(95,855)	21,309,586
Impairment Charges	(129,186)	(2,900,050)	(232,432)	(11,039)	-	(1,329)	-	-	(3,274,036)
Net Operating Income	2,550,535	10,775,159	2,089,383	2,287,092	21,800	235,961	171,475	(95,855)	18,035,550
Extracts of Results									
Interest Income	6,487,338	17,791,230	6,319,126	6,560,825	21,101	10,158	24,645	(164,014)	37,050,409
Inter Segment	(3,621,265)	5,947,607	(4,649,584)	2,323,242	-	-	-	-	-
Interest Expense	(886,136)	(15,390,439)	-	(5,751,249)	(798)	-	(991)	143,111	(21,886,502)
Net Interest Income	1,979,937	8,348,398	1,669,542	3,132,818	20,303	10,158	23,654	(20,903)	15,163,907
Fees and Commission Income	503,025	4,973,625	447,974	95,009	2,475	234,200	147,821	(97,895)	6,306,234
Fees and Commission Expense	(23,451)	(207,382)	-	(21,223)	(978)	(7,068)	-	(5,247)	(265,349)
Net Fees and Commission Income	479,574	4,766,243	447,974	73,786	1,497	227,132	147,821	(103,142)	6,040,885
Net Gain/(Loss) from Trading	220,210	363,008	-	2,195,202	-	-	-	-	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)	-	-	-	28,190	(2,669,868)
Depreciation of Property, Plant and Equipment	(2,177)	(201,326)	(5,682)	(8,610)	-	(972)	(27,327)	(149,642)	(395,736)
Depreciation of Right of Use (ROU) Assets	-	-	-	-	-	-	-	-	-
Amortization of Intangible Assets	(77)	(66,979)	(2,277)	(22,973)	-	(3,215)	-	(210,427)	(305,948)
Profit before Income Tax	1,954,526	3,056,638	1,175,683	1,866,227	19,530	194,445	127,226	(2,534,974)	5,859,301
Income Tax Expense	-	-	-	-	(5,560)	(54,445)	(10,234)	(2,087,179)	(2,157,418)
Profit for the Year	1,954,526	3,056,638	1,175,683	1,866,227	13,970	140,000	116,992	(4,622,153)	3,701,883
Capital Expenditures									
Property, Plant and Equipment	969	143,845	4,502	-	-	264	49,216	506,775	705,571
Intangible Assets	-	26,521	29,951	-	-	-	-	333,932	390,404
Total Assets (as at)	65,671,447	115,991,379	44,974,997	92,994,684	117,113	206,411	798,116	4,261,846	325,015,993
Total Liabilities (as at)	20,564,310	197,580,900	792,099	69,212,155	5,688	40,338	28,018	9,733,775	297,957,283

* Consumer and SME banking operations are reviewed on consolidated basis.

5 ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS

5.1 Bank

As at 31 December	2019				2018			
	AC LKR'000	FVPL LKR'000	FVOCI LKR'000	Total LKR'000	AC LKR'000	FVPL LKR'000	FVOCI LKR'000	Total LKR'000
Assets								
Cash and Cash Equivalents	8,755,848	-	-	8,755,848	6,437,519	-	-	6,437,519
Balances with Central Bank of Sri Lanka	8,377,478	-	-	8,377,478	12,762,122	-	-	12,762,122
Reverse Repurchase Agreements	13,827,423	-	-	13,827,423	180,593	-	-	180,593
Derivative Financial Instruments	-	192,714	-	192,714	-	2,403,787	-	2,403,787
Financial Assets at Amortised Cost - Loans and Advances	226,791,569	-	-	226,791,569	221,500,656	-	-	221,500,656
Government Securities	17,774,485	634,075	38,301,267	56,709,827	14,094,927	668,812	57,449,857	72,213,596
Other Debt Instruments	1,288,120	-	-	1,288,120	1,846,320	-	-	1,846,320
Equity Instruments	-	-	13,880	13,880	-	-	13,974	13,974
Total Financial Assets	276,814,923	826,789	38,315,147	315,956,859	256,822,137	3,072,599	57,463,831	317,358,567
Liabilities								
Due to Banks	6,484,157	-	-	6,484,157	18,474,545	-	-	18,474,545
Derivative Financial Instruments	-	311,971	-	311,971	-	484,373	-	484,373
Due to Depositors	226,880,034	-	-	226,880,034	231,936,769	-	-	231,936,769
Repurchase Agreements	11,033,047	-	-	11,033,047	7,784,017	-	-	7,784,017
Due to Other Borrowers	27,380,678	-	-	27,380,678	20,248,816	-	-	20,248,816
Debt Securities Issued	13,263,434	-	-	13,263,434	8,745,611	-	-	8,745,611
Total Financial Liabilities	285,041,350	311,971	-	285,353,321	287,189,758	484,373	-	287,674,131

NOTES TO THE FINANCIAL STATEMENTS

5 ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS (CONTD.)

5.2 Group

As at 31 December	2019				2018			
	AC LKR'000	FVPL LKR'000	FVOCI LKR'000	Total LKR'000	AC LKR'000	FVPL LKR'000	FVOCI LKR'000	Total LKR'000
Assets								
Cash and Cash Equivalents	8,755,930	-	-	8,755,930	6,437,573	-	-	6,437,573
Balances with Central Bank of Sri Lanka	8,377,478	-	-	8,377,478	12,762,122	-	-	12,762,122
Reverse Repurchase Agreements	13,827,423	-	-	13,827,423	180,593	-	-	180,593
Derivative Financial Instruments	-	192,714	-	192,714	-	2,403,787	-	2,403,787
Financial Assets at Amortised Cost -								
Loans and Advances	226,794,190	-	-	226,794,190	221,505,692	-	-	221,505,692
Government Securities	17,774,485	634,075	38,301,267	56,709,827	14,094,927	668,812	57,449,857	72,213,596
Other Debt Instruments	1,288,120	-	-	1,288,120	1,846,320	-	-	1,846,320
Equity Instruments	-	-	13,880	13,880	-	-	13,974	13,974
Total Financial Assets	276,817,626	826,789	38,315,147	315,959,562	256,827,227	3,072,599	57,463,831	317,363,657
Liabilities								
Due to Banks	6,484,157	-	-	6,484,157	18,474,545	-	-	18,474,545
Derivative Financial Instruments	-	311,971	-	311,971	-	484,373	-	484,373
Due to Depositors	226,871,563	-	-	226,871,563	231,462,599	-	-	231,462,599
Repurchase Agreements	10,186,828	-	-	10,186,828	7,681,669	-	-	7,681,669
Due to Other Borrowers	27,284,828	-	-	27,284,828	20,248,816	-	-	20,248,816
Debt Securities Issued	13,263,434	-	-	13,263,434	8,745,611	-	-	8,745,611
Total Financial Liabilities	284,090,810	311,971	-	284,402,781	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

6 CASH AND CASH EQUIVALENTS

As at 31 December	Bank		Group	
	2019 LKR'000	2018 LKR'000	2019 LKR'000	2018 LKR'000
Cash in Hand	5,867,701	5,419,519	5,867,724	5,419,542
Balances with Banks	787,329	1,018,271	787,388	1,018,302
Money at Call and Short Notice	2,101,864	-	2,101,864	-
Less: Impairment for Balances with Banks (Note 6.1)	(1,046)	(271)	(1,046)	(271)
	8,755,848	6,437,519	8,755,930	6,437,573

6.1 Movement in impairment during the year

	Bank / Group	
	2019 LKR'000	2018 LKR'000
Balance as at 01 January	271	-
Impact of first time adoption of SLFRS 9	-	228
Charge / (Write back) to the income statement (Note 36)	775	43
Balance as at 31 December	1,046	271

7 BALANCES WITH CENTRAL BANK OF SRI LANKA

As at 31 December	Bank / Group	
	2019 LKR'000	2018 LKR'000
Statutory Balance with Central Bank of Sri Lanka	8,220,448	12,634,094
Non Statutory Balance with Central Bank of Sri Lanka	157,030	128,028
	8,377,478	12,762,122

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 2019, the minimum cash reserve requirement was 5.0% (2018: 6.0%) 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 5.0% (2018 - 100%). 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 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.

NOTES TO THE FINANCIAL STATEMENTS

8 TRANSFERRED FINANCIAL ASSETS (CONTD.)

8.1 Reverse Repurchase Agreements

As at 31 December	Bank / Group	
	2019 LKR'000	2018 LKR'000
Due from;		
- Banks	11,404,692	172,043
- Other Financial Institutions	2,402,319	-
- Other Counterparties	20,412	8,550
	13,827,423	180,593

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 15,264.31 Mn (2018 – LKR 199.25 Mn).

8.2 Repurchase Agreements

As at 31 December	Bank		Group	
	2019 LKR'000	2018 LKR'000	2019 LKR'000	2018 LKR'000
On Government Securities				
Due to;				
- Banks (Note 19)	-	8,509,788	-	8,509,788
- Other Financial Institutions	4,158,372	-	4,158,372	-
- Other Counterparties	5,648,501	6,545,752	5,535,912	6,545,752
	9,806,873	15,055,540	9,694,284	15,055,540
On Other Securities				
Due to;				
- Other Counterparties	1,226,174	1,238,265	492,544	1,135,917
	1,226,174	1,238,265	492,544	1,135,917
Total Repurchase Agreements	11,033,047	16,293,805	10,186,828	16,191,457
Repurchase Agreements - Other than with banks (Note 20)	11,033,047	7,784,017	10,186,828	7,681,669

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 gaining from favorable movements in rates.

Derivatives entered for risk management purposes that do not meet the hedge accounting criteria are also included under this classification.

9.1 Derivative Assets - Held for Trading

At a Gain Position

	Bank / Group		Bank / Group	
	Fair Value of Assets	Contract Amount	Fair Value of Assets	Contract Amount
As at 31 December	2019	2019	2018	2018
	LKR'000	LKR'000	LKR'000	LKR'000
Foreign Currency Derivatives				
- Currency Swaps	178,201	12,299,561	1,877,602	28,034,941
- Forward Foreign Exchange Contracts	13,822	2,612,557	526,067	7,024,177
- Spot Contracts	691	343,896	118	48,350
	192,714	15,256,014	2,403,787	35,107,468

9.2 Derivative Liabilities - Held for Trading

At a Loss Position

	Bank / Group		Bank / Group	
	Fair Value of Liabilities	Contract Amount	Fair Value of Liabilities	Contract Amount
As at 31 December	2019	2019	2018	2018
	LKR'000	LKR'000	LKR'000	LKR'000
Foreign Currency Derivatives				
- Currency Swaps	237,796	19,500,226	410,848	7,941,038
- Forward Foreign Exchange Contracts	74,132	3,874,695	73,416	1,884,900
- Spot Contracts	43	100,836	109	113,819
	311,971	23,475,757	484,373	9,939,757

10 FINANCIAL ASSETS - RECOGNISED THROUGH PROFIT OR LOSS

As at 31 December	Bank / Group	
	2019	2018
	LKR'000	LKR'000
Measured at Fair Value		
- Government Treasury Bills	12,731	-
- Government Treasury Bonds	621,344	668,812
	634,075	668,812

NOTES TO THE FINANCIAL STATEMENTS

10 FINANCIAL ASSETS - RECOGNISED THROUGH PROFIT OR LOSS (CONTD.)

10.1 Analysis

As at 31 December	Bank / Group	
	2019 LKR'000	2018 LKR'000
By collateralisation		
- Unencumbered	634,075	668,812
	634,075	668,812
By currency		
- Sri Lankan Rupee	634,075	668,812
	634,075	668,812

11 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

As at 31 December	Bank / Group	
	2019 LKR'000	2018 LKR'000
Debt Instruments		
- Government Treasury Bills	17,547,404	40,965,971
- Government Treasury Bonds	20,753,863	16,483,886
Equity Instruments (Note 11.1)	13,880	13,974
	38,315,147	57,463,831

11.1 Equity Instruments at Fair Value through Other Comprehensive Income

As at 31 December	Bank / Group	
	2019 LKR'000	2018 LKR'000
Lanka Clear (Private) Limited 150,000 Ordinary Shares of LKR 10/- each	1,500	1,500
Credit Information Bureau (CRIB) 9,000 Ordinary Shares of LKR 10/- each	90	90
Lanka Financial Services Bureau 112,500 Ordinary Shares of LKR 10/- each	1,125	1,125
Society of Worldwide Interbank Financial Telecommunication (SWIFT) 12 Ordinary Shares	11,165	11,259
	13,880	13,974

11.2 Analysis

As at 31 December	Bank / Group	
	2019 LKR'000	2018 LKR'000
By collateralisation		
- Pledged as collateral	2,455,842	11,104,972
- Unencumbered	35,859,305	46,358,859
	38,315,147	57,463,831
By currency		
- Sri Lankan Rupee	38,303,982	57,452,572
- United States Dollar	11,165	11,259
	38,315,147	57,463,831

12 FINANCIAL ASSETS AT AMORTISED COST - DEBT INSTRUMENTS

As at 31 December	Bank / Group	
	2019 LKR'000	2018 LKR'000
Government Treasury Bonds	13,559,215	10,208,370
Sri Lanka Development Bonds	4,247,098	3,914,439
Quoted Debentures (Note 12.1)	1,288,418	1,888,957
Less: Impairment (Note 12.3)	(32,125)	(70,519)
	19,062,606	15,941,247

12.1 Quoted Debentures

Company	Type	No of Debentures		LKR '000	
		2019	2018	2019	2018
Hemas Holdings PLC	Unsecured, Redeemable Debentures	-	223,900	-	23,011
Lion Brewery (Ceylon) PLC	Unsecured, Redeemable Debentures	-	1,686,000	-	171,960
Seylan Bank PLC	Unsecured, Redeemable Debentures	-	3,000,000	-	300,636
DFCC Vardhana Bank	Unsecured, Redeemable Debentures	1,988,600	1,988,600	209,024	209,024
MTD Walkers PLC	Unsecured, Redeemable Debentures	-	1,019,134	-	104,932
Housing and Development Finance Corporation	Unsecured, Redeemable Debentures	2,500,000	2,500,000	253,012	253,012
Access Engineering PLC	Unsecured, Redeemable Debentures	3,500,000	3,500,000	354,226	354,226
Sanasa Development Bank PLC	Guaranteed, Redeemable Debentures	1,000,000	1,000,000	105,192	105,192
Senkadagala Finance PLC	Unsecured, Redeemable Debentures	611,500	611,500	62,345	62,345
People's Leasing & Finance PLC	Unsecured, Redeemable Debentures	3,000,000	3,000,000	304,619	304,619
				1,288,418	1,888,957

NOTES TO THE FINANCIAL STATEMENTS

12 FINANCIAL ASSETS AT AMORTISED COST - DEBT INSTRUMENTS (CONTD.)

12.2 Analysis

As at 31 December	Bank/ Group	
	2019 LKR'000	2018 LKR'000
By collateralisation		
- Pledged as collateral	9,060,317	5,886,719
- Unencumbered	10,002,289	10,054,528
	19,062,606	15,941,247
By currency		
- Sri Lankan Rupee	14,847,335	12,026,808
- United States Dollar	4,215,271	3,914,439
	19,062,606	15,941,247

12.3 Movement in impairment during the year

	Bank/ Group	
	2019 LKR'000	2018 LKR'000
Stage 1		
Balance as at 01 January	28,146	-
Impact of first time adoption of SLFRS 9	-	20,785
Charge/(Write back) to income statement (Note 36)	3,979	7,361
Write-off during the year	-	-
Balance as at 31 December	32,125	28,146
Stage 2		
Balance as at 01 January	-	-
Impact of first time adoption of SLFRS 9	-	-
Charge/(Write back) to income statement	-	-
Write-off during the year	-	-
Balance as at 31 December	-	-
Stage 3		
Balance as at 01 January	42,373	-
Impact of first time adoption of SLFRS 9	-	-
Charge/(Write back) to income statement (Note 36)	-	42,373
Write-off during the year	-	-
Transfer to loans and advances to customers (Note 13.4)	(42,373)	-
Balance as at 31 December	-	42,373
Total impairment provision	32,125	70,519

13 FINANCIAL ASSETS AT AMORTISED COST – LOANS AND ADVANCES

Accounting Policy

(i) Overview of the Expected Credit Loss (ECL) principles

The Bank records an allowance for ECL 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 13 (ii). The Bank's policies for determining if there has been a significant increase in credit risk are set out in Note 47.

The 12mECL is the portion of LTECLs that represents the ECL that results from default events on a financial instrument that are possible within the 12 months after the reporting date.

Both LTECL and 12mECL 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 47.

The Bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instruments' 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 47.

Based on the above process, the Bank groups its loans into Stage 1, Stage 2, Stage 3 and Purchased or Originated Credit Impaired (POCI), as described below:

• Stage 1:	When loans are first recognised, the Bank recognises an allowance based on 12mECL. 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 LTECL. 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 47). The bank records an allowance for the LTECL.
• POCI:	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. The ECL allowance is only recognised or released to the extent that there is a subsequent change in the expected credit losses.

For financial assets for which the Bank has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) derecognition of the financial asset.

(ii) The calculation of ECL

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:

- Probability of Default (PD): The PD 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 47.

NOTES TO THE FINANCIAL STATEMENTS

13 FINANCIAL ASSETS AT AMORTISED COST – LOANS AND ADVANCES (CONTD.)

- **Exposure at Default (EAD):** The EAD is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments. The EAD is further explained in Note 47.
- **Loss Given Default (LGD):** The LGD is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD. The LGD is further explained in Note 47.

When estimating the ECLs, the Bank considers three scenarios (a base case, a best case, a worst case). When relevant, the assessment of multiple scenarios also incorporates how defaulted loans are expected to be recovered, including the probability that the loans will cure and the value of collateral or the amount that might be received for selling the asset.

With the exception of credit cards and other revolving facilities, for which the treatment is separately set out in Note 13 (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 ECL for undrawn loan commitments are assessed as set out in Note 24.3. The calculation of ECLs (including the ECLs related to the undrawn element) of revolving facilities such as credit cards are explained in Note 13(V).

The mechanics of the ECL method are summarised below:

• Stage 1:	The 12mECL is calculated as the portion of LTECLs that represents the ECL that results 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 47) 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 ECL related to financial guarantee contracts are recognised within Other Liabilities.

(iii) Debt instruments measured at fair value through OCI

The ECL 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.

(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 card 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 reviews annually. Therefore, all revolving facilities are assessed for 12mECL.

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 ECL 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 ECL, including the estimation of the expected period of exposure and discount rate is made, as explained in Note 47, 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 36.

NOTES TO THE FINANCIAL STATEMENTS

13 FINANCIAL ASSETS AT AMORTISED COST – LOANS AND ADVANCES (CONTD.)

(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 in 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 47.

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 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

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 rescheduling 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.

As at 31 December	Bank		Group	
	2019 LKR'000	2018 LKR'000	2019 LKR'000	2018 LKR'000
Gross loans and advances				
- Stage 1	193,991,499	192,775,638	193,993,990	192,780,544
- Stage 2	14,919,176	12,474,005	14,919,176	12,474,005
- Stage 3	25,464,313	22,009,069	25,464,313	22,009,069
	234,374,988	227,258,712	234,377,479	227,263,618
(Less): Accumulated impairment under:				
- Stage 1 (Note 13.4)	(1,009,992)	(1,047,569)	(1,009,862)	(1,047,439)
- Stage 2 (Note 13.4)	(343,589)	(296,431)	(343,589)	(296,431)
- Stage 3 (Note 13.4)	(6,229,838)	(4,414,056)	(6,229,838)	(4,414,056)
	(7,583,419)	(5,758,056)	(7,583,289)	(5,757,926)
Net loans and advances	226,791,569	221,500,656	226,794,190	221,505,692

Gross Loans Included under stage 1 reflects the balance net of allowance for day 1 difference of staff loans of LKR 775.931 Mn (2018 - LKR 746.857 Mn) (Note 14) which add on to LKR 235,150.920 Mn (2018 - LKR 228,005.569 Mn).

Gross amount of loans & advances individually determined to be impaired, before deducting individually assessed impairment allowance amounts to LKR 16,371 Mn (2018 - LKR 14,088 Mn).

13.1 Gross Loans and Advances by Product

As at 31 December	Bank		Group	
	2019 LKR'000	2018 LKR'000	2019 LKR'000	2018 LKR'000
By Product				
Bills of Exchange	14,670	49,968	14,670	49,968
Trade Finance	42,991,213	41,344,142	42,991,213	41,344,142
Overdrafts	42,085,672	41,893,956	42,085,672	41,893,956
Term Loans	73,403,787	71,110,701	73,403,787	71,110,701
Staff Loans	3,652,422	3,391,441	3,652,422	3,391,441
Leases (Note 13.5)	44,142,733	44,864,827	44,142,733	44,864,827
Credit Cards	28,188,516	24,872,193	28,188,516	24,872,193
Pawning	420,931	329,280	420,931	329,280
Other Advances	250,976	149,061	253,466	153,967
	235,150,920	228,005,569	235,153,410	228,010,475

NOTES TO THE FINANCIAL STATEMENTS

13 LOANS AND ADVANCES TO CUSTOMERS (CONTD.)

13.2 Gross Loans and Advances by Currency

As at 31 December	Bank		Group	
	2019 LKR'000	2018 LKR'000	2019 LKR'000	2018 LKR'000
By Currency				
Sri Lanka Rupee	208,443,170	202,521,098	208,445,660	202,526,004
United States Dollar	26,414,048	25,204,522	26,414,048	25,204,522
Great Britain Pound	62,947	77,651	62,947	77,651
Others	230,755	202,298	230,755	202,298
	235,150,920	228,005,569	235,153,410	228,010,475

13.3 Gross Loans and Advances by Industry

The industry wise exposure of gross Loans and advances are disclosed in Note 47 (from Page No. 181 to 184)

13.4 Movement in impairment during the year

	Bank		Group	
	2019 LKR'000	2018 LKR'000	2019 LKR'000	2018 LKR'000
Stage 1				
Balance as at 01 January	1,047,569	453,772	1,047,439	453,642
Impact of first time adoption of SLFRS 9	-	549,706	-	549,706
Charge/(Write back) to income statement (Note 36)	(37,577)	44,091	(37,577)	44,091
Write-off during the year	-	-	-	-
Balance as at 31 December	1,009,992	1,047,569	1,009,862	1,047,439
Stage 2				
Balance as at 01 January	296,431	154,674	296,431	154,674
Impact of first time adoption of SLFRS 9	-	157,736	-	157,736
Charge/(Write back) to income statement (Note 36)	47,158	(15,979)	47,158	(15,979)
Write-off during the year	-	-	-	-
Balance as at 31 December	343,589	296,431	343,589	296,431
Stage 3				
Balance as at 01 January	4,414,056	2,000,469	4,414,056	2,000,469
Impact of first time adoption of SLFRS 9	-	265,133	-	265,133
Transferred from financial assets at amortised cost - debt instruments (Note 12.3)	42,373	-	42,373	-
Charge/(Write back) to income statement (Note 36)	3,294,029	3,125,851	3,294,029	3,125,851
Write-off during the year	(1,520,620)	(977,397)	(1,520,620)	(977,397)
Balance as at 31 December	6,229,838	4,414,056	6,229,838	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.

13.5 Rental Receivable on Leases

As at 31 December	2019				2018			
	Bank/Group				Bank/Group			
	Within 1 year LKR '000	1 - 5 years LKR '000	Over 5 years LKR '000	Total LKR '000	Within 1 year LKR '000	1 - 5 years LKR '000	Over 5 years LKR '000	Total LKR '000
Gross Rentals Receivables	20,683,827	31,811,108	2,807,606	55,302,541	21,547,858	33,763,327	1,488,994	56,800,179
Less : Unearned Income	(4,786,345)	(5,673,740)	(699,723)	(11,159,808)	(5,294,351)	(6,261,672)	(379,329)	(11,935,352)
Net Rentals Receivables	15,897,482	26,137,368	2,107,883	44,142,733	16,253,507	27,501,655	1,109,665	44,864,827
Less : Allowance for Impairment Losses	-	-	-	(792,788)	-	-	-	(406,420)
Total Net Rentals Receivables	15,897,482	26,137,368	2,107,883	43,349,945	16,253,507	27,501,655	1,109,665	44,458,407

14 OTHER ASSETS

As at 31 December	Bank		Group	
	2019 LKR'000	2018 LKR'000	2019 LKR'000	2018 LKR'000
Deposits and Prepayments	337,612	560,243	347,291	569,925
Unamortized Staff Cost (Note 13)	775,931	746,857	775,931	746,857
Debenture Proceeds Receivable	-	546,177	-	546,177
Senior Citizen Interest Re-imbursement	487,692	253,962	487,692	253,962
Other Receivables	555,711	539,013	599,697	584,967
Less: Impairment for Leasing Charges and Other Receivables (Note 14.1)	(22,524)	(19,666)	(30,373)	(20,994)
	2,134,422	2,626,586	2,180,238	2,680,894

14.1 Movement in impairment during the year

	Bank		Group	
	2019 LKR'000	2018 LKR'000	2019 LKR'000	2018 LKR'000
Balance as at 01 January	19,666	4,074	20,994	4,074
Impact of first time adoption of SLFRS 9	-	584	-	584
Charge / (write back) to income statement (Note 36)	28,098	21,721	34,619	23,049
Write -off during the Year	(25,240)	(6,713)	(25,240)	(6,713)
Balance as at 31 December	22,524	19,666	30,373	20,994

NOTES TO THE FINANCIAL STATEMENTS

15 INVESTMENTS IN SUBSIDIARIES

Unquoted

As at 31 December		Bank			
		2019 Holding %	2018 Holding %	2019 Cost LKR '000	2018 Cost LKR '000
Name of Company	Country of Incorporation				
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

16 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. Valuations are performed with sufficient frequency 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 2019 and details of the revaluation are given in Note 16.3.

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:

Buildings	40 years
Motor Vehicles	04 years
Other Equipment	04 - 08 years
Computer Hardware	02 - 04 years
Furniture and Fittings	08 years
Leasehold Improvements	Over the lease period

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

16 PROPERTY, PLANT AND EQUIPMENT (CONTD.)

16.1 Bank

Gross Carrying Amounts - at Cost	Land - Freehold	Land - Leasehold	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
As at 01 January 2018	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
As 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
Additions	-	-	-	-	60,899	241,911	83,923	40,530	-	427,263
Disposals	-	-	-	-	(5,523)	(2,735)	(6,662)	-	-	(14,920)
Reclassifications *	-	-	-	-	-	19,919	-	-	-	19,919
Revaluation Surplus	177,400	-	(9,013)	-	-	-	-	-	-	168,387
Accumulated depreciation adjustment on revaluation	-	-	(10,435)	-	-	-	-	-	-	(10,435)
Capital WIP - Additions during the year	-	-	-	-	-	-	-	-	9,094	9,094
Capital WIP - Capitalized during the year	-	-	-	-	-	-	-	-	(18,283)	(18,283)
As at 31 December 2019	1,578,900	-	154,730	25,999	783,605	2,434,980	880,247	432,183	9,094	6,299,739

Depreciation / Amortization

As at 01 January 2018	-	-	-	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)
As at 31 December 2018	-	-	5,211	15,983	493,540	1,461,358	578,987	295,811	-	2,850,889
Charge for the year	-	-	5,224	5,300	70,895	260,488	63,772	35,471	-	441,150
Disposals	-	-	-	-	(5,415)	(2,735)	(5,749)	-	-	(13,898)
Reclassifications *	-	-	-	-	-	8,258	-	-	-	8,258
Accumulated depreciation adjustment on revaluation	-	-	(10,435)	-	-	-	-	-	-	(10,435)
As at 31 December 2019	-	-	-	21,283	559,020	1,727,368	637,010	331,282	-	3,275,963

Net Book Value

As at 01 January 2018	1,401,500	-	173,501	15,332	206,060	440,309	243,898	103,701	-	2,584,301
As at 31 December 2018	1,401,500	-	168,967	10,016	234,689	714,527	223,999	95,842	18,283	2,867,825
As at 31 December 2019	1,578,900	-	154,730	4,716	224,585	707,611	243,237	100,901	9,094	3,023,776

During the financial year, the Bank acquired Property, Plant and Equipment to the aggregate value of LKR 427 Mn. (2018 - LKR 656 Mn.). Cash payments amounting to LKR 384.8 Mn (2018- LKR 660.6Mn) 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 2,230 Mn (2018- LKR 1,961 Mn).

* Reclassifications represent transfer of operating software to computer hardware.

16.1.1 The carrying amount of Banks revalued freehold land and buildings, if they were carried at cost less accumulated depreciation would be as follows;

As at 31 December	2019			2018		
	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	46,078	73,725	119,802	43,310	76,492
Total	679,242	46,078	633,165	679,242	43,310	635,932

16.2 Group

Gross Carrying Amounts - at Cost	Land - Freehold	Land - Leasehold	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
As at 01 January 2018	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 during the year	-	-	-	-	-	-	-	-	18,283	18,283
As at 31 December 2018	1,401,500	148,000	838,988	26,169	766,504	2,180,518	806,757	391,652	18,283	6,578,371
Additions	-	-	-	-	64,903	242,862	84,690	40,530	-	432,985
Disposals	-	-	-	-	(5,523)	(2,734)	(6,662)	-	-	(14,919)
Reclassifications *	-	-	-	-	-	19,919	-	-	-	19,919
Revaluation Surplus	177,400	-	264,522	-	-	-	-	-	-	441,922
Accumulated depreciation adjustment on revaluation	-	-	(57,732)	-	-	-	-	-	-	(57,732)
Capital WIP - Additions during the year	-	-	-	-	-	-	-	-	9,094	9,094
Capital WIP - Capitalized during the year	-	-	-	-	-	-	-	-	(18,283)	(18,283)
As at 31 December 2019	1,578,900	148,000	1,045,778	26,169	825,884	2,440,565	884,785	432,182	9,094	7,391,357
Depreciation / Amortization										
As at 01 January 2018	-	22,562	-	10,835	496,134	1,581,626	545,566	258,873	-	2,915,598
Charge for the year	-	1,893	28,798	5,316	67,003	192,555	63,235	36,936	-	395,736
Disposals	-	-	-	-	(64,558)	(309,230)	(27,673)	-	-	(401,465)
As at 31 December 2018	-	24,454	28,798	16,150	498,579	1,464,951	581,128	295,809	-	2,909,869
Charge for the year	-	1,893	28,934	5,300	75,493	261,029	64,203	35,471	-	472,323
Disposals	-	-	-	-	(5,415)	(2,735)	(5,749)	-	-	(13,898)
Reclassifications *	-	-	-	-	-	8,258	-	-	-	8,258
Accumulated depreciation adjustment on revaluation	-	-	(57,732)	-	-	-	-	-	-	(57,732)
As at 31 December 2019	-	26,347	-	21,450	568,657	1,731,503	639,582	331,280	-	3,318,819
Net Book Value										
As at 01 January 2018	1,401,500	125,438	821,700	15,334	208,557	441,898	245,665	103,702	-	3,363,792
As at 31 December 2018	1,401,500	123,546	810,190	10,019	267,925	715,567	225,629	95,843	18,283	3,668,502
As at 31 December 2019	1,578,900	121,653	1,045,778	4,719	257,227	709,062	245,203	100,902	9,094	4,072,538

During the financial year, the Group acquired Property, Plant and Equipment to the aggregate value of LKR 432 Mn (2018 - LKR 705.5 Mn). Cash payments amounting to LKR 397.2 Mn (2018- LKR 691 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 2,240 Mn (2018- LKR 1,966 Mn).

* Reclassifications represent transfer of operating software to computer hardware.

16.2.1 The carrying amount of Group's revalued freehold land and buildings, if they were carried at cost less accumulated depreciation would be as follows:

As at 31 December	2019			2018		
	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	586,572	202,424	384,148	586,572	187,721	398,851
Total	1,146,012	202,424	943,588	1,146,012	187,721	958,291

NOTES TO THE FINANCIAL STATEMENTS

16 PROPERTY, PLANT AND EQUIPMENT (CONTD.)

16.3 Details of Land and Buildings Stated at Valuation

Bank/ Group

Valuer - Mr. P B Kalugalagedara

Location	Date of Valuation	Net Book Value Before Revaluation		Revaluation amount		Revaluation gain recognised in OCI		
		Land	Building	Land	Building	Land	Building	Total
		LKR Mn	LKR Mn	LKR Mn	LKR Mn	LKR Mn	LKR Mn	LKR Mn
No.242, Union Place, Colombo 02	31-12-2019	1,224.00	136.65	1,377.00	135.63	153.00	(1.02)	151.98
No.76, York Street Fort, Colombo 01	31-12-2019	177.50	27.09	201.90	19.10	24.40	(7.99)	16.41
Total - Bank		1,401.50	163.74	1,578.90	154.73	177.40	(9.01)	168.39
No.46/58, Navam Mawatha, Colombo 02	31-12-2019	-	617.51	-	891.05	-	273.53	273.53
Total - Group *		1,401.50	781.25	1,578.90	1,045.78	177.40	264.52	441.92

* Land and Buildings consist of properties of Nations Trust Bank PLC (The Bank) and Allied Properties Limited. Method of Valuation is disclosed in Note 46.2.1

17 RIGHT OF USE ASSETS (ROU)

17.1 Refer the accounting policy given under note 48.3.2 on Leases.

17.2 The key assumptions used for the computation of operating lease liabilities include the following:

	2019
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Incremental Borrowing Rate 11%

	Bank				Group			
	Land & Buildings	Computer Related Equipment	Motor Vehicles	Total	Land & Buildings	Computer Related Equipment	Motor Vehicles	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000

Gross Carrying Amount

Impact of first time adoption of

SLFRS 16 as at 01 January 2019	1,878,064	172,482	39,982	2,090,528	1,698,520	172,482	39,982	1,910,984
Additions	239,266	-	17,476	256,742	239,266	-	17,476	256,742
Disposals	-	-	-	-	-	-	-	-
As at 31 December 2019	2,117,330	172,482	57,458	2,347,270	1,937,786	172,482	57,458	2,167,726

Depreciation

Charge for the year	431,837	28,747	15,957	476,541	342,065	28,747	15,957	386,769
Disposals	-	-	-	-	-	-	-	-
As at 31 December 2019	431,837	28,747	15,957	476,541	342,065	28,747	15,957	386,769

Net Book Value

As at 31 December 2019	1,685,493	143,735	41,501	1,870,729	1,595,721	143,735	41,501	1,780,957
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In order to illustrate the significance of the incremental borrowing rate assumed in this valuation, a sensitivity analysis for all right of use (ROU) assets is as follows.

	Incremental Borrowing Rate	2019	
		Bank	Group
		LKR '000	LKR '000
	12%	1,825,278	1,736,405
	10%	1,918,282	1,827,598

17.3 Set out below are the carrying amounts of lease liabilities (included under due to other borrowers in Note 20.2) and the movement during the year;

	2019	
	Bank	Group
	LKR '000	LKR '000
Impact of first time adoption of SLFRS 16 as at 01 January 2019	1,839,590	1,660,046
Additions	227,456	227,456
Accretion of interest	196,823	181,077
Payments	(547,361)	(447,921)
As at 31 December 2019	1,716,508	1,620,658

The Bank and Group had total cash outflows for leases of LKR 547.4 Mn and LKR 447.9 Mn respectively. The initial application of SLFRS 16 resulted in non-cash addition to right-of-use assets and lease liabilities of LKR 1,839.6 Mn and LKR 1,660.0 Mn of the Bank and Group respectively at 01 January 2019.

NOTES TO THE FINANCIAL STATEMENTS

18 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 5-10 years, for computer software and license fees.

18.1 Bank

	Computer Software LKR'000	Other License Fees LKR'000	Total LKR'000
Cost			
As at 01 January 2018	2,186,310	331,288	2,517,598
Additions	390,404	-	390,404
Disposals	(20,282)	-	(20,282)
Capital WIP - Additions during the year	74,947	-	74,947
As at 31 December 2018	2,631,379	331,288	2,962,667
Additions	325,187	-	325,187
Disposals	-	-	-
Reclassifications*	(19,919)	-	(19,919)
Capital WIP - Additions during the year	183,216	-	183,216
Capital WIP - Capitalized during the year	(74,947)	-	(74,947)
As at 31 December 2019	3,044,916	331,288	3,376,204
Amortization			
As at 01 January 2018	1,126,008	242,944	1,368,952
Charge for the year	269,604	33,129	302,733
Disposals	(10,266)	-	(10,266)
As at 31 December 2018	1,385,346	276,073	1,661,419
Charge for the year	314,332	33,129	347,461
Disposals	-	-	-
Reclassifications*	(8,257)	-	(8,257)
As at 31 December 2019	1,691,421	309,202	2,000,623
Net Book Value			
As at 01 January 2018	1,060,302	88,344	1,148,646
As at 31 December 2018	1,246,033	55,215	1,301,248
As at 31 December 2019	1,353,495	22,086	1,375,581

During the financial year, the Bank acquired Intangible Assets to the aggregate value of LKR 325 Mn (2018- LKR 390 Mn). Cash payments amounting to LKR 425.7 Mn (2018- LKR 304 Mn) were made during the year for purchase of Intangible Assets.

* Reclassifications represent transfer of operating software to computer hardware.

18.2 Group

	Computer Software LKR'000	Other License Fees LKR'000	Total LKR'000
Cost			
As at 01 January 2018	2,208,966	331,288	2,540,254
Additions	390,404	-	390,404
Disposals	(20,282)	-	(20,282)
Capital WIP Additions	74,947	-	74,947
As at 31 December 2018	2,654,035	331,288	2,985,323
Additions	325,187	-	325,187
Disposals	-	-	-
Reclassification*	(19,919)	-	(19,919)
Capital WIP Additions	183,216	-	183,216
Capital WIP - Capitalized during the year	(74,947)	-	(74,947)
As at 31 December 2019	3,067,572	331,288	3,398,860
Amortization			
As at 01 January 2018	1,143,758	242,944	1,386,702
Charge for the year	272,819	33,129	305,948
Disposals	(10,266)	-	(10,266)
As at 31 December 2018	1,406,311	276,073	1,682,384
Charge for the year	315,446	33,129	348,575
Disposals	-	-	-
Reclassification*	(8,257)	-	(8,257)
As at 31 December 2019	1,713,499	309,202	2,022,701
Net Book Value:			
As at 01 January 2018	1,065,208	88,344	1,153,552
As at 31 December 2018	1,247,725	55,215	1,302,940
As at 31 December 2019	1,354,073	22,086	1,376,159

During the financial year, the Group acquired Intangible Assets to the aggregate value of LKR. 325 Mn (2018- LKR 390 Mn). Cash payments amounting to LKR 425.7 Mn (2018- LKR 304 Mn) were made during the year for purchase of Intangible Assets.

* Reclassifications represent transfer of operating software to computer hardware.

NOTES TO THE FINANCIAL STATEMENTS

19 DUE TO BANKS

As at 31 December	Bank / Group	
	2019 LKR'000	2018 LKR'000
Money Market Borrowing	5,836,777	9,878,203
Securities Sold under Repurchase Agreements (Repo) (Note 8.2)	-	8,509,788
Deposits from Other Banks	647,380	86,554
	6,484,157	18,474,545

20 FINANCIAL LIABILITIES AT AMORTISED COST

As at 31 December	Bank		Group	
	2019 LKR'000	2018 LKR'000	2019 LKR'000	2018 LKR'000
Due to Depositors (Note 20.1)	226,880,034	231,936,769	226,871,563	231,462,599
Securities sold under repurchase (repo) agreements (Note 8.2)	11,033,047	7,784,017	10,186,828	7,681,669
Due to Other Borrowers (Note 20.2)	27,380,678	20,248,816	27,284,828	20,248,816
	265,293,759	259,969,602	264,343,219	259,393,084

20.1 Analysis of amount due to depositors

As at 31 December	Bank		Group	
	2019 LKR'000	2018 LKR'000	2019 LKR'000	2018 LKR'000

20.1.1 By Product

Demand Deposits	17,800,609	17,140,867	17,792,138	17,129,573
Savings Deposits	43,810,397	40,873,081	43,810,397	40,873,080
Call Deposits	43,941	1,319,721	43,941	1,319,721
Fixed Deposits	165,176,638	172,372,828	165,176,638	171,909,953
Certificate of Deposits	48,449	230,272	48,449	230,272
	226,880,034	231,936,769	226,871,563	231,462,599

20.1.2 By Currency

Sri Lanka Rupee	195,418,578	199,047,823	195,410,107	198,573,653
United States Dollar	24,946,156	26,499,636	24,946,156	26,499,636
Sterling Pound	2,094,621	2,171,230	2,094,621	2,171,230
Others	4,420,679	4,218,080	4,420,679	4,218,080
	226,880,034	231,936,769	226,871,563	231,462,599

20.2 Due to Other Borrowers

As at 31 December	Bank		Group	
	2019 LKR'000	2018 LKR'000	2019 LKR'000	2018 LKR'000
Development Finance Institutions (DFI) (Note 20.2.1)	16,982,877	16,285,609	16,982,877	16,285,609
Refinance Borrowings	1,962,222	1,411,180	1,962,222	1,411,180
Financial Institutions	6,719,071	2,552,027	6,719,071	2,552,027
Operating Lease Liability	1,716,508	-	1,620,658	-
	27,380,678	20,248,816	27,284,828	20,248,816

20.2.1 These borrowings are from Foreign Development Finance Institutions with an original maturity of 5 years. Interest is payable on a variable base with a fixed spread.

21 DEBT SECURITIES ISSUED

As at 31 December	Bank / Group	
	2019 LKR'000	2018 LKR'000
Subordinated Debt Securities Issued by the Bank		
Rated, Unsecured, Redeemable Debentures (Note 21.1)	13,263,434	8,745,611
	13,263,434	8,745,611
Due within 1 Year	-	260,419
Due after 1 Year	13,263,434	8,485,192
	13,263,434	8,745,611

NOTES TO THE FINANCIAL STATEMENTS

21 DEBT SECURITIES ISSUED (COTD.) 21.1 Details of Subordinated Debentures Issued

Type	Face Value		Interest Rates		Interest Terms	Issued Date	Maturity Date	Amortized Cost - Bank / Group		Interest rate of Comparable Government Security		
	2019	2018	Coupon Rate	Effective Annual Yield				2019	2018	2019	2018	As at Issue Date
	LKR'000	LKR'000	(%)	(%)				LKR'000	LKR'000	(%)	(%)	(%)
NTB-BD-08/11/21-C2363	2,410	2,410	9.17**	**	Semi-Annually	8-Nov-16	8-Nov-21	2,437	2,445	8.65**	11.49**	11.71**
NTB-BD-08/11/21-C2365-1265	3,885,800	3,885,800	12.65	13.05	Semi-Annually	8-Nov-16	8-Nov-21	3,950,016	3,950,323	8.65	11.49	11.71
NTB-BD-08/11/21-C2364-128	1,111,790	1,111,790	12.80	12.80	Annually	8-Nov-16	8-Nov-21	1,130,409	1,130,498	8.65	11.49	11.71
NTB-BD-20/04/23-C2402-1265	2,213,000	2,213,000	12.65	13.05	Semi-Annually	20-Apr-18	20-Apr-23	2,264,996	2,262,040	9.33	11.54	9.99
NTB-BD-20/04/23-C2401-13	1,287,000	1,287,000	13.00	13.00	Annually	20-Apr-18	20-Apr-23	1,401,793	1,400,305	9.33	11.54	9.99
NTB-BD-23/12/24-C2441-128	2,700,000	-	12.80	12.80	Annually	23-Dec-19	23-Dec-24	2,708,073	-	9.74	-	9.89
NTB-BD-23/12/26-C2442-129	1,800,000	-	12.90	12.90	Annually	23-Dec-19	23-Dec-26	1,805,710	-	9.87	-	10.11
	13,000,000	8,500,000						13,263,434	8,745,611			

Ratios of Debt	2019	2018
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Debt* / Equity Ratio (%) 110.18 99.75

Interest Cover (Times) 324 376

Quick Asset Ratio (%) 125 115

* Borrowings of which original maturity with five years or more are considered for debt.

** Floating rate debenture repricing at 6 months T-Bill rate + 1.5%

21.2 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 2019.

22 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 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 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 2019, 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:

	2019	2018
Rate of Discount	9.9%	11.7%
Rate of Salary Increase	8.0%	8.0%
Retirement Age	55-60 years	55-60 years

22.1 Net benefit expense categorized under personnel expenses

For the Year Ended 31 December	Bank		Group	
	2019 LKR'000	2018 LKR'000	2019 LKR'000	2018 LKR'000
Interest Cost	59,089	49,145	59,857	49,744
Current Service Cost	77,908	60,982	78,439	61,605
	136,997	110,127	138,296	111,348

NOTES TO THE FINANCIAL STATEMENTS

22 RETIREMENT BENEFIT OBLIGATIONS (CONTD.)

22.2 Changes in the present value of the Retirement Benefit Plan

	Bank		Group	
	2019 LKR'000	2018 LKR'000	2019 LKR'000	2018 LKR'000
As at 01 January	505,031	486,897	511,602	493,044
Liability Transferred from a subsidiary	-	223	-	-
Interest Cost (Note 22.1)	59,089	49,145	59,857	49,744
Current Service Cost (Note 22.1)	77,908	60,982	78,439	61,605
Benefits Paid	(62,096)	(57,470)	(63,392)	(57,470)
Gratuity Payable	(2,306)	(10,195)	(2,306)	(10,196)
Actuarial (Gain)/ Loss	74,847	(24,551)	75,254	(25,125)
As at 31 December	652,473	505,031	659,454	511,602

22.3 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 2019				Group 2018			
Salary Escalation Rate LKR'000	Discount Rate LKR'000	PVDBO LKR'000	Effect on Other Comprehensive Income LKR'000	Salary Escalation Rate	Discount Rate	PVDBO LKR'000	Effect on Other Comprehensive Income LKR'000
8.0%	10.90%	629,777	29,677	8.0%	12.70%	488,841	22,761
8.0%	8.90%	692,045	(32,591)	8.0%	10.70%	536,536	(24,934)
9.0%	9.90%	695,290	(35,836)	9.0%	11.70%	539,476	(27,874)
7.0%	9.90%	626,303	33,151	7.0%	11.70%	485,794	25,808

22.4 Average future working life time as per the assumptions made in year 2019: 6.01 years (2018: 6.43 years)

23 CURRENT TAX LIABILITIES

	Bank		Group	
	2019 LKR'000	2018 LKR'000	2019 LKR'000	2018 LKR'000
Balance as at 01 January	1,547,833	803,249	1,574,972	847,501
Payments made / tax credits set off	(2,355,175)	(1,577,886)	(2,431,506)	(1,666,267)
Charge for the year (Note 40.1)	2,565,464	2,349,090	2,639,265	2,420,358
(Over)/Under Provisions for the previous year (Note 40.1)	(420,623)	(26,620)	(420,623)	(26,620)
Balance as at 31 December	1,337,499	1,547,833	1,362,108	1,574,972

24 OTHER LIABILITIES

As at 31 December	Bank		Group	
	2019 LKR'000	2018 LKR'000	2019 LKR'000	2018 LKR'000
Accounts Payable and Sundry Creditors	1,993,110	1,964,134	2,005,932	1,983,963
Obligations under Financial Guarantees (Note 24.1)	150,856	121,357	150,856	121,357
Margin Balances	513,918	1,210,053	513,918	1,210,053
Pay Orders	535,622	1,095,703	535,622	1,095,703
Share Based Payments (Note 24.2)	69,188	64,506	69,188	64,506
Impairment in respect of off-balance sheet credit exposure (Note 24.3)	429,055	471,484	429,055	471,484
Others	2,666,646	2,755,819	2,685,389	2,775,672
	6,358,395	7,683,056	6,389,960	7,722,738

24.1 The movement in 'Obligations under Financial Guarantees' during the year is as follows:

	Bank / Group	
	2019 LKR'000	2018 LKR'000
As at 01 January	121,357	101,708
Income recognised during the year	(319,767)	(292,695)
Arising during the Year	349,266	312,344
As at 31 December	150,856	121,357

NOTES TO THE FINANCIAL STATEMENTS

24 OTHER LIABILITIES (CONTD.)

24.2 Share Based Payments

Employee Share Appreciation Rights (ESAR)

Accounting Policy

Employees (senior executives) of the Bank/Group receive benefit in the form of share - based payments, whereby employees rendered 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	Scheme 1 - 2017		Scheme 2 - 2018		Scheme 3 - 2019	
	Number of SARs	Value LKR '000	Number of SARs	Value LKR '000	Number of SARs	Value LKR '000
As at 01 January 2018	932,000	18,078	-	-	-	-
Granted during the year	-	-	1,500,000	3,492	-	-
Granted during the year due to Bonus Issue	24,230	1,873	-	-	-	-
Exercised during the year	(22,177)	(242)	(11,363)	(130)	-	-
Movement of ESAR during the year		12,597		28,838	-	-
As at 31 December 2018	934,053	32,306	1,488,637	32,200	-	-
Granted during the year	-	-	-	-	1,500,000	14,469
Granted during the year due to Bonus Issue	20,745	488	32,537	1,045	-	-
Exercised during the year	(47,379)	(393)	(34,848)	(255)	-	-
SARS payable on retirement/resignation	(33,266)	(60)	(25,000)	(66)	-	-
Cancelled during the year	(57,459)	(1,352)	(158,333)	(5,084)	(107,142)	(2,882)
Forfeited during the year	(7,056)	(166)	(24,241)	(778)	-	-
Movement of ESAR during the year	-	(12,339)	-	6,451	-	5,604
As at 31 December 2019	809,638	18,484	1,278,752	33,513	1,392,858	17,191

The following table lists the input to the model used for valuation of the liability under SARs as at 31 December each year.

	2019			2018	
	Scheme 1	Scheme 2	Scheme 3	Scheme 1	Scheme 2
Dividend Yield	2.59%	2.59%	2.59%	2.65%	2.68%
Expected Volatility	16.86%	16.86%	16.86%	18.43%	18.43%
Risk Free Interest Rate	8.45%	8.45%	8.45%	11%	11%
Expected Life of the Option	2.5 Years	3.25 Years	4.25 Years	3.5 Years	4.25 Years
Weighted Average Share Price on Grant Date	79.29	78.47	89.61	79.29	78.47

The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

24.3 Impairment in respect of off-balance sheet credit exposure

Future Working Life Time	Bank/Group	
	2019 LKR'000	2018 LKR'000
Balance as at 01 January	471,484	-
Impact of first time adoption of SLFRS 9	-	424,236
Charge / (Write back) to the income statement (Note 36)	(42,429)	47,248
Balance as at 31 December	429,055	471,484

25 TAXES

25.1 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%.

NOTES TO THE FINANCIAL STATEMENTS

25 TAXES (CONTD.)

25.1 Accounting Policy (Contd.)

(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.

25.2 Deferred Taxation

Bank	2019			2018					
	1/1/2019 DTL/(DTA)	Recognised in P&L (Note 40.1)	Recognised in OCI	31/12/2019 DTL/(DTA)	1/1/2018 DTL/(DTA)	Impact of first time adoption of SLFRS 9	Recognised in P&L (Note 40.1)	Recognised in OCI	31/12/2018 DTL/(DTA)
Accelerated depreciation allowances for tax purposes - property, plant and equipment and intangible assets	350,184	(44,211)	-	305,973	336,667	-	13,517	-	350,184
Accelerated depreciation allowances for tax purposes- lease rentals receivable	1,244,715 (38,143)	(503,383) -	-	741,332 117,435	1,754,458 80,734	-	(509,743) -	- (118,877)	1,244,715 (38,143)
Net gains on re-measuring of financial assets at fair value through OCI									
Revaluation of land & buildings	262,357	-	47,148	309,505	262,357	-	-	-	262,357
Carry forward tax losses on lease business	(279,806)	279,806	-	-	(559,619)	-	279,813	-	(279,806)
Share based payments	(18,062)	(1,311)	-	(19,373)	-	-	(18,062)	-	(18,062)
Retirement benefit plan - gratuity	(134,535)	(41,929)	(20,957)	(197,421)	(137,085)	-	(4,324)	6,874	(134,535)
Impairment on loans & advances	(8,754)	(197,144)	-	(205,898)	-	-	(8,754)	-	(8,754)
Impairment on other financial assets	(20,019)	(15,081)	-	(35,100)	-	-	(20,019)	-	(20,019)
Impact of first time adoption of SLFRS 9 - loans & advances	(391,270)	391,270	-	-	-	(391,270)	-	-	(391,270)
Impact of first time adoption of SLFRS 9 - other financial assets	(5,884)	5,884	-	-	-	(5,884)	-	-	(5,884)
Impact of first time adoption of SLFRS 16 - operating lease	-	(21,380)	-	(21,380)	-	-	-	-	-
Total Timing Difference	960,783	(147,479)	181,769	995,073	1,737,512	(397,154)	(267,572)	(112,003)	960,783

NOTES TO THE FINANCIAL STATEMENTS

25 TAXES (CONTD.) 25.2 Deferred Taxation (Contd.)

Group	2019				2018			
	1/1/2019 DTL/(DTA)	Recognised in P&L (Note 40.1)	Recognised in OCI	31/12/2019 DTL/(DTA)	Impact of first time adoption of SLFRS 9	Recognised in P&L (Note 40.1)	Recognised in OCI	31/12/2018 DTL/(DTA)
	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000
Accelerated depreciation allowances for tax purposes - property plant and equipment and intangible assets	348,942	(43,919)	-	305,023	-	13,123	-	348,942
Accelerated depreciation allowances for tax purposes - lease rentals receivable	1,244,715	(503,383)	-	741,332	-	(509,743)	-	1,244,715
Net gains on re-measuring of financial assets at fair value through OCI	(38,144)	-	155,578	117,435	-	-	(118,877)	(38,144)
Revaluation of land & buildings	354,936	-	123,738	478,675	-	-	-	354,936
Carry forward Tax losses on lease business	(279,806)	279,806	-	-	-	279,812	-	(279,806)
Share based payments	(18,062)	(1,311)	-	(19,373)	-	(18,062)	-	(18,062)
Retirement benefit plan - gratuity	(135,924)	(41,837)	(21,066)	(198,827)	-	(4,587)	7,061	(135,924)
Impairment on loans & advances	(9,126)	(198,969)	-	(208,095)	-	(9,126)	-	(9,126)
Impairment on other financial assets	(20,019)	(15,082)	-	(35,100)	-	(20,019)	-	(20,019)
Impact of first time adoption of SLFRS 9 - loans & advances	(391,270)	391,270	-	-	(391,270)	-	-	(391,270)
Impact of first time adoption of SLFRS 9 - other financial assets	(5,884)	5,884	-	-	(5,884)	-	-	(5,884)
Impact of first time adoption of SLFRS 16 - operating lease	-	(21,561)	-	(21,561)	-	-	-	-
Total Timing Difference	1,050,358	(149,102)	258,250	1,159,506	(397,154)	(268,602)	(111,816)	1,050,358

Deferred tax has been determined based on the effective tax rate of 28%.

26 STATED CAPITAL

	Bank/Group			
	2019		2018	
	Number	LKR'000	Number	LKR'000
Ordinary Shares - Voting				
Issued and fully paid				
As at 01 January	238,664,673	5,739,916	230,607,283	5,101,369
Scrip Dividend for 2017 (Note 42.1)	-	-	5,991,740	473,347
Scrip Dividend for 2018 (Note 42.1)	5,176,579	466,410	-	-
Conversion of Non - Voting Shares to Voting Shares	1,037,589	82,981	2,065,650	165,200
As at 31 December	244,878,841	6,289,307	238,664,673	5,739,916
Ordinary Shares - Convertible Non - Voting				
Issued and fully paid				
As at 01 January	39,082,463	3,125,607	-	-
Rights Issue*	-	-	40,105,614	3,208,449
Scrip Dividend for 2017 (Note 42.1)	-	-	1,042,499	82,358
Scrip Dividend for 2018 (Note 42.1)	928,157	76,202	-	-
Conversion of Non - Voting Shares to Voting Shares	(1,037,589)	(82,981)	(2,065,650)	(165,200)
As at 31 December	38,973,031	3,118,828	39,082,463	3,125,607
Total Ordinary Shares/Stated Capital as at 31 December	283,851,872	9,408,135	277,747,136	8,865,523

*Rights Issue - During the year, the Bank issued 40,105,614 Convertible Non-Voting Shares (Convertible to Ordinary Voting Shares) at a price of LKR 80 per share in order to raise a sum of up to LKR 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 12 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.

27 STATUTORY RESERVE FUND

27.1 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.

27.2 Movement in Statutory Reserve Fund

	Bank / Group	
	2019	2018
	LKR'000	LKR'000
As at 01 January	1,199,130	1,010,732
Transfers during the year (Note 28)	172,723	188,398
As at 31 December	1,371,853	1,199,130

NOTES TO THE FINANCIAL STATEMENTS

28 RETAINED EARNINGS

	Bank		Group	
	2019 LKR'000	2018 LKR'000	2019 LKR'000	2018 LKR'000
As at 01 January	15,820,900	13,813,403	16,179,448	14,237,649
Impact of first time adoption of SLFRS 9	-	(1,021,253)	-	(1,021,253)
Total Comprehensive Income	3,400,575	3,785,645	3,659,351	3,719,947
Dividend Paid	(583,269)	(568,497)	(583,269)	(568,497)
Transfers to Reserve Fund (Note 27.2)	(172,723)	(188,398)	(172,723)	(188,398)
As at 31 December	18,465,483	15,820,900	19,082,807	16,179,448

29 OTHER RESERVES

29.1 Other Comprehensive Income (OCI) Reserve

	Bank / Group	
	2019 LKR'000	2018 LKR'000
As at 01 January	(98,082)	207,600
Net gains / (losses) on re-measuring financial assets fair value through OCI	555,636	(424,559)
Income tax relating to the above	(155,578)	118,877
As at 31 December	301,976	(98,082)

29.2 Revaluation Reserve

	Bank		Group	
	2019 LKR'000	2018 LKR'000	2019 LKR'000	2018 LKR'000
As at 01 January	674,631	674,631	912,691	912,691
Revaluation Surplus	168,387	-	441,922	-
Deferred Tax charge relating to revaluation (Note 25.2)	(47,148)	-	(123,738)	-
As at 31 December	795,870	674,631	1,230,875	912,691

30 INTEREST INCOME

Accounting Policy

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 benefits 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.

For the Year Ended 31 December	Bank		Group	
	2019 LKR'000	2018 LKR'000	2019 LKR'000	2018 LKR'000
Cash and Cash Equivalents	48,277	46,220	48,277	46,220
Financial Assets Recognized through Profit or Loss				
- Measured at fair value	218,407	100,189	218,407	100,189
Financial Assets at Amortised Cost				
- Loans and Advances to Customers	32,228,385	29,958,510	32,229,056	29,968,084
- Reverse Repurchase Agreements	166,598	113,000	166,598	113,000
- Debt Instruments	1,839,547	1,503,562	1,839,547	1,510,043
Financial Assets Measured at Fair Value Through Other Comprehensive Income	4,872,337	4,557,802	4,872,337	4,557,802
Interest Income Accrued on Impaired Financial Assets	197,309	755,071	197,309	755,071
	39,570,860	37,034,354	39,571,531	37,050,409

a Net interest income from Sri Lanka government securities

For the Year Ended 31 December	Bank		Group	
	2019 LKR'000	2018 LKR'000	2019 LKR'000	2018 LKR'000
Interest income	6,755,854	5,885,108	6,755,854	5,891,589
Less: Interest expenses	-	-	-	-
Net interest income from Sri Lanka government securities	6,755,854	5,885,108	6,755,854	5,891,589

NOTES TO THE FINANCIAL STATEMENTS

31 INTEREST EXPENSE

Accounting Policy

The Bank calculates interest expense by applying the EIR to the carrying amount of financial liabilities.

For the Year Ended 31 December	Bank		Group	
	2019 LKR'000	2018 LKR'000	2019 LKR'000	2018 LKR'000
Due to banks	828,961	261,977	828,961	261,977
Financial liabilities at amortised cost				
- Due to customers	18,450,986	18,018,869	18,443,432	18,005,714
- Repurchase agreements	1,330,351	1,146,832	1,279,204	1,120,936
- Due to Debt Security Holders	1,108,282	1,341,026	1,108,282	1,341,026
- Due to Other Borrowers	1,591,571	1,155,858	1,591,571	1,156,849
- Interest Expense on Lease Liabilities	196,823	-	181,077	-
Others	3,110	-	4,532	-
	23,510,084	21,924,562	23,437,059	21,886,502

32 NET FEE AND COMMISSION INCOME

Accounting Policy

Fee 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:

- 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.
- 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.
- 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 drawn down, the loan commitment fees are recognised as revenue on expiry.

Fee Expense

Fee expenses have been recognized in the Financial Statements as they are incurred in the period to which they relate.

32.1 Fees and Commission Income

For the Year Ended 31 December	Bank		Group	
	2019 LKR'000	2018 LKR'000	2019 LKR'000	2018 LKR'000
Portfolio and Other Management Fees	-	-	2,639	2,475
Credit Card Related Fee and Commission	3,414,325	3,432,103	3,414,325	3,432,020
Commission on Trade Finance Facilities & Remittances	719,131	674,648	719,131	674,648
Commission on Services - Loans	1,139,195	1,171,636	1,139,195	1,171,636
Commission on Services - Deposits	563,818	454,078	563,818	454,078
Other Fees	358,246	283,688	642,728	571,377
	6,194,715	6,016,153	6,481,836	6,306,234

32.2 Fees and Commission Expenses

For the Year Ended 31 December	Bank		Group	
	2019 LKR'000	2018 LKR'000	2019 LKR'000	2018 LKR'000
Brokerage Fees	(27,591)	(21,225)	(27,591)	(21,225)
Credit Card Related Fees	(252,379)	(193,646)	(252,379)	(193,646)
Others	(45,136)	(50,478)	(45,136)	(50,478)
	(325,106)	(265,349)	(325,106)	(265,349)
Net Fee and Commission Income	5,869,609	5,750,804	6,156,730	6,040,885

33 NET GAIN/ (LOSS) FROM TRADING

"Net gains/(losses) from trading" comprised of all realised and unrealised foreign exchange transactions and realized fair value changes on fixed income securities.

For the Year Ended 31 December	Bank		Group	
	2019 LKR'000	2018 LKR'000	2019 LKR'000	2018 LKR'000
Foreign exchange				
- From Banks	(346,491)	(191,646)	(346,491)	(191,646)
- From Other Customers	786,925	813,582	786,925	813,582
Fixed Income Securities (Realised)	283,225	(28,177)	283,225	(28,005)
Derivative financial instruments	(2,039,317)	2,184,489	(2,039,317)	2,184,489
	(1,315,658)	2,778,248	(1,315,658)	2,778,420

NOTES TO THE FINANCIAL STATEMENTS

34 NET FAIR VALUE GAINS/ (LOSSES) FROM FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

Results arising from unrealized net gains/losses due to change in fair value of financial instruments at fair value through profit or loss.

For the Year Ended 31 December	Bank / Group	
	2019 LKR'000	2018 LKR'000
Net gains on financial assets at fair value through profit or loss	11,030	-
Net losses on financial assets at fair value through profit or loss	-	(3,758)
	11,030	(3,758)

35 NET OTHER OPERATING INCOME/(LOSS)

Accounting Policy

(i) 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.

(ii) Rental Income

Rental income is recognized on an accrual basis.

(iii) Other Income

Other income is recognized on an accrual basis.

For the Year Ended 31 December	Bank		Group	
	2019 LKR'000	2018 LKR'000	2019 LKR'000	2018 LKR'000
Dividend Income	4,732	294,489	4,732	3,960
Gain/(Loss) on Sale of Property, Plant and Equipment	(2)	(9,609)	12	(8,261)
Gain/(Loss) on Revaluation of Foreign Exchange	1,090,693	(2,999,101)	1,090,693	(2,999,101)
Other Non-Trading Foreign Exchange	(11,465)	(100,817)	(11,465)	(100,817)
Recovery of Loans Written -Off	236,250	265,438	236,250	265,438
Others	245,339	168,913	245,339	168,913
	1,565,547	(2,380,687)	1,565,561	(2,669,868)

36 IMPAIRMENT CHARGES

For the Year Ended 31 December	Note	Bank		Group	
		2019 LKR'000	2018 LKR'000	2019 LKR'000	2018 LKR'000
Financial assets at amortised cost - Loans and Advances					
Stage 1	13.4	37,577	(44,091)	37,577	(44,091)
Stage 2	13.4	(47,158)	15,979	(47,158)	15,979
Stage 3	13.4	(3,294,029)	(3,125,851)	(3,294,029)	(3,125,851)
Financial assets at amortised cost – Debt Instruments					
Stage 1	12.3	(3,979)	(7,361)	(3,979)	(7,361)
Stage 2		-	-	-	-
Stage 3	12.3	-	(42,373)	-	(42,373)
Financial assets at amortised cost – Others					
Stage 1	6.1	(775)	(43)	(775)	(43)
Stage 2		-	-	-	-
Stage 3	14.1	(28,098)	(21,721)	(34,619)	(23,049)
Contingent liabilities & commitments					
Stage 1	24.3	25,837	(61,283)	25,837	(61,283)
Stage 2	24.3	11,085	(10,898)	11,085	(10,898)
Stage 3	24.3	5,507	24,934	5,507	24,934
Total Impairment Loss		(3,294,033)	(3,272,708)	(3,300,554)	(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	
	2019 LKR'000	2018 LKR'000
1%	12,799	18,936
5%	63,995	94,678
10%	127,990	189,356

NOTES TO THE FINANCIAL STATEMENTS

37 PERSONNEL EXPENSES

For the Year Ended 31 December	Bank		Group	
	2019 LKR'000	2018 LKR'000	2019 LKR'000	2018 LKR'000
Salaries and Bonus	3,078,176	2,724,328	3,102,479	2,746,829
Employee Benefits - Defined Contribution Plan	397,200	348,142	400,264	350,848
Employee Benefits - Defined Benefit Plan (Note 22.1)	136,997	110,127	138,296	111,348
Share Based Payments (Note 24.2)	5,457	46,800	5,457	46,800
Amortization of Staff Loan Day 1 Difference	68,538	122,356	68,538	122,356
Other Allowances	821,756	792,240	824,945	795,590
	4,508,124	4,143,993	4,539,979	4,173,771

38 OTHER OPERATING EXPENSES

For the Year Ended 31 December	Bank		Group	
	2019 LKR'000	2018 LKR'000	2019 LKR'000	2018 LKR'000
Operating Lease Expenses	129,259	644,812	141,774	558,444
Professional Fees	17,934	80,810	18,691	81,337
Auditors Fees and Expenses	10,170	10,525	11,368	11,995
Non Audit fees and Expenses to Auditors	4,648	3,580	4,648	3,580
Legal Fees	29,817	23,874	29,817	23,874
Transport	273,589	262,310	273,968	262,953
Office Administration & Establishment	4,547,208	4,454,803	4,579,848	4,491,872
	5,012,625	5,480,714	5,060,114	5,434,055

39 TAXES AND LEVIES ON FINANCIAL SERVICES

For the Year Ended 31 December	Bank		Group	
	2019 LKR'000	2018 LKR'000	2019 LKR'000	2018 LKR'000
Value Added Tax (VAT)	1,594,259	1,482,049	1,595,286	1,484,468
Nation Building Tax (NBT)	196,308	203,391	196,480	203,763
Debt Repayment Levy (DRL) (Note 39.1)	868,976	178,508	868,976	178,508
	2,659,543	1,863,948	2,660,742	1,866,739

39.1 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.

40 INCOME TAX EXPENSE

40.1 Amount recognized in profit or loss

For the Year Ended 31 December	Bank		Group	
	2019 LKR'000	2018 LKR'000	2019 LKR'000	2018 LKR'000
The component of Income Tax expense for years ended 31 December 2019 & 2018 are ;				
Current Tax Expense				
Current Income Tax on Profit for the Year (Note 40.2)	2,565,464	2,349,090	2,639,265	2,420,358
10% Withholding Tax on Subsidiary Dividend	-	-	-	32,282
Over Provision in respect of Prior Years	(420,623)	(26,620)	(420,623)	(26,620)
Deferred Tax Expense				
Charge for Deferred Tax (Note 25.2)	(147,479)	(267,572)	(149,102)	(268,602)
	1,997,362	2,054,898	2,069,540	2,157,418
Effective Income Tax Rate	36.64%	35.29%	35.79%	36.82%

40.2 Reconciliation of Accounting Profit and Taxable Income

A reconciliation between the tax expense and the accounting profit multiplied by Government of Sri Lanka's applicable tax rate for the years ended 31 December 2019 and 2018 is as follows;

For the Year Ended 31 December	Bank		Group	
	2019 LKR'000	2018 LKR'000	2019 LKR'000	2018 LKR'000
Accounting Profit (Profit before Taxation)	5,451,827	5,822,866	5,783,079	5,859,301
Add : Disallowable Expenses	19,032,011	26,857,405	18,968,533	26,787,750
	24,483,838	32,680,271	24,751,612	32,647,051
Less: Allowable Expenses	(15,321,468)	(23,873,135)	(15,325,665)	(23,875,916)
Exempt Income	-	(417,530)	-	(127,001)
Statutory Income	9,162,370	8,389,606	9,425,947	8,644,134
Taxable Income	9,162,370	8,389,606	9,425,947	8,644,134
Current Income Tax Expense	2,565,464	2,349,090	2,639,265	2,420,358

The Group Tax expense is based on the taxable profit of each Company, since at present the tax laws do not provide for Group taxation.

NOTES TO THE FINANCIAL STATEMENTS

41 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.

41.1 Earnings per Share - Basic / Diluted

For the Year Ended 31 December	Bank		Group	
	2019	2018	2019	2018
Amount Used as the Numerator:				
Net Profit Attributable to Ordinary Shareholders (LKR '000)	3,454,465	3,767,968	3,713,539	3,701,883
No of Ordinary Shares Used as the Denominator:				
Weighted Average Number of Ordinary Shares (Note 41.2)	283,851,872	282,574,147	283,851,872	282,574,147
Basic / Diluted Earnings per Share (LKR)	12.17	13.33	13.08	13.10

41.2 Weighted Average Number of Ordinary Shares

There have been no 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.

42 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 50).

42.1 Paid During the Year

For the Year Ended 31 December	Bank/ Group	
	2019 LKR'000	2018 LKR'000
Dividends on Ordinary Voting Shares:		
First and Final dividend for 2018 : LKR 2.10 per share* (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* (2017 : LKR 2.10 per share**)	81,887	84,222
	583,269	568,497

*Dividend for the year 2018 was paid in the form of a scrip dividend in the proportion of 01 share for every 46.10018487 Ordinary Voting Shares amounting to a total of 5,176,579 new Ordinary Voting Shares and 01 share for every 42.00693871 Convertible Non-Voting Shares (Convertible to Ordinary Voting Shares) amounting to a total of 928,157 new Convertible Non-Voting Shares. Fractions in shares were paid in cash.

** 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.

42.2 Declared by the Board of Directors

(not recognized as a liability as at 31 December)

As at 31 December	Bank/ Group	
	2019 LKR'000	2018 LKR'000
Dividends on Ordinary Voting Shares:		
First and Final dividend for 2019: LKR 2.30 per share (2018: LKR 2.10 per share)	563,221	501,382
Dividends on Ordinary Non-Voting Shares:		
First and Final dividend for 2019: LKR 2.30 per share (2018: LKR 2.10 per share)	89,638	81,887
	652,859	583,269

42.3 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	
	2019	2018
Ordinary Voting Shares (Number)	-	46.10018487
Convertible Non-Voting Shares (Number)	-	42.00693871

43 CASH FLOW INFORMATION**43.1 (Increase)/Decrease in Operating Assets**

For the Year Ended 31 December	Bank		Group	
	2019 LKR'000	2018 LKR'000	2019 LKR'000	2018 LKR'000
Reverse Repurchase Agreements	(13,639,817)	(169,800)	(13,639,817)	(169,800)
Financial Assets - At Fair Value through Profit or Loss	36,660	(144,500)	36,660	(144,500)
Financial Assets - At Amortized Cost - Debt Instruments	(2,472,597)	140,528	(2,472,597)	215,629
Financial Assets - At Fair Value through Other Comprehensive Income	21,122,294	(20,061,154)	21,122,294	(20,061,154)
Financial Assets - At Amortized Cost - Loans & Advances	(9,383,892)	(38,200,630)	(9,381,476)	(37,996,666)
Other Assets	(53,333)	(126,589)	(49,258)	(140,753)
	(4,390,685)	(58,562,145)	(4,384,194)	(58,297,244)

NOTES TO THE FINANCIAL STATEMENTS

43 CASH FLOW INFORMATION (CONTD.)

43.2 Increase/(Decrease) in Operating Liabilities

For the Year Ended 31 December	Bank		Group	
	2019 LKR'000	2018 LKR'000	2019 LKR'000	2018 LKR'000
Repurchase Agreements	(5,311,659)	4,023,975	(6,046,301)	4,299,765
Financial Liabilities - At Amortized Cost - Due to Depositors	(5,043,212)	36,379,620	(4,578,019)	35,933,680
Other Liabilities	(1,431,206)	876,392	(1,432,093)	869,386
	(11,786,077)	41,279,987	(12,056,413)	41,102,831

43.3 Other Non Cash Items included in Profit Before Tax

For the Year Ended 31 December	Bank		Group	
	2019 LKR'000	2018 LKR'000	2019 LKR'000	2018 LKR'000
Depreciation of Property, Plant and Equipment (Note 16)	441,150	367,437	472,323	395,736
Depreciation of ROU Assets (Note 17)	476,541	-	386,769	-
Amortization of Intangible Assets (Note 18)	347,461	302,733	348,575	305,948
(Gain)/Loss on Fair Valuation of Financial Assets - At Fair Value through Profit or Loss (Note 34)	(11,030)	3,758	(11,030)	3,758
Unrealized (Gain)/Loss on Derivative Financial Instruments	2,038,670	(2,184,714)	2,038,670	(2,184,714)
Interest Income/Expense on Loans, Deposits & Government Securities	1,892,190	(248,093)	1,876,444	(248,305)
Interest Income Accrued on Impaired Financial Assets	(197,309)	(755,071)	(197,309)	(755,071)
	4,987,673	(2,513,950)	4,914,442	(2,482,648)

43.4 Changes in liabilities arising from financing activities

For the Year Ended 31 December	Bank/Group			
	01 January 2019 LKR'000	Cash Flows LKR'000	Non - Cash Flows LKR'000	31 December 2019 LKR'000
Development Finance Institutions (DFI)	16,285,609	746,290	(49,022)	16,982,877
Refinance Borrowings	1,411,180	544,102	6,940	1,962,222
Financial Institutions	2,552,027	3,925,000	242,044	6,719,071
Rated, Unsecured, Redeemable Debentures	8,745,611	4,500,000	17,823	13,263,434
Total Debt Issued and Other Borrowed Funds	28,994,427	9,715,392	217,785	38,927,604
Money Market Borrowings	9,878,203	(4,041,426)	-	5,836,777
Total	38,872,630	5,673,966	217,785	44,764,381

For the Year Ended 31 December	Bank/Group			
	01 January 2018	Cash Flows	Non - Cash Flows	31 December 2018
	LKR'000	LKR'000	LKR'000	LKR'000
Development Finance Institutions (DFI)	8,395,298	7,842,952	47,358	16,285,608
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
Total Debt Issued and Other Borrowed Funds	19,737,574	9,047,167	209,685	28,994,426
Money Market Borrowings	10,567,825	(689,622)	-	9,878,203
Total	30,305,399	8,357,545	209,685	38,872,629

44 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.

44.1 Transactions with Key Management Personnel

Key Management Personnel (KMP) include the Board of Directors of the Bank and the Chief Executive Officer of the Bank.

(a) Compensation to Key Management Personnel

For the Year Ended 31 December	2019 LKR'000	2018 LKR'000
Key Management Personnel Benefits	72,009	71,127
Post Employment Benefits	4,026	3,728
	76,035	74,855

In addition to the salaries, the Group also has arranged non cash benefits such as vehicle & insurance to the Executive Director in line with approved benefits plan of the Group. The Executive Director is also entitled to 161,931 (2018 - 112,115) share appreciation rights.

NOTES TO THE FINANCIAL STATEMENTS

44 RELATED PARTY DISCLOSURES (CONTD.)

(b) Transactions, Arrangements and Agreements involving Key Management Personnel

For the Year Ended 31 December	Key Management Personnel & their Close Family Members (CFM)			
	2019 LKR'000	2018 LKR'000	Maximum Balances	
			2019 LKR'000	2018 LKR'000

Items in the Statement of Financial Position

Assets

Loans & Advances	29,618	25,268	29,618	25,268
Credit Cards	4,033	4,557	5,313	4,711

Liabilities

Due to Customers	200,107	139,669	200,107	139,669
Other Liabilities	104	1	-	-

Equity

Dividends (Net)	251	1,102	-	-
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Commitments

Undrawn Facilities	14,231	11,827	-	-
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Items in Statement of Profit or Loss

Interest Income Earned	1,915	1,697	-	-
Interest Expenses Paid	15,005	9,322	-	-
Other Income Earned	1,119	604	-	-
Expenses Paid	723	716	-	-

For the Year Ended 31 December	Entities in which KMPs and CFMs have control or joint control			
	2019 LKR'000	2018 LKR'000	Maximum Balances	
			2019 LKR'000	2018 LKR'000

Items in the Statement of Financial Position

Assets

Credit Cards	-	-	-	81
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Liabilities

Due to Customers	25,223	25,214	25,223	25,214
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Items in Statement of Profit or Loss

Interest Expenses Paid	2,156	2,137	-	-
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44.2 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 319.75 Mn (2018 - LKR 279.63 Mn) to the Fund during the year.

As at 31 December 2019, the Fund has invested a sum of LKR 988.85 Mn (2018 - LKR 919.75 Mn) in financial instruments (Repo, Fixed Deposits and Debentures) of the Bank. Also, as at 31 December 2019, the fund has maintained a sum of LKR 0.04 Mn (2018 - 5.22 Mn) in current/savings accounts of the Bank.

During the year, the Bank has incurred a sum of LKR 105.74 Mn (2018 - LKR 106.17 Mn) as interest expense to the Fund out of which a sum of LKR 61.57 Mn (2018 - LKR 45.28 Mn) is payable as of 31 December 2019.

44.3 Transactions with Related Entities

Year Ended 31 December	Subsidiaries *				Significant Investors **				Significant Investor Related Entities ***			
	2019 LKR'000	2018 LKR'000	Maximum Balances		2019 LKR'000	2018 LKR'000	Maximum Balances		2019 LKR'000	2018 LKR'000	Maximum Balances	
			2019 LKR'000	2018 LKR'000			2019 LKR'000	2018 LKR'000			2019 LKR'000	2018 LKR'000
Items in the Statement of Financial Position												
Assets												
Loans & Advances	-	-	-	33,861	-	815,514	845,788	824,211	82,956	59,881	310,039	123,235
Corporate Credit Cards	-	-	-	-	260	-	422	163	187	4,100	962	5,542
Reverse Repurchase Agreements	-	-	-	-	-	-	-	-	-	-	-	-
Derivative Financial Assets	-	-	-	-	-	-	-	-	-	61,637	-	-
Other Assets	-	1,124	-	1,124	-	-	-	-	17,674	13,146	-	-
Liabilities												
Due to Customers	8,471	472,399	500,559	509,610	1,355,588	5,567,281	4,158,164	10,396,221	565,843	1,413,884	1,513,970	1,633,951
Borrowing & Others	846,219	102,348	850,857	583,201	3,438,788	2,559,503	4,929,695	3,117,749	1,260,414	352,252	1,260,414	523,190
Debtenture Issued	-	-	-	-	-	-	-	-	57,000	629,500	57,000	629,500
Other Liabilities	-	-	-	-	1,056	9,942	-	-	105,185	257,148	-	-
Derivative Financial Liabilities	-	-	-	-	-	-	-	-	-	721	-	-
Equity												
Dividends (Net)	-	-	-	-	370,592	379,572	-	-	-	-	-	-
Commitments												
Undrawn Facilities	-	-	-	-	1,907,296	6,737	-	-	1,094,328	743,658	-	-
Letter of Credit / Guarantees	-	-	-	-	108,969	42,764	-	-	281,235	446,291	-	-
Forward - Foreign Exchange Contracts	-	-	-	-	-	-	-	-	-	562,945	-	-
Items in Income statement												
Interest Income Earned	-	798	-	-	28,018	50,813	-	-	12,127	5,987	-	-
Interest Expenses Paid	58,701	39,051	-	-	248,313	659,844	-	-	47,160	159,234	-	-
Other Income Earned	7,620	8,046	-	-	1,932	5,741	-	-	261,672	141,890	-	-
Dividend Received (Gross)	-	290,529	-	-	-	-	-	-	-	-	-	-
Expenses Paid	86,925	80,777	-	-	25,060	37,399	-	-	61,134	89,830	-	-

* Subsidiaries of the Group includes Waldo 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 2019 (2018 - Nil).

NOTES TO THE FINANCIAL STATEMENTS

45 MATURITY ANALYSIS OF ASSETS AND LIABILITIES

As at 31 December 2019	Bank			Group		
	Within 12 months LKR'000	After 12 months LKR'000	Total LKR'000	Within 12 months LKR'000	After 12 months LKR'000	Total LKR'000
Assets						
Cash and Cash Equivalents	8,755,848	-	8,755,848	8,755,930	-	8,755,930
Balances with Central Bank of Sri Lanka	8,183,669	193,809	8,377,478	8,183,669	193,809	8,377,478
Reverse Repurchase Agreements	13,827,423	-	13,827,423	13,827,423	-	13,827,423
Derivative Financial Instruments	192,714	-	192,714	192,714	-	192,714
Financial Assets - Recognised through Profit or Loss	634,075	-	634,075	634,075	-	634,075
Financial Assets at Fair Value through Other Comprehensive Income	38,301,267	13,880	38,315,147	38,301,267	13,880	38,315,147
Financial Assets at Amortised Cost - Debt Instruments	2,133,651	16,928,955	19,062,606	2,133,651	16,928,955	19,062,606
Financial Assets at Amortised Cost - Loans and Advances	139,555,158	87,236,411	226,791,569	139,557,779	87,236,411	226,794,190
Other Assets	834,380	1,300,042	2,134,422	871,911	1,308,327	2,180,238
Investments in Subsidiaries	-	678,710	678,710	-	-	-
Property, Plant and Equipment	-	3,023,776	3,023,776	-	4,072,538	4,072,538
Right of Use (ROU) Assets	-	1,870,729	1,870,729	-	1,780,957	1,780,957
Intangible Assets	-	1,375,581	1,375,581	-	1,376,159	1,376,159
Total Assets	212,418,186	112,621,893	325,040,078	212,458,419	112,911,036	325,369,455
Liabilities						
Due to Banks	6,484,157	-	6,484,157	6,484,157	-	6,484,157
Derivative Financial Instruments	311,971	-	311,971	311,971	-	311,971
Financial liabilities at amortised cost						
Due to Depositors	221,915,098	4,964,936	226,880,034	221,906,628	4,964,935	226,871,563
Repurchase Agreements	11,033,047	-	11,033,047	10,186,828	-	10,186,828
Due to Other Borrowers	4,822,903	22,557,775	27,380,678	4,727,053	22,557,775	27,284,828
Debt Securities Issued	271,758	12,991,676	13,263,434	271,758	12,991,676	13,263,434
Retirement benefit obligations	99,739	552,734	652,473	100,806	558,648	659,454
Current Tax Liabilities	1,337,499	-	1,337,499	1,362,108	-	1,362,108
Other Liabilities	5,422,041	936,354	6,358,395	5,448,537	941,423	6,389,960
Deferred Tax Liabilities	228,452	766,621	995,073	228,069	931,437	1,159,506
Total Liabilities	251,926,666	42,770,096	294,696,761	251,027,915	42,945,894	293,973,809
Net	(39,508,480)	69,851,797	30,343,317	(38,569,496)	69,965,142	31,395,646

As at 31 December 2018	Bank			Group		
	Within 12 months LKR'000	After 12 months LKR'000	Total LKR'000	Within 12 months LKR'000	After 12 months LKR'000	Total LKR'000
Assets						
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 - Debt Instruments	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
Right of Use (ROU) Asset	-	-	-	-	-	-
Intangible Assets	-	1,301,248	1,301,248	-	1,302,940	1,302,940
Total Assets	221,037,416	103,795,520	324,832,936	221,082,296	103,933,697	325,015,993
Liabilities						
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	297,262	663,522	960,783	297,262	753,098	1,050,358
Total Liabilities	264,680,034	33,690,800	298,370,834	264,161,487	33,795,796	297,957,283
Net	(43,642,618)	70,104,720	26,462,102	(43,079,191)	70,137,901	27,058,710

NOTES TO THE FINANCIAL STATEMENTS

46 FAIR VALUE OF ASSETS AND LIABILITIES

46.1 Determination of Fair Value

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 whole.

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.

46.2 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 in to which the fair value measurement is categorized. The amounts are based on the value recognized in the Statement of Financial Position in the Financial Statements.

Bank

As at 31 December	2019				2018			
	Date of Valuation	Fair Value Measurement Using			Date of Valuation	Fair Value Measurement Using		
		Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)		Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		LKR'000	LKR'000	LKR'000		LKR'000	LKR'000	LKR'000
Financial Assets Measured at Fair Value								
Derivative Financial Instruments								
Forward Foreign Exchange Contracts and Currency Swaps	31-Dec-19	-	192,714	-	31-Dec-18	-	2,403,787	-
								2,403,787
Financial Assets - Recognised through Profit or Loss								
Government Treasury Bills	31-Dec-19	12,731	-	-	-	-	-	-
Government Treasury Bonds	31-Dec-19	621,344	-	-	31-Dec-18	463,892	204,920	-
								668,812
Financial Assets at Fair Value through Other Comprehensive Income								
Debt Instruments								
Government Treasury Bills	31-Dec-19	17,547,404	-	-	31-Dec-18	40,965,971	-	-
Government Treasury Bonds	31-Dec-19	17,138,893	3,614,970	-	31-Dec-18	14,025,916	2,457,970	-
								40,965,971
								16,483,886
Equity Instruments								
Unquoted Equity Shares	31-Dec-19	-	-	13,880	31-Dec-18	-	-	13,974
								13,974
Total Financial Assets Measured at Fair Value		35,320,372	3,807,684	13,880		55,455,779	5,066,677	13,974
								60,536,430
Non Financial Assets Measured at Fair Value								
Freehold Land	31-Dec-19	-	-	1,578,900	30-Sep-17	-	-	1,401,500
Freehold Building	31-Dec-19	-	-	154,730	30-Sep-17	-	-	168,967
								168,967
Total Non Financial Assets Measured at Fair Value		-	-	1,733,630		-	-	1,570,467
								1,570,467
Financial Liabilities								
Derivative Financial Instruments								
Forward Foreign Exchange Contracts and Currency Swaps	31-Dec-19	-	311,971	-	31-Dec-18	-	484,373	-
								484,373
Total Financial Liabilities		-	311,971	-		-	484,373	-
								484,373

NOTES TO THE FINANCIAL STATEMENTS

46. FAIR VALUE OF ASSETS AND LIABILITIES (CONTD.)

46.2 Assets and Liabilities Measured at Fair Value - Fair Value Hierarchy (Contd.)

Group

As at 31 December	2019					2018				
	Date of Valuation	Fair Value Measurement Using				Date of Valuation	Fair Value Measurement Using			
		Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total		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
Financial Assets Measured at Fair Value										
Derivative Financial Instruments										
Forward Foreign Exchange Contracts and Currency Swaps	31-Dec-19	-	192,714	-	192,714	31-Dec-18	-	2,403,787	-	2,403,787
Financial Assets - Recognised through Profit or Loss										
Government Treasury Bills	31-Dec-19	12,731	-	-	12,731	-	-	-	-	-
Government Treasury Bonds	31-Dec-19	621,344	-	-	621,344	31-Dec-18	463,892	204,920	-	668,812
Financial Assets at Fair Value through Other Comprehensive Income										
Debt Instruments										
Government Treasury Bills	31-Dec-19	17,547,404	-	-	17,547,404	31-Dec-18	40,965,971	-	-	40,965,971
Government Treasury Bonds	31-Dec-19	17,138,893	3,614,970	-	20,753,863	31-Dec-18	14,025,916	2,457,970	-	16,483,886
Equity Instruments										
Unquoted Equity Shares	31-Dec-19	-	-	13,880	13,880	31-Dec-18	-	-	13,974	13,974
Total Financial Assets Measured at Fair Value		35,320,372	3,807,684	13,880	39,141,936		55,455,779	5,066,677	13,974	60,536,430
Non Financial Assets Measured at Fair Value										
Freehold Land	31-Dec-19	-	-	1,578,900	1,578,900	30-Sep-17	-	-	1,401,500	1,401,500
Freehold Building	31-Dec-19	-	-	1,045,778	1,045,778	30-Sep-17	-	-	810,190	810,190
Total Non - Financial Assets Measured at Fair Value		-	-	2,624,678	2,624,678		-	-	2,211,690	2,211,690
Financial Liabilities										
Derivative Financial Instruments										
Forward Foreign Exchange Contracts and Currency Swaps	31-Dec-19	-	311,971	-	311,971	31-Dec-18	-	484,373	-	484,373
Total Financial Liabilities		-	311,971	-	311,971		-	484,373	-	484,373

46.2.1 Fair Value Measurement of Assets classified as Level 3

Reconciliation

The following table shows a reconciliation of the opening and closing amounts of Level 3 financial assets which are recorded at fair value.

	Unquoted Equity Shares	
	Bank / Group	
	2019 LKR'000	2018 LKR'000
Balance as at 01 January	13,974	5,937
Investments made during the year	-	6,422
Change in value due to exchange rate fluctuation	(94)	1,615
Balance as at 31 December	13,880	13,974

Equity instruments at FVOCI classified as "Level 3" in the fair value hierarchy comprises of Unquoted Equity Shares. Further details are given in Note 11.1.

Reconciliation of the non - financial assets, " Freehold Land and Buildings" classified as level 3 in the fair value hierarchy;

Bank

	Non Financial Assets Measured at Level 3			
	Freehold Land	Freehold Buildings	Freehold Land	Freehold Buildings
	2019	2019	2018	2018
	LKR'000	LKR'000	LKR'000	LKR'000
Balance as at 01 January	1,401,500	168,967	1,401,500	173,501
Additions during the year	-	-	-	677
Depreciation charge for the year	-	(5,224)	-	(5,211)
Fair value gain/(loss) due to revaluation of land and buildings	177,400	(9,013)	-	-
Balance as at 31 December	1,578,900	154,730	1,401,500	168,967

Group

	Non Financial Assets Measured at Level 3			
	Freehold Land	Freehold Buildings	Freehold Land	Freehold Buildings
	2019	2019	2018	2018
	LKR'000	LKR'000	LKR'000	LKR'000
Balance as at 01 January	1,401,500	810,190	1,401,500	821,700
Additions during the year	-	-	-	17,288
Depreciation charge for the year	-	(28,934)	-	(28,798)
Fair value gain/(loss) due to revaluation of land and buildings	177,400	264,522	-	-
Balance as at 31 December	1,578,900	1,045,778	1,401,500	810,190

NOTES TO THE FINANCIAL STATEMENTS

46. FAIR VALUE OF ASSETS AND LIABILITIES (CONTD.)

46.2 Assets and Liabilities Measured at Fair Value - Fair Value Hierarchy (Contd.)

46.2.1 Fair Value Measurement of Assets classified as Level 3 (Contd.)

Unobservable Inputs used in Measuring Fair Value

The table below sets out information about significant unobservable inputs used in measuring fair value of assets categorized 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	
			Fair Value as at 31.12.2019	Fair Value as at 31.12.2018	Fair Value as at 31.12.2019	Fair Value as at 31.12.2018			31.12.2019	31.12.2018
No 76, York Street, Fort Colombo	Land	1082 P	201,900	177,500	201,900	177,500	Direct Capital Comparison	Price per perch	LKR 20 Mn and LKR 12 Mn	LKR 17.5 Mn and LKR 11 Mn (arcade)
	Building	8,660 (Sq.Ft)	19,100	28,500	19,100	28,500	Method	Price per Sq.Ft	LKR 1,000 - LKR 6,000	LKR 3,000- LKR 5,000
No 242, Union Place, Colombo 2	Land	772 P	1,377,000	1,224,000	1,377,000	1,224,000	Direct Capital Comparison	Price per perch	LKR 18 Mn	LKR 16 Mn
	Building	33,650 (Sq.Ft)	135,630	145,000	135,630	145,000	Method	Price per Sq.Ft	LKR 1,000 - LKR 5,000	LKR 1,000 - LKR 5,000
46/58, Nawam Mawatha, Colombo 2	Building	61,300 (Sq.Ft)	-	-	891,048	648,200	Investment method	Rent per Sq.Ft per month	LKR 160/- to LKR 290/-	LKR 115/- to LKR 250/-
Total			1,733,630	1,575,000	2,624,678	2,223,200				

* Significant increases/(decreases) in any of these inputs in isolation would result in a higher/(lower) fair value. Fair value measurements are positively correlated with the unobservable inputs.

46.3 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
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 represents 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 rates 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 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. Conversely, fixed deposits with original tenors above one year and interest paid at maturity were discounted using current market rate offered to customers during the fourth quarter of the reporting year. 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

46. FAIR VALUE OF ASSETS AND LIABILITIES (CONTD.)

46.3 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 /Groups 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	2019				2018			
	Carrying amount	Fair Value Measurement Using			Carrying amount	Fair Value Measurement Using		
		Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)		Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000
Financial Assets								
Financial Assets at Amortised Cost - Debt Instruments	19,062,606	5,314,249	14,416,802	-	19,731,051	15,941,247	12,194,354	-
	19,062,606	5,314,249	14,416,802	-	19,731,051	15,941,247	12,194,354	-
Loans and Advances to Customers								
Corporate Loans	74,532,270	-	74,132,247	-	74,132,247	64,416,421	64,576,583	-
SME and Consumer Lending	108,391,799	-	108,373,837	-	108,373,837	111,109,770	110,333,547	-
Housing Loans	4,431,696	-	4,590,653	-	4,590,653	4,223,111	4,192,636	-
Leases	44,142,733	-	45,566,564	-	45,566,564	44,864,827	45,068,620	-
Staff Loans	3,652,422	-	2,648,692	-	2,648,692	3,391,441	2,304,634	-
	235,150,920	-	235,311,993	-	235,311,993	228,005,570	226,476,020	-
Total Financial Assets	254,213,526	5,314,249	249,728,795	-	255,043,044	243,946,817	238,670,374	-
Financial Liabilities								
Due to Customers	226,880,034	-	226,890,751	-	226,890,751	231,936,769	231,206,477	-
Due to Other Borrowers	27,380,678	-	27,733,460	-	27,733,460	20,248,816	20,248,816	-
Debt Securities Issued	13,263,434	-	13,912,222	-	13,912,222	8,745,611	9,024,163	-
Total Financial Liabilities	267,524,146	-	268,536,433	-	268,536,433	260,931,196	260,479,456	-

Group

As at 31 December	2019				2018			
	Fair Value Measurement Using		Carrying amount	Total	Fair Value Measurement Using			
	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)		Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	
Financial Assets								
Financial Assets at Amortised Cost - Debt Instruments	19,062,606	5,314,249	14,416,802	-	19,731,051	15,941,247	3,548,416	
	19,062,606	5,314,249	14,416,802	-	19,731,051	15,941,247	3,548,416	
Loans and Advances to Customers								
Corporate Loans	74,532,270	-	74,132,247	-	74,132,247	64,416,421	-	
SME and Consumer Lending	108,394,289	-	108,376,326	-	108,376,326	111,114,675	-	
Housing Loans	4,431,696	-	4,590,653	-	4,590,653	4,223,111	-	
Leases	44,142,733	-	45,566,564	-	45,566,564	44,864,827	-	
Staff Loans	3,652,422	-	2,648,692	-	2,648,692	3,391,441	-	
	235,153,410	-	235,314,482	-	235,314,482	228,010,475	-	
Total Financial Assets	254,216,016	5,314,249	249,731,284	-	255,045,533	243,951,722	3,548,416	
Financial Liabilities								
Due to Customers	226,871,563	-	226,882,280	-	226,882,280	231,462,599	-	
Due to Other Borrowers	27,284,828	-	27,637,611	-	27,637,611	20,248,816	-	
Debt Securities Issued	13,263,434	-	13,912,222	-	13,912,222	8,745,611	-	
Total Financial Liabilities	267,419,825	-	268,432,113	-	268,432,113	260,457,026	-	
						260,004,924	-	
						226,480,925	-	
						238,675,279	-	
						242,223,695	-	
						230,731,945	-	
						20,248,816	-	
						9,024,163	-	
						260,004,924	-	
						226,480,925	-	
						238,675,279	-	
						242,223,695	-	
						230,731,945	-	
						20,248,816	-	
						9,024,163	-	
						260,004,924	-	
						226,480,925	-	
						238,675,279	-	
						242,223,695	-	
						230,731,945	-	
						20,248,816	-	
						9,024,163	-	
						260,004,924	-	
						226,480,925	-	
						238,675,279	-	
						242,223,695	-	
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						226,480,925	-	
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						242,223,695	-	
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						226,480,925	-	
						238,675,279	-	
						242,223,695	-	
						230,731,945	-	
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						260,004,924	-	
						226,480,925	-	
						238,675,279	-	
						242,223,695	-	
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						226,480,925	-	
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						260,004,924	-	
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						242,223,695	-	
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						226,480,925	-	
						238,675,279	-	
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						260,004,924	-	
						226,480,925	-	
						238,675,279	-	
						242,223,695	-	
						230,731,945	-	
						20,248,816	-	
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						238,675,279	-	
						242,223,695	-	
						230,731,945	-	
						20,248,816	-	
						9,024,163	-	
						260,004,924	-	
						226,480,925	-	
						238,675,279	-	
						242,223,695	-	
						230,731,945	-	
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						9,024,163	-	
						260,004,924	-	
						226,480,925	-	
						238,675,279	-	
						242,223,695	-	
						230,731,945	-	
						20,248,816	-	
						9,024,163	-	
						260,004,924	-	
						226,480,925	-	
						238,675,279	-	
						242,223,695	-	
						230,731,945	-	
						20,248,816	-	
						9,024,163	-	
						260,004,924	-	
						226,480,925	-	
						238,675,279	-	
						242,223,695	-	
						230,731,945	-	
						20,248,816	-	
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						260,004,924	-	
						226,480,925	-	
						238,675,279	-	
						242,223,695	-	
						230,731,945	-	
						20,248,816	-	
						9,024,163	-	
						260,004,924	-	
						226,480,925	-	
						238,675,279	-	
						242,223,695	-	
						230,731,945	-	
						20,248,816	-	
						9,024,163	-	
						260,004,924	-	
						226,480,925	-	
						238,675,279	-	
						242,223,695	-	
						230,731,945	-	
						20,248,816	-	
						9,024,163	-	
						260,004,924	-	
						226,480,925	-	
						238,675,279	-	
						242,223,695	-	
						230,731,945	-	
						20,248,816	-	
						9,024,163	-	
						260,004,924	-	
						226,480,925	-	
						238,675,279	-	

NOTES TO THE FINANCIAL STATEMENTS

47. FINANCIAL RISK MANAGEMENT

47.1 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

- Bank's 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.

47.2 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 Fifty 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 for its Corporate Banking portfolio where exposures between Rupees Fifty Million and Rupees Hundred Million are assessed against limited number of OEIL and exposures above Rupees Hundred Million are assessed against the complete 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

NOTES TO THE FINANCIAL STATEMENTS

47. FINANCIAL RISK MANAGEMENT (CONTD.)

47.2 Credit Risk (Contd.)

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 13.4

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 the 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 lifetime 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, the 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 a 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 the historical default database. 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 represents 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 12 months 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 principle 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 into 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 an 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 honour 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	
		2019 LKR'000	2018 LKR'000
Investment Grade			
A	Less than 1%	30,332,350	33,529,300
B	Less than 1.5%	67,896,501	57,703,241
Intermediary Grade			
C + and C	Less than 2.5%	6,362,453	8,653,499
Speculative Grade			
C-	Less than 5.5%	3,381,757	3,691,805
D	Minimum of 13%	3,713,450	1,379,313
Past Due - Rated Customers			
	Less than 30 Days	8,825,378	13,437,122
	30 - 90 Days	6,542,078	9,030,935
	More than 90 Days	4,233,971	2,668,370
Past Due - Fully Secured by Cash		2,017,296	2,645,846
Individually Impaired - Rated Customers		15,943,648	13,975,085
Sum of Amortized Cost of Rated Customers		149,248,883	146,714,517

NOTES TO THE FINANCIAL STATEMENTS

47. FINANCIAL RISK MANAGEMENT (CONTD.)

47.2 Credit Risk (Contd.)

It is the Bank's 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.

Credit Quality by Class of Financial Assets

Bank - 31 December 2019	Neither past due nor impaired					Past due but not impaired	Individually Impaired	Total
	High Grade	Investment Grade	Intermediary Grade	Speculative Grade	Customers whose credit rating is not yet finalized			
	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000
Cash and Cash Equivalents	8,755,848	-	-	-	-	-	-	8,755,848
Balances with Central Bank of Sri Lanka	8,377,478	-	-	-	-	-	-	8,377,478
Reverse Repurchase Agreements	11,404,692	20,412	-	-	2,402,319	-	-	13,827,423
Derivative Financial Instruments								
Forward Foreign Exchange Contracts and Currency Swaps	146,997	45,718	-	-	-	-	-	192,714
Financial Assets - Recognised through Profit or Loss								
Government Treasury Bills and Bonds	634,075	-	-	-	-	-	-	634,075
Financial Assets at Fair Value through Other Comprehensive Income								
Government Treasury Bills and Bonds	38,301,267	-	-	-	-	-	-	38,301,267
Unquoted Equity Shares	-	-	-	-	13,880	-	-	13,880
Financial Assets at Amortised Cost								
Government Treasury Bills and Bonds	13,559,215	-	-	-	-	-	-	13,559,215
Sri Lanka Development Bonds	4,247,098	-	-	-	-	-	-	4,247,098
Quoted Debentures	209,024	1,079,394	-	-	-	-	-	1,288,418
Financial Assets at Amortised Cost – Loans and Advances (Gross)								
Corporate Loans	-	61,248,722	41,680	3,421,624	-	3,663,376	6,156,869	74,532,271
Retail, SME and Consumer	-	34,015,905	2,908,854	3,660,359	40,222,560	18,021,892	9,562,229	108,391,799
Housing Loans	-	275,382	98,923	-	3,134,199	903,646	19,545	4,431,696
Leases	-	2,688,843	3,312,995	13,225	21,050,740	16,444,745	632,186	44,142,733
Staff Loans	-	-	-	-	3,626,540	25,882	-	3,652,422
Total	85,635,694	99,374,376	6,362,453	7,095,207	70,450,237	39,059,542	16,370,829	324,348,337

Note 1: 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 Rs. 39Bn categorized under "Past due but not individually impaired", Rs. 16Bn (42%) is in Stage 1, Rs. 15.8Bn (40%) is in Stage 2 and Rs. 7.2Bn (18%) is in Stage 3. All individually impaired loans are Stage 3 assets.

Note 2: Total Assets are not in line with Statement of Financial Position since figures shown above are on Gross basis

NOTES TO THE FINANCIAL STATEMENTS

47. FINANCIAL RISK MANAGEMENT (CONTD.)

Credit Quality by Class of Financial Assets

Bank - 31 December 2018	Neither past due nor impaired					Past due but not impaired	Individually Impaired	Total
	High Grade	Investment Grade	Intermediary Grade	Speculative Grade	Customers whose credit rating is not yet finalized			
	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
Derivative Financial Instruments								
Forward Foreign Exchange Contracts and Currency Swaps	2,391,591	12,196	-	-	-	-	-	2,403,787
Financial Assets - Recognised through Profit or Loss								
Government Treasury Bills and Bonds	668,812	-	-	-	-	-	-	668,812
Financial Assets at Fair Value through Other Comprehensive Income								
Government Treasury Bills and Bonds	57,449,857	-	-	-	-	-	-	57,449,857
Unquoted Equity Shares	-	-	-	-	13,974	-	-	13,974
Financial Assets at Amortised Cost								
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
Financial Assets at Amortised Cost – Loans and Advances (Gross)								
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
Total	94,868,639	92,164,877	8,653,499	5,071,118	65,734,196	43,248,667	14,193,003	323,934,000

Note 1: 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.

Note 2: Total Assets are not in line with Statement of Financial Position since figures shown above are on Gross basis

47. FINANCIAL RISK MANAGEMENT (CONTD.)

Credit Quality by Class of Financial Assets

Group - 31 December 2019	Neither past due nor impaired					Past due but not impaired	Individually Impaired	Total
	High Grade	Investment Grade	Intermediary Grade	Speculative Grade	Customers whose credit rating is not yet finalized			
	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000
Cash and Cash Equivalents	8,755,930	-	-	-	-	-	-	8,755,930
Balances with Central Bank of Sri Lanka	8,377,478	-	-	-	-	-	-	8,377,478
Reverse Repurchase Agreements	11,404,692	20,412	-	-	2,402,319	-	-	13,827,423
Derivative Financial Instruments								
Forward Foreign Exchange Contracts and Currency Swaps	146,997	45,718	-	-	-	-	-	192,714
Financial Assets - Recognised through Profit or Loss								
Government Treasury Bills and Bonds	634,075	-	-	-	-	-	-	634,075
Financial Assets at Fair Value through Other Comprehensive Income								
Government Treasury Bills and Bonds	38,301,267	-	-	-	-	-	-	38,301,267
Unquoted Equity Shares	-	-	-	-	13,880	-	-	13,880
Financial Assets at Amortised Cost								
Government Treasury Bills and Bonds	13,559,215	-	-	-	-	-	-	13,559,215
Sri Lanka Development Bonds	4,247,098	-	-	-	-	-	-	4,247,098
Quoted Debentures	209,024	1,079,394	-	-	-	-	-	1,288,418
Financial Assets at Amortised Cost – Loans and Advances (Gross)								
Corporate Loans	-	61,248,722	41,680	3,421,624	-	3,663,376	6,156,869	74,532,271
Retail, SME and Consumer	-	34,018,394	2,908,854	3,660,359	40,222,560	18,021,892	9,562,229	108,394,288
Housing Loans	-	275,382	98,923	-	3,134,199	903,646	19,545	4,431,696
Leases	-	2,688,843	3,312,995	13,225	21,050,740	16,444,745	632,186	44,142,733
Staff Loans	-	-	-	-	3,626,540	25,882	-	3,652,422
Total	85,635,775	99,376,866	6,362,453	7,095,207	70,450,237	39,059,542	16,370,829	324,350,908

Note 1: 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 Rs. 39.0Bn categorized under "Past due but not individually impaired", Rs. 16Bn (42%) is in Stage 1, Rs. 15.8Bn (40%) is in Stage 2 and Rs. 7.2Bn (18%) is in Stage 3. All individually impaired loans are Stage 3 assets.

Note 2: Total Assets are not in line with Statement of Financial Position since figures shown above are on Gross basis

NOTES TO THE FINANCIAL STATEMENTS

47. FINANCIAL RISK MANAGEMENT (CONTD.)

Credit Quality by Class of Financial Assets

Group - 31 December 2018	Neither past due nor impaired					Past due but not impaired	Individually Impaired	Total
	High Grade	Investment Grade	Intermediary Grade	Speculative Grade	Customers whose credit rating is not yet finalized			
	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
Derivative Financial Instruments								
Forward Foreign Exchange Contracts and Currency Swaps	2,391,591	12,196	-	-	-	-	-	2,403,787
Financial Assets - Recognised through Profit or Loss								
Government Treasury Bills and Bonds	668,812	-	-	-	-	-	-	668,812
Financial Assets at Fair Value through Other Comprehensive Income								
Government Treasury Bills and Bonds	57,449,857	-	-	-	-	-	-	57,449,857
Unquoted Equity Shares	-	-	-	-	13,974	-	-	13,974
Financial Assets at Amortised Cost								
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
Financial Assets at Amortised Cost – Loans and Advances (Gross)								
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
Total	94,868,694	92,169,782	8,653,499	5,071,118	65,734,196	43,248,667	14,193,003	323,938,959

Note 1: 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.

Note 2: Total Assets are not in line with Statement of Financial Position since figures shown above are on Gross basis

Collateral and other credit enhancements

The amount and type of collateral required depend 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 2019	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	8,755,848	-	-	-	-	-	-	-	-	-	-	8,755,848
Balances with Central Bank of Sri Lanka	8,377,478	-	-	-	-	-	-	-	-	-	-	8,377,478
Reverse Repurchase Agreements	13,827,423	-	15,264,310	-	-	-	-	-	-	(1,436,887)	13,827,423	-
Derivative Financial Instruments	192,714	-	-	-	-	-	-	-	-	-	-	192,714
Financial Assets - Recognised through Profit or Loss	634,075	-	-	-	-	-	-	-	-	-	-	634,075
Financial Assets at Fair Value through Other Comprehensive Income	38,315,147	-	-	-	-	-	-	-	-	-	-	38,315,147
Financial Assets at Amortised Cost	19,062,606	-	-	110,286	-	-	-	-	-	-	110,286	18,952,320
Financial Assets at Amortised Cost - Loans and Advances (Gross)	235,150,920	31,646,137	-	-	39,644,516	2,433,105	2,673	631,582	122,033,174	(92,972,863)	103,418,323	131,735,087
Financial Guarantees	624,094	-	-	3,155	-	-	-	-	-	-	3,155	620,939
Letters of Credit	7,758,860	-	-	-	-	-	-	-	191,280	-	191,280	7,567,580
Other Commitments	190,972,177	-	-	304,261	-	-	-	-	-	-	10,464,991	180,507,186
	523,671,343	31,646,137	15,264,310	417,701	39,644,516	2,433,105	2,673	631,582	122,224,453	(94,409,750)	128,015,457	395,658,375

NOTES TO THE FINANCIAL STATEMENTS

47. FINANCIAL RISK MANAGEMENT (CONTD.)

Collateral and other credit enhancements

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	127,621,122	-	-	-	-	-	-	-	-	-	-	127,621,122
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 at Fair Value through Other Comprehensive Income	57,463,831	-	-	-	-	-	-	-	-	-	-	57,463,831
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	-	-	21,710,111	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	-	-	-	-	-	-	809,1967	175,678,869
	514,462,789	29,723,835	199,253	486,803	21,710,111	2,529,937	1,000	435,672	116,408,894	(76,803,691)	102,444,469	412,018,319

Collateral and other credit enhancements

Group - 31 December 2019	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	8,755,930	-	-	-	-	-	-	-	-	-	-	8,755,930
Balances with Central Bank of Sri Lanka	8,377,478	-	-	-	-	-	-	-	-	-	-	8,377,478
Reverse Repurchase Agreements	13,827,423	-	15,264,310	-	-	-	-	-	-	(1,436,887)	13,827,423	-
Derivative Financial Instruments	192,714	-	-	-	-	-	-	-	-	-	-	192,714
Financial Assets - Recognised through Profit or Loss	634,075	-	-	-	-	-	-	-	-	-	-	634,075
Financial Assets at Fair Value through Other Comprehensive Income	38,315,147	-	-	-	-	-	-	-	-	-	-	38,315,147
Financial Assets at Amortised Cost	19,062,606	-	-	110,286	-	-	-	-	-	-	110,286	18,952,320
Financial Assets at Amortised Cost - Loans and Advances (Gross)	235,153,410	31,646,137	-	-	39,644,516	2,433,105	2,673	631,582	122,033,174	(92,972,863)	103,418,323	131,735,087
Financial Guarantees	624,094	-	-	3,155	-	-	-	-	-	-	3,155	620,939
Letters of Credit	7,758,860	-	-	-	-	-	-	-	191,280	-	191,280	7,567,580
Other Commitments	190,976,301	-	-	304,261	-	-	-	-	-	-	10,467,480	180,508,821
	523,678,039	31,646,137	15,264,310	417,701	39,644,516	2,433,105	2,673	631,582	122,224,453	(94,409,750)	128,017,947	395,660,092

NOTES TO THE FINANCIAL STATEMENTS

47. FINANCIAL RISK MANAGEMENT (CONTD.)

Collateral and other credit enhancements

Group - 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	6,437,573	-	-	-	-	-	-	-	-	-	-	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 at Fair Value through Other Comprehensive Income	57,463,831	-	-	-	-	-	-	-	-	-	-	57,463,831
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	115,627,595	(76,796,249)	93,254,924	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	183,773,993	-	-	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	116,408,894	(76,814,909)	102,450,157	412,020,747

Analysis of Risk Concentration

The Bank's concentrations of risk are managed by industry sector. The following table shows the risk concentration by the 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".

Analysis of Risk Concentration

Bank - 31 December 2019	Agriculture	Consumer Durables & Disposables	Food & Beverages	Ancillary Services	Banking & Finance	Health Care	Information Technology & Telecommuni-cation	Industries	Diversified	Construction & Real Estate	Travel & Transport	Other	Cash Backed/ Government Securities	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
Cash and Cash Equivalents	-	-	-	-	-	-	-	-	-	-	-	-	8,755,848	8,755,848
Balances with Central Bank of Sri Lanka	-	-	-	-	-	-	-	-	-	-	-	-	8,377,478	8,377,478
Reverse Repurchase Agreements	-	-	-	-	-	-	-	-	-	-	-	-	13,827,423	13,827,423
Derivative Financial Instruments														
Forward Foreign Exchange Contracts and Currency Swaps	-	-	-	-	192,714	-	-	-	-	-	-	-	-	192,714
Financial Assets - Recognised through Profit or Loss														
Government Treasury Bills and Bonds	-	-	-	-	-	-	-	-	-	-	-	-	634,075	634,075
Financial Assets at Fair Value through Other Comprehensive Income														
Government Treasury Bills and Bonds	-	-	-	-	-	-	-	-	-	-	-	-	38,301,267	38,301,267
Unquoted Equity Shares	-	-	-	-	-	-	-	-	-	-	-	13,880	-	13,880
Financial Assets at Amortised Cost														
Government Treasury Bills and Bonds	-	-	-	-	-	-	-	-	-	-	-	-	13,559,215	13,559,215
Sri Lanka Development Bonds	-	-	-	-	-	-	-	-	-	-	-	-	4,247,098	4,247,098
Quoted Debentures	-	-	-	-	934,192	-	-	354,226	-	-	-	-	-	1,288,418
Impairment	-	-	-	-	-	-	-	-	-	-	-	-	-	(32,125)
Financial Assets at Amortised Cost - Loans and Advances														
Corporate Loans	19,492,436	3,289,928	3,459,121	82,329	8,181,078	1,565,899	1,159,380	14,954,576	7,887,694	4,694,596	8,279,340	66	1,485,827	74,532,271
Retail, SME and Consumer Housing Loans	8,846,674	4,759,581	4,727,715	12,359,457	3,712,555	4,892,671	3,403,205	29,372,548	1,407,763	10,465,755	7,058,614	3,372,862	14,012,400	108,391,799
Leases	21,861	26,784	17,596	215,707	48,772	73,187	88,896	579,166	5,971	7,689	56,250	3,283,361	6,456	4,431,696
Staff loans	7,094,523	1,859,659	1,837,537	6,887,101	1,517,857	1,482,706	1,331,107	8,435,023	250,634	4,241,618	7,507,919	1,697,048	-	44,142,733
Impairment for Loans and Advances	-	-	-	-	2,876,490	-	-	-	-	-	-	-	-	2,876,490
Net Loans and Advances	-	-	-	-	-	-	-	-	-	-	-	-	-	(7,583,419)
	-	-	-	-	-	-	-	-	-	-	-	-	-	226,791,569
	35,455,494	9,935,952	10,041,968	19,544,594	17,463,659	8,014,463	5,982,588	53,695,540	9,552,063	19,409,658	22,902,123	8,367,217	103,207,087	315,956,861

NOTES TO THE FINANCIAL STATEMENTS

47. FINANCIAL RISK MANAGEMENT (CONTD.)

Analysis of Risk Concentration

Bank - 31 December 2018	Agriculture	Consumer Durables & Disposables	Food & Beverages	Ancillary Services	Banking & Finance	Health Care	Information Technology & Telecommunication	Industries	Diversified	Construction & Real Estate	Travel & Transport	Other	Cash Backed/ Government Securities	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
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														
Forward Foreign Exchange Contracts and Currency Swaps	-	-	-	-	2,342,150	-	-	-	-	-	-	61,637	-	2,403,787
Financial Assets - Recognised through Profit or Loss														
Government Treasury Bills and Bonds	-	-	-	-	-	-	-	-	-	-	-	-	668,812	668,812
Financial Assets at Fair Value through Other Comprehensive Income														
Government Treasury Bills and Bonds	-	-	-	-	-	-	-	-	-	-	-	-	57,449,857	57,449,857
Unquoted Equity Shares	-	-	-	-	-	-	-	-	-	-	-	13,974	-	13,974
Financial Assets at Amortised Cost														
Government Treasury Bills and Bonds	-	-	-	-	-	-	-	-	-	-	-	-	10,208,371	10,208,371
Sri Lanka Development Bonds	-	-	-	-	-	-	-	-	-	-	-	-	3,914,439	3,914,439
Quoted Debentures	-	23,011	171,936	-	1,234,852	-	-	459,158	-	-	-	-	-	1,888,957
Impairment	-	-	-	-	-	-	-	-	-	-	-	-	-	(70,519)
Financial Assets at Amortised Cost - Loans and Advances														
Corporate Loans	16,105,764	3,339,208	2,580,899	87,027	12,366,953	1,145,689	1,168,425	10,740,974	2,452,373	2,418,105	11,696,367	206,367	108,269	64,416,421
Retail SME and Consumer Housing Loans	10,124,893	5,096,736	4,832,429	11,454,098	3,937,132	3,527,897	3,637,207	28,856,649	1,185,218	10,726,822	7,959,768	6,515,146	13,255,775	111,109,770
Leases	19,060	20,433	22,160	188,824	332,303	57,113	140,194	509,990	6,420	8,558	43,766	2,874,290	-	4,223,111
Staff loans	6,867,648	1,846,256	1,831,078	6,217,480	1,620,737	1,685,461	1,538,494	8,825,396	241,050	4,631,900	7,718,457	1,840,869	-	44,864,827
Impairment for Loans and Advances	-	-	-	-	2,644,584	-	-	-	-	-	-	-	-	2,644,584
Net Loans and Advances	-	-	-	-	-	-	-	-	-	-	-	-	-	(5,758,056)
	-	-	-	-	-	-	-	-	-	-	-	-	-	221,500,656
	33,117,365	10,325,645	9,438,501	17,947,430	24,478,710	6,416,161	6,484,320	49,392,167	3,885,061	17,785,385	27,418,358	11,512,284	104,985,756	317,358,568

Analysis of Risk Concentration

Group - 31 December 2019	Agriculture	Consumer Durables & Disposables	Food & Beverages	Ancillary Services	Banking & Finance	Health Care	Information Technology & Telecommuni-cation	Industries	Diversified	Construction & Real Estate	Travel & Transport	Other	Cash Backed/ Government Securities	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
Cash and Cash Equivalents	-	-	-	-	-	-	-	-	-	-	-	-	8,755,930	8,755,930
Balances with Central Bank of Sri Lanka	-	-	-	-	-	-	-	-	-	-	-	-	8,377,478	8,377,478
Reverse Repurchase Agreements	-	-	-	-	-	-	-	-	-	-	-	-	13,827,423	13,827,423
Derivative Financial Instruments														
Forward Foreign Exchange Contracts and Currency Swaps	-	-	-	-	192,714	-	-	-	-	-	-	-	-	192,714
Financial Assets - Recognised through Profit or Loss														
Government Treasury Bills and Bonds	-	-	-	-	-	-	-	-	-	-	-	-	634,075	634,075
Financial Assets at Fair Value through Other														
Comprehensive Income														
Government Treasury Bills and Bonds	-	-	-	-	-	-	-	-	-	-	-	-	38,301,267	38,301,267
Unquoted Equity Shares	-	-	-	-	-	-	-	-	-	-	-	13,880	-	13,880
Financial Assets at Amortised Cost														
Government Treasury Bills and Bonds	-	-	-	-	-	-	-	-	-	-	-	-	13,559,215	13,559,215
Sri Lanka Development Bonds	-	-	-	-	-	-	-	-	-	-	-	-	4,247,098	4,247,098
Quoted Debentures	-	-	-	-	934,192	-	-	354,226	-	-	-	-	-	1,288,418
Impairment	-	-	-	-	-	-	-	-	-	-	-	-	-	(32,125)
Financial Assets at Amortised Cost - Loans and Advances														
Corporate Loans	19,492,436	7,887,694	3,459,121	82,329	8,181,078	1,565,899	1,159,380	14,954,576	3,289,928	4,694,596	8,279,340	66	1,485,827	74,532,271
Retail, SME and Consumer Housing Loans	8,846,674	1,407,763	4,727,715	123,594,57	3,715,045	4,892,671	3,403,205	29,372,548	4,759,581	10,465,755	7,058,614	3,372,862	14,012,400	108,394,288
Leases	21,861	5,971	17,596	215,707	48,772	73,187	88,896	579,166	26,784	7,689	56,250	3,283,361	6,456	4,431,696
Staff loans	7,094,523	250,634	1,837,537	6,887,101	1,517,857	1,482,706	1,331,107	8,435,023	1,859,659	4,241,618	7,507,919	1,697,048	-	44,142,733
Impairment for Loans and Advances	-	-	-	-	2,876,490	-	-	-	-	-	-	-	-	2,876,490
Net Loans and Advances	-	-	-	-	-	-	-	-	-	-	-	-	-	(7,583,419)
	-	-	-	-	-	-	-	-	-	-	-	-	-	226,794,059
	35,455,494	9,552,063	10,041,968	19,544,594	17,466,148	8,014,463	5,982,588	53,695,540	9,935,952	19,409,658	22,902,123	8,367,217	103,207,170	315,959,432

NOTES TO THE FINANCIAL STATEMENTS

47. FINANCIAL RISK MANAGEMENT (CONTD.)

Analysis of Risk Concentration

Group - 31 December 2018	Agriculture	Consumer Durables & Disposables	Food & Beverages	Ancillary Services	Banking & Finance	Health Care	Information Technology & Telecommunication	Industries	Diversified	Construction & Real Estate	Travel & Transport	Other	Cash Backed/ Government Securities	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
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														
Forward Foreign Exchange Contracts and Currency Swaps	-	-	-	-	2,342,150	-	-	-	-	-	-	61,637	-	2,403,787
Financial Assets - Recognised through Profit or Loss														
Government Treasury Bills and Bonds	-	-	-	-	-	-	-	-	-	-	-	-	668,812	668,812
Financial Assets at Fair Value through Other														
Comprehensive Income														
Government Treasury Bills and Bonds	-	-	-	-	-	-	-	-	-	-	-	-	57,449,857	57,449,857
Unquoted Equity Shares	-	-	-	-	-	-	-	-	-	-	-	13,974	-	13,974
Financial Assets at Amortised Cost														
Government Treasury Bills and Bonds	-	-	-	-	-	-	-	-	-	-	-	-	10,208,371	10,208,371
Sri Lanka Development Bonds	-	-	-	-	-	-	-	-	-	-	-	-	3,914,439	3,914,439
Quoted Debentures	-	23,011	171,936	-	1,234,852	-	-	459,158	-	-	-	-	-	1,888,957
Impairment	-	-	-	-	-	-	-	-	-	-	-	-	-	(70,519)
Financial Assets at Amortised Cost - Loans and Advances														
Corporate Loans	16,105,764	2,452,373	2,580,899	87,027	12,366,953	1,145,689	1,168,425	10,740,974	3,339,208	2,418,105	11,696,367	206,367	108,269	64,416,421
Retail, SME and Consumer Housing Loans	10,124,893	1,185,218	4,832,429	11,454,098	3,942,037	3,527,897	3,637,207	28,856,649	5,096,736	10,726,822	7,959,768	6,515,146	13,255,775	111,114,675
Leases	19,060	6,420	22,160	188,824	332,303	57,113	140,194	509,990	20,433	8,558	43,766	2,874,290	-	4,223,111
Staff loans	6,867,648	241,050	1,831,078	6,217,480	1,620,737	1,685,461	1,538,494	8,825,396	18,462,256	4,631,900	7,718,457	18,408,669	-	44,864,827
Impairment for Loans and Advances	-	-	-	-	2,644,584	-	-	-	-	-	-	-	-	2,644,584
Net Loans and Advances	-	-	-	-	-	-	-	-	-	-	-	-	-	(57,579,261)
														221,505,692
	33,117,365	3,908,072	9,438,501	17,947,430	24,483,615	6,416,161	6,484,320	49,392,167	10,302,634	17,785,385	27,418,358	11,512,284	104,985,810	317,363,658

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 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. (Refer to "Analysis of Financial Assets and Liabilities by Remaining Contractual Maturities" under 47.3 Liquidity Risk and Funding Management).

47.3 Liquidity Risk and Funding Management

Bank's liquidity is that ability to efficiently meet both expected and unexpected cash flows and collateral needs without adversely affecting either daily operations or the financial condition of the Bank.

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. Liquidity risk faced by the Bank falls into two major categories, namely funding liquidity risk and market liquidity risk.

The funding liquidity is a level of liquidity whereby the Bank is able to meet its current and future cash flows and collateral needs, both expected and unexpected, without materially affecting its daily operations or overall financial condition. The market liquidity is Bank's ability in the financial market (interbank market) to exchange financial assets quickly without any material effect on prices/costs.

The Bank manages liquidity risk according to the liquidity risk management policy. In accordance with the Bank's policy, two approaches are adopted to measure liquidity risk namely stock approach and flow approach.

Under the stock approach, the Bank uses certain financial ratios such as Net Loans to Total Assets, Loan to Deposits, Liquidity Coverage Ratio, Net Stable Funding Ratio, Statutory Liquid Assets Ratio (SLAR) etc. to measure the liquidity risk of banks. The Bank monitors these ratios by putting in place an internally defined limit approved by the Board for these ratios.

The flow approach determines liquidity/net funding requirements of banks by analyzing the Bank's current and future cash flows based on assumptions of the current and future behavior of assets and liabilities that are classified into specified time buckets and then calculating the cumulative net flows over the time frame for liquidity assessment.

The Bank maintains a liquidity contingency plan that specifies an approach for analyzing and responding to potential liquidity crisis events./ 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 31 December	2019		2018	
	DBU	FCBU	DBU	FCBU
Liquid Asset Ratio	23.8%	24.3%	22.3%	22.3%

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 5% (2018 – 6%) 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 performs 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.

NOTES TO THE FINANCIAL STATEMENTS

47. FINANCIAL RISK MANAGEMENT (CONTD.)

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 2019 under the flow approach.

Bank - As at 31 December 2019	On demand (Less than 15 days) LKR'000	16 days to 3 months LKR'000	3 to 12 months LKR'000	1 to 5 years LKR'000	Over 5 years LKR'000	Total LKR'000
Financial Assets						
Cash and Cash Equivalents	8,757,606	-	-	-	-	8,757,606
Balances with Central Bank of Sri Lanka	2,760,170	2,021,970	3,401,529	193,671	138	8,377,478
Reverse Repurchase Agreements	13,832,999	-	-	-	-	13,832,999
Financial Assets - Recognised through Profit or Loss						
Government Debt Securities - Treasury Bills and Bonds	-	19,913	53,753	817,564	-	891,229
Financial Assets at Fair Value through Other Comprehensive Income						
Government Debt Securities - Treasury Bills and Bonds	2,892,400	4,960,459	14,119,748	21,923,454	262,741	44,158,802
Unquoted Equity Shares	-	-	-	-	13,880	13,880
Financial Assets at Amortised Cost						
Government Debt Securities - Treasury Bills and Bonds	94,036	329,842	1,070,819	12,594,938	5,460,521	19,550,157
Other Financial Assets	-	116,165	1,895,720	4,122,332	-	6,134,217
Financial Assets at Amortised Cost - Loans and Advances	87,681,347	33,983,744	45,525,482	90,313,750	14,077,573	271,581,896
Total Undiscounted Financial Assets	116,018,558	41,432,091	66,067,050	129,965,710	19,814,854	373,298,263
Financial Liabilities						
Due to Banks	4,111,131	2,395,065	-	-	-	6,506,195
Financial Liabilities at Amortised Cost						
Due to Depositors	73,468,434	57,015,180	97,099,192	6,213,085	3,200	233,799,091
Repurchase Agreements	6,442,960	4,472,526	156,320	-	-	11,071,807
Due to Other Borrowers	552,773	566,100	5,428,113	24,126,031	2,995,314	33,668,330
Debt Securities Issued	-	-	1,660,199	15,346,691	2,264,400	19,271,290
Total Undiscounted Financial Liabilities	84,575,299	64,448,871	104,343,824	45,685,807	5,262,914	304,316,714
Net Undiscounted Financial Assets/ (Liabilities)	31,443,259	(23,016,779)	(38,276,774)	84,279,903	14,551,941	68,981,549
Gross Settled Derivatives not Held for Trading						
Financial Assets						
Contractual Amounts Receivable	2,636,549	10,019,475	2,506,340	93,650	-	15,256,014
Contractual Amounts Payable	(2,636,549)	(10,019,475)	(2,506,340)	(93,650)	-	(15,256,014)
	-	-	-	-	-	-
Financial Liabilities						
Contractual Amounts Receivable	1,770,054	7,626,072	13,892,082	187,550	-	23,475,758
Contractual Amounts Payable	(1,770,054)	(7,626,072)	(13,892,082)	(187,550)	-	(23,475,758)
	-	-	-	-	-	-
Total Gross Settled Derivative Assets/(Liabilities) not Held for Trading	-	-	-	-	-	-
Total Net Financial Assets/ (Liabilities)	31,443,259	(23,016,779)	(38,276,774)	84,279,903	14,551,941	68,981,549

Analysis of Financial Assets and Liabilities by Remaining Contractual Maturities

Bank - As at 31 December 2018	On demand (Less than 15 days) LKR'000	16 days to 3 months LKR'000	3 to 12 months LKR'000	1 to 5 years LKR'000	Over 5 years LKR'000	Total LKR'000
Financial Assets						
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
Financial Assets - Recognised through Profit or Loss						
Government Debt Securities - Treasury Bills and Bonds	54,063	24,375	338,650	247,093	205,030	869,210
Financial Assets at Fair Value through Other Comprehensive Income						
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
Financial Assets at Amortised Cost						
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
Total Undiscounted Financial Assets	105,813,696	42,812,152	89,024,596	112,440,007	19,746,992	369,837,444
Financial Liabilities						
Due to Banks	14,456,181	4,048,419	-	-	-	18,504,600
Financial Liabilities at Amortised Cost						
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
Total Undiscounted Financial Liabilities	92,580,601	67,890,854	103,576,624	36,908,679	1,728,522	302,685,280
Net Undiscounted Financial Assets/ (Liabilities)	13,233,095	(25,078,702)	(14,552,027)	75,531,328	18,018,470	67,152,164
Gross Settled Derivatives not Held for Trading						
Financial Assets						
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)
	-	-	-	-	-	-
Financial Liabilities						
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)
	-	-	-	-	-	-
Total Gross Settled Derivative Assets/(Liabilities) not Held for Trading	-	-	-	-	-	-
Total Net Financial Assets/ (Liabilities)	13,233,095	(25,078,702)	(14,552,027)	75,531,328	18,018,470	67,152,164

NOTES TO THE FINANCIAL STATEMENTS

47. FINANCIAL RISK MANAGEMENT (CONTD.)

Analysis of Financial Assets and Liabilities by Remaining Contractual Maturities

Group - As at 31 December 2019	On demand (Less than 15 days) LKR'000	16 days to 3 months LKR'000	3 to 12 months LKR'000	1 to 5 years LKR'000	Over 5 years LKR'000	Total LKR'000
Financial Assets						
Cash and Cash Equivalents	8,757,688	-	-	-	-	8,757,688
Balances with Central Bank of Sri Lanka	2,760,170	2,021,970	3,401,529	193,671	138	8,377,478
Reverse Repurchase Agreements	13,832,999	-	-	-	-	13,832,999
Financial Assets - Recognised through Profit or Loss						
Government Debt Securities - Treasury Bills and Bonds	-	19,913	53,753	817,564	-	891,229
Financial Assets at Fair Value through Other Comprehensive Income						
Government Debt Securities - Treasury Bills and Bonds	2,892,400	4,960,459	14,119,748	21,923,454	262,741	44,158,802
Unquoted Equity Shares	-	-	-	-	13,880	13,880
Financial Assets at Amortised Cost						
Government Debt Securities - Treasury Bills and Bonds	94,036	329,842	1,070,819	12,594,938	5,460,521	19,550,157
Other Financial Assets	-	116,165	1,895,720	4,122,332	-	6,134,217
Financial Assets at Amortised Cost - Loans and Advances	87,683,838	33,983,744	45,525,482	90,313,750	14,077,573	271,584,387
Total Undiscounted Financial Assets	116,021,131	41,432,091	66,067,050	129,965,710	19,814,854	373,300,836
Financial Liabilities						
Due to Banks	4,111,131	2,395,065	-	-	-	6,506,195
Financial Liabilities at Amortised Cost						
Due to Depositors	73,459,964	57,015,180	97,099,192	6,213,085	3,200	233,790,620
Repurchase Agreements	6,330,371	3,738,896	156,320	-	-	10,225,587
Due to Other Borrowers	552,773	591,514	5,504,355	24,126,031	2,995,314	33,769,986
Debt Securities Issued	-	-	1,660,199	15,346,691	2,264,400	19,271,290
Total Undiscounted Financial Liabilities	84,454,239	63,740,654	104,420,066	45,685,807	5,262,914	303,563,680
Net Undiscounted Financial Assets/ (Liabilities)	31,566,891	(22,308,563)	(38,353,016)	84,279,903	14,551,941	69,737,156
Gross Settled Derivatives not Held for Trading						
Financial Assets						
Contractual Amounts Receivable	2,636,549	10,019,475	2,506,340	93,650	-	15,256,014
Contractual Amounts Payable	(2,636,549)	(10,019,475)	(2,506,340)	(93,650)	-	(15,256,014)
	-	-	-	-	-	-
Financial Liabilities						
Contractual Amounts Receivable	1,770,054	7,626,072	13,892,082	187,550	-	23,475,758
Contractual Amounts Payable	(1,770,054)	(7,626,072)	(13,892,082)	(187,550)	-	(23,475,758)
	-	-	-	-	-	-
Total Gross Settled Derivative Assets/(Liabilities) not Held for Trading	-	-	-	-	-	-
Total Net Financial Assets/ (Liabilities)	31,566,891	(22,308,563)	(38,353,016)	84,279,903	14,551,941	69,737,156

Analysis of Financial Assets and Liabilities by Remaining Contractual Maturities

Group - As at 31 December 2018	On demand (Less than 15 days) LKR'000	16 days to 3 months LKR'000	3 to 12 months LKR'000	1 to 5 years LKR'000	Over 5 years LKR'000	Total LKR'000
Financial Assets						
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
Financial Assets - Recognised through Profit or Loss						
Government Debt Securities - Treasury Bills and Bonds	54,063	24,375	338,650	247,093	205,030	869,210
Financial Assets at Fair Value through Other Comprehensive Income						
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
Financial Assets at Amortised Cost						
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
Total Undiscounted Financial Assets	105,818,658	42,812,152	89,024,596	112,440,007	19,746,992	369,842,406
Financial Liabilities						
Due to Banks	14,456,181	4,048,419	-	-	-	18,504,600
Financial Liabilities at Amortised Cost						
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
Total Undiscounted Financial Liabilities	92,466,959	67,424,361	103,576,624	36,908,679	1,728,522	302,105,145
Net Undiscounted Financial Assets/ (Liabilities)	13,351,699	(24,612,208)	(14,552,027)	75,531,328	18,018,470	67,737,261
Gross Settled Derivatives not Held for Trading						
Financial Assets						
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)
	-	-	-	-	-	-
Financial Liabilities						
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)
	-	-	-	-	-	-
Total Gross Settled Derivative Assets/(Liabilities) not Held for Trading	-	-	-	-	-	-
Total Net Financial Assets/ (Liabilities)	13,351,699	(24,612,208)	(14,552,027)	75,531,328	18,018,470	67,737,261

NOTES TO THE FINANCIAL STATEMENTS

47. FINANCIAL RISK MANAGEMENT (CONTD.)

Whilst the management understands above contractual maturity gaps, more emphasis is given for the behavioral 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 2019	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000
Bonds	966,881	3,985,783	8,632,264	3,820,134	-	17,405,062
Acceptance	586,185	2,569,583	380,880	-	-	3,536,649
Guarantees	624,094	-	-	-	-	624,094
Letters of Credit	828,270	5,614,876	1,315,714	-	-	7,758,860
Foreign Exchange Contracts	4,406,603	17,645,547	16,398,422	281,200	-	38,731,772
Forward Contracts to Buy/Sell						
Government Securities	308,728	-	-	-	-	308,728
Undrawn Commitments						
Credit Cards	40,800,230	-	-	-	-	40,800,230
Other	90,189,736	-	-	-	-	90,189,736
Total Commitments and Guarantees	138,710,728	29,815,789	26,727,280	4,101,334	-	199,355,131

Note 1: 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 605Mn as at end of 2019 based on a 2.5% price premium movement on 6 month forward exchange rate as at end of year.

Note 2: Group Undrawn Commitments include, LKR 4Mn of undrawn commitments of Margin Trading.

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
Forward Contracts to Buy/Sell						
Government Securities	-	-	-	-	-	-
Undrawn Commitments						
Credit Cards	35,952,592	-	-	-	-	35,952,592
Other	84,123,758	-	-	-	-	84,123,758
Total Commitments and Guarantees	134,308,074	28,223,470	26,026,559	2,041,205	-	190,599,308

Note 1: 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 based on a 2.5% price premium movement on 6 month forward exchange rate as at end of year.

Note 2: Group Undrawn Commitments include, LKR 3Mn of undrawn commitments of Margin Trading.

47.4 Market Risk

Market Risk denotes the risk of losses in the banking book as a result of unfavorable 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 unfavorable 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 unfavorable 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 Bank's 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). The Classifications are based on the basis agreed at ALCO for monitoring of repricing gaps.

Bank - As at 31 December 2019	Total LKR'000	On demand (Less than 15 days) LKR'000	16 days to 3 months LKR'000	3 to 12 months LKR'000	1 to 5 years LKR'000	Over 5 years LKR'000	Non- interest bearing LKR'000
Assets							
Cash and balances with Central Bank of Sri Lanka	14,872,345	-	-	-	-	-	14,872,345
Loans and Advances	226,653,235	79,628,548	50,676,588	34,992,898	45,025,219	5,371,600	10,958,383
Investments	72,440,133	16,665,317	8,320,899	14,287,860	27,108,641	4,581,818	1,475,598
Other	49,986,633	6,985,808	17,536,651	16,022,130	272,130	-	9,169,914
Total Assets	363,952,346	103,279,673	76,534,138	65,302,888	72,405,990	9,953,418	36,476,240
Liabilities							
Deposits	221,564,372	55,003,604	53,682,467	90,211,411	4,476,821	3,200	18,186,869
Borrowings	55,326,639	9,807,119	17,403,019	9,971,579	14,294,763	3,850,160	-
Other	87,061,335	5,360,183	17,620,376	16,320,408	281,200	-	47,479,167
Total Shareholder Funds and Liabilities	363,952,346	70,170,906	88,705,863	116,503,398	19,052,784	3,853,360	65,666,037
Total Interest Sensitivity Gap		33,108,767	(12,171,724)	(51,200,510)	53,353,206	6,100,058	(29,189,797)

NOTES TO THE FINANCIAL STATEMENTS

47. FINANCIAL RISK MANAGEMENT (CONTD.)

Interest Rate Risk

Bank - As at 31 December 2018	Total	On demand (Less than 15 days)	16 days to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non- interest 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	19,071,884	-	-	-	-	-	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
Total Assets	374,181,392	103,528,018	67,211,139	94,952,455	60,086,387	7,323,686	41,079,708

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
Total Shareholder Funds and Liabilities	374,181,392	85,521,571	93,009,210	115,322,758	14,114,027	1,285,213	64,928,613

Total Interest Sensitivity Gap	18,006,446	(25,798,071)	(20,370,303)	45,972,360	6,038,473	(23,848,905)	
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Group - As at 31 December 2019	Total	On demand (Less than 15 days)	16 days to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non- interest 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	14,872,929	-	-	-	-	-	14,872,929
Loans and Advances	226,655,725	79,631,037	50,676,588	34,992,898	45,025,219	5,371,600	10,958,383
Investments	72,440,133	16,665,317	8,320,899	14,287,860	27,108,641	4,581,818	1,475,598
Other	50,020,780	6,985,808	17,536,651	16,022,130	272,130	-	9,204,062
Total Assets	363,989,567	103,282,162	76,534,138	65,302,888	72,405,990	9,953,418	36,510,971

Liabilities

Deposits	221,564,372	55,003,604	53,682,467	90,211,411	4,476,821	3,200	18,186,869
Borrowings	54,891,230	9,694,553	17,080,176	9,971,579	14,294,763	3,850,160	-
Other	87,533,964	5,360,183	17,620,376	16,320,408	281,200	-	47,951,797
Total Shareholder Funds and Liabilities	363,989,567	70,058,340	88,383,020	116,503,398	19,052,784	3,853,360	66,138,666

Total Interest Sensitivity Gap	33,223,822	(11,848,882)	(51,200,510)	53,353,206	6,100,058	(29,627,695)	
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Interest Rate Risk

Group - As at 31 December 2018	Total	On demand (Less than 15 days)	16 days to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non- interest 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
Total Assets	374,446,888	103,532,923	67,211,139	94,952,455	60,086,387	7,323,686	41,340,299
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
Total Shareholder Funds and Liabilities	374,446,888	85,419,247	92,842,628	115,322,758	14,114,027	1,285,213	65,463,015
Total Interest Sensitivity Gap		18,113,675	(25,631,490)	(20,370,303)	45,972,360	6,038,473	(24,122,716)

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 /(Decrease) in basis points	Sensitivity to Profit after Tax		Sensitivity to Equity after Tax	
		2019 LKR'000	2018 LKR'000	2019 LKR'000	2018 LKR'000
LKR	+100/-100	+192,089/-194,835	+103,032/-104,335	-616,083/+651,147	-561,851/+590,972
USD	+50/-50	-1,637/+1,639	-6,160/+6,192	-7,121/+7,232	-8,887/+8,981

Group	Increase /(Decrease) in basis points	Sensitivity to Profit after Tax		Sensitivity to Equity after Tax	
		2019 LKR'000	2018 LKR'000	2019 LKR'000	2018 LKR'000
LKR	+100/-100	+192,081/-194,827	+103,030/-104,333	-616,091/+651,155	-561,853/+590,974
USD	+50/-50	-1,637/+1,639	-6,160/+6,192	-7,121/+7,232	-8,887/+8,981

NOTES TO THE FINANCIAL STATEMENTS

47. FINANCIAL RISK MANAGEMENT (CONTD.)

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 unfavorable 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 2019. 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 Rate in % 2019	Change in Currency Rate in % 2018	Effect on Profit after tax 2019 LKR'000	Effect on Profit after tax 2018 LKR'000
USD	+5	+5	(5,414.4)	1,332.3
GBP	+5	+5	281.9	(422.7)
EUR	+5	+5	109.1	113.9
AUD	+5	+5	(1,460.6)	(157.0)
JPY	+5	+5	2.0	142.3
Other	+5	+5	1,044.4	632.7

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 Rate in % 2019	Change in Currency Rate in % 2018	Effect on Profit after tax 2019 LKR'000	Effect on Profit after tax 2018 LKR'000
USD	+5	+5	4,535.4	(678.2)

48 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 therefore are part of the overall risk of the Bank/Group (Note 47).

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.

48.1 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. (2018 - Nil)

48.2 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;

As at 31 December	Group	
	2019 LKR'000	2018 LKR'000
Capital Commitments for Property, Plant and Equipment		
Approved and Contracted for	278,780	61,152
Approved but not Contracted for	78,546	110,730
	357,326	171,882
Capital Commitments for Intangible Assets		
Approved and Contracted for	360,239	242,379
Approved but not Contracted for	94,841	434,679
	455,080	677,058
	812,406	848,940

NOTES TO THE FINANCIAL STATEMENTS

48 CONTINGENT LIABILITIES, COMMITMENTS AND LEASING ARRANGEMENTS (CONTD.)

48.3 Lease Arrangements

48.3.1 Policy applicable before 01 January 2019

The determination of whether an arrangement is a lease, or contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or whether the arrangement conveys a right to use the asset.

Group as a lessor

Leases where the Group 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 Group 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 are incurred.

48.3.2 Policy applicable after 01 January 2019

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases (leases with a lease term of 12 months or less) and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date that underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the lease term. The right-of-use assets are presented in Note 17 and are subject to impairment in line with the Group's policy as described in Note 3.4 Impairment of non-financial assets.

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (less any lease incentives receivable), variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses in the period in which the event or condition that triggers the payment occurs.

48.3.3 Operating Leases – Group as Lessee

The Group has entered into commercial leases for premises and non bank motor vehicles. These leases have an average life of five years with no renewal option included in the contracts. There are no restrictions placed upon the lessee by entering into these leases.

Set out below are the undiscounted potential future rental payments as at 31 December.

As at 31 December	Group	
	2019 LKR'000	2018 LKR'000
Within one year	434,816	339,935
After one year but not more than five years	1,409,158	1,007,706
More than five years	356,055	674,576
	2,200,029	2,022,217

48.3.4 Operating Lease Receivable – Group as Lessor

The table below provides an analysis of operating lease receivables for leases of certain properties in which the Group is the lessor.

As at 31 December	Group	
	2019 LKR'000	2018 LKR'000
Within one year	53,778	135,360
After one year but not more than five years	57,070	148,906
	110,848	284,266

49 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.

49.1 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.

49 CAPITAL (CONTD.)

49.2 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 / Group by the number of Ordinary Shares in issue as at the reporting date.

As at 31 December	Bank		Group	
	2019	2018	2019	2018
Amount Used as the Numerator:				
Net Assets Attributable to Equity Holders of the Parent (LKR'000)	30,343,317	26,462,102	31,395,646	27,058,710
Number of Ordinary Shares Used as the Denominator:				
Number of Ordinary Shares in Issue at the End of the Year (Note 26)	283,851,872	277,747,136	283,851,872	277,747,136
Net Assets Value per Ordinary Share (LKR)	106.90	95.27	110.61	97.42

50 EVENTS AFTER THE REPORTING DATE

No material events have taken place since 31 December 2019 that require disclosure or/and adjustments in these financial statements, except for the following;

a) Dividends Declared (Note 42.2)

The Board of Directors declared a payment of a first and final cash dividend of LKR 2.30 per share for both Ordinary Voting and Ordinary Non - Voting Shareholders for the year ended 31 December 2019.

b) Income Tax Changes

As per the announcement dated 12 February 2020, the income tax rate applicable for the banking sector will be reduced to 24% from the year of assessment 2020/21. Since the above amendment is yet to be enacted, existing rate of 28% was applied in ascertaining the deferred tax liability as at 31 December 2019. Had we considered the proposed rate;

for Bank :- the deferred tax liability as at 31 December 2019 would have decreased by LKR 142 Mn resulting in an increase of LKR 84 Mn in profit after tax and LKR 58 Mn increase in OCI.

for Group :- the deferred tax liability as at 31 December 2019 would have decreased by LKR 166 Mn resulting in an increase of LKR 83 Mn in profit after tax and LKR 82 Mn increase in OCI.

c) Debt Repayment Levy (DRL)

Debt Repayment Levy (DRL) was repealed with effect from 01 January 2020 by the Bill to amend Finance Act No. 35 of 2018, issued on 07 February 2020.



SNAPSHOT OF OUR 10 YEAR PERFORMANCE

Nations Trust has reshaped the way people live and work through a range of innovative products and services for the past decade. We have created a banking experience that has survived in a fast changing world.

48 ↑

Overall increase in Branches over a 10 year period

1,326 ↑

Overall increase in Employees over a 10 year period

116 ↑

Overall increase in ATMs over a 10 year period

CASH MANAGEMENT

Your world, now digital...

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	103-2 The Management Approach and its components	25, 48
	103-3 Evaluation of the Management Approach	48-49
GRI 413: Local Communities	413-1 Operations with local community engagement, impact assessments and development programs	48-49
Marketing and labelling		
GRI 103: Management Approach	103-1 Explanation of material topics and its boundaries	204
	103-2 The Management Approach and its components	25, 46
	103-3 Evaluation of the Management Approach	47
GRI 417: Marketing and labelling	417-1 Requirements for product and service labelling	47
	417-2 Incidents of non-compliance concerning product and service information and labelling	47
	417-3 Incidents of non-compliance concerning marketing communications	47
Customer privacy		
GRI 103: Management Approach	103-1 Explanation of material topics and its boundaries	204
	103-2 The Management Approach and its components	25, 46
	103-3 Evaluation of the Management Approach	47
GRI 418: Customer Privacy 2016	418-1 Substantial complaints regarding breaches of customer privacy and losses of customer data	47
Socio-economic compliance		
GRI 103: Management Approach	103-1 Explanation of material topics and its boundaries	204
	103-2 The Management Approach and its components	25, 46
	103-3 Evaluation of the Management Approach	47
GRI 419 Socio-economic compliance	419-1 Non-compliance with laws and regulations in the social and economic area	47

MATERIAL TOPICS ANNEXURE

Material topic and why it is material to us	Topic boundary and change in boundary	Corresponding GRI topics	Materiality in comparison to 2018
Growth and profitability Achieving sustainable growth in earnings is vital in driving shareholder value and ensuring the sufficiency of financial resources in fulfilling strategic aspirations.	The Group's financial performance will directly impact its primary stakeholders such as shareholders, employees and customers.	201: Economic Performance	↑
Customer experience 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.		No change
Digitisation 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
Responsible lending In order to remain commercially viable and socially relevant we ensure customer rights are protected and that lending is directed towards sustainable businesses.	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.	417: Marketing and labelling 418: Customer privacy	No change
Employee attraction Recruiting and retaining the employees with the right skills, attitudes and work ethic is vital in achieving our strategic objectives.	Human capital management relates primarily to our direct employees across the island	401: Employment 405: Diversity and equal opportunity 403: Occupational health and safety	No change
Training and development 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.	Relates to the Bank's direct employees.	404: Training and education	No change
Employee satisfaction 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
Operational efficiency 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.		↑
Preserving the environment As a responsible corporate citizen, we strive to minimise the adverse environmental impacts of our operations	The Group's internal environmental impacts consist of paper, energy and water consumption and the carbon footprint it generates. The Bank's most significant external environmental impact arises from its lending portfolio.	301: Materials 302: Energy 304: Bio diversity 305: Emissions 306: Effluents and waste	No change
Corporate social responsibility Creating value to the communities we operate in through strategic, ongoing CSR projects can help us sustain our social license to operate.	The impacts of this topic arise in the communities we operate in across the island.	413: Local communities 203: Indirect economic impact	GRI 203 : Indirect Economic Impact is added
Corporate Governance and compliance Sustainable value creation is underpinned by robust governance frameworks and practices.	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.	307: Environmental compliance 419: Socio-economic compliance	No change

INVESTOR INFORMATION

STOCK EXCHANGE LISTING

The ordinary shares of the Bank are all listed in the Colombo Stock Exchange. The audited Statement of Profit or Loss for the year ended 31 December 2019, 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 December 31, 2019		Resident			Non - Resident			Total		
Shareholdings		No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%
1 - 1000		3,411	992,578	0.41	27	9,806	0.00	3,438	1,002,384	0.41
1001 - 10,000		1,898	5,069,983	2.07	34	103,232	0.04	1,932	5,173,215	2.11
10,001 - 100,000		302	7,706,796	3.15	6	206,980	0.09	308	7,913,776	3.24
100,001 - 1,000,000		40	8,653,679	3.53	6	3,800,514	1.55	46	12,454,193	5.08
Over 1,000,000		14	157,656,202	64.38	4	60,679,071	24.78	18	218,335,273	89.16
		5,665	180,079,238	73.54	77	64,799,603	26.46	5,742	244,878,841	100.00

DISTRIBUTION OF ORDINARY SHAREHOLDERS - NON VOTING

As at December 31, 2019		Resident			Non - Resident			Total		
Shareholdings		No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%
1 - 1000		208	46,685	0.12	-	-	-	208	46,685	0.12
1001 - 10,000		36	102,467	0.26	-	-	-	36	102,467	0.26
10,001 - 100,000		7	112,356	0.29	-	-	-	7	112,356	0.29
100,001 - 1,000,000		2	350,138	0.90	-	-	-	2	350,138	0.90
Over 1,000,000		5	32,514,473	83.43	1	5,846,912	15.00	6	38,361,385	98.43
		258	33,126,119	85.00	1	5,846,912	15.00	259	38,973,031	100.00

ANALYSIS OF SHAREHOLDERS - VOTING

	31 December 2019			31 December 2018		
	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%
Individual	5,454	24,264,905	9.91	5,432	24,376,755	10.21
Institutional	288	220,613,936	90.09	292	214,287,918	89.79
	5,742	244,878,841	100.00	5,724	238,664,673	100.00

ANALYSIS OF SHAREHOLDERS - NON VOTING

	31 December 2019			31 December 2018		
	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%
Individual	229	534,788	1.37	235	1,253,612	3.21
Institutional	30	38,438,243	98.63	33	37,828,851	96.79
	259	38,973,031	100.00	268	39,082,463	100.00

INVESTOR INFORMATION

FLOAT ADJUSTED MARKET CAPITALISATION

	31.12.2019		31.12.2018	
	Number	%	Number	%
Number of shareholders representing the public holding (Voting)	5,730	35.68	5,711	35.28
Number of shareholders representing the public holding (Non Voting)	250	1.54	258	8.15
Float Adjusted Market Capitalization	LKR 7.04 Bn		LKR 7.77 Bn	
Compliant under	Option 3		Option 2	

MARKET INFORMATION ON ORDINARY SHARES OF THE BANK

	Voting		Non-Voting	
	2019	2018	2019	2018
Market Value				
Highest Value (LKR)	94.80	93.00	95.00	100.00
Lowest Value (LKR)	76.00	77.00	70.20	77.20
Value at end of year (LKR)	80.00	89.20	80.00	82.10
Trading Statistics				
No. of Transactions	2,158	3,194	47	53
No. of shares Traded (Mn)	10.92	27.52	1.92	0.51
Value of shares Traded (LKR Mn)	936.09	2,255.62	159.28	41.45
Market Capitalization				
Market Capitalization (LKR Mn)	19,590.31	21,288.89	3,117.84	3,208.67

TWENTY LARGEST VOTING SHAREHOLDERS AS AT 31 DECEMBER 2019

Name of the Shareholder	2019		2018*	
	No. of Shares	%	No. of Shares	%
John Keells Holdings PLC	48,347,078	19.74	47,320,605	19.83
HWIC Asia Fund	36,731,826	15.00	35,799,700	15.00
Central Finance Company PLC A/C No. 03	24,124,933	9.85	23,612,729	9.89
Mackinnons Keells Limited	23,931,802	9.77	23,423,698	9.81
Janashakthi Insurance PLC - Shareholders	19,479,368	7.95	19,065,795	7.99
Bnymansv Re-First State Investments ICVC- Stewart Investors Asia Pacific Fund	15,374,091	6.28	16,588,969	6.95
CF Insurance Brokers (Pvt) Ltd	12,152,256	4.96	11,894,248	4.98
CF Growth Fund Ltd A/C No. 01	12,069,880	4.93	11,813,621	4.95
Citi Bank New York S/A Norges Bank Account 2	7,188,806	2.94	2,152,294	0.90
Janashakthi Insurance PLC (Policy Holders)	4,288,517	1.75	4,197,467	1.76
Hatton National Bank PLC A/C No. 01	3,882,252	1.59	3,799,827	1.59
Mr. M.F. Hashim	2,606,412	1.06	2,668,324	1.12
Mr. Premalal Brahammanage	2,152,839	0.88	2,105,399	0.88
Mr. N.R. Somaiya	1,384,348	0.57	1,354,957	0.57
Timex Garments (Pvt) Ltd	1,298,225	0.53	1,270,662	0.53
Mrs. H. K. S. R. Perera	1,153,763	0.47	133,664	0.06
Malship Ceylon Ltd	1,115,192	0.46	1,091,515	0.46
East India Holding (Pvt) Ltd	1,053,685	0.43	313,357	0.13
SSBT - Parametric Tax-Managed Emerging Markets Fund	979,263	0.40	958,472	0.40
Mellon Bank N.A-Eaton Vance Trust Co. Collective Inv. Trust for Employee Benefit Plans-Eaton Vance T	835,246	0.34	483,897	0.20
	220,149,782	89.90	210,049,200	88.01
Others	24,729,059	10.10	28,615,473	11.99
Total	244,878,841	100.00	238,664,673	100.00

*Shareholding as at 31 December 2018 of the top twenty shareholders as at 31st December 2019.

The Director of Bank Supervision of the Central Bank of Sri Lanka (CBSL) has by letter dated 7th November 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 31 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 31 March 2018.

INVESTOR INFORMATION

TWENTY LARGEST NON VOTING SHAREHOLDERS AS AT 31 DECEMBER 2019

Name of the Shareholder	2019		2018*	
	No. of Shares	%	No. of Shares	%
John Keells Holdings PLC	16,000,788	41.06	14,506,193	37.12
Central Finance Company PLC A/C No. 03	8,121,765	20.84	7,184,555	18.38
HWIC Asia Fund	5,846,912	15.00	5,862,934	15.00
Mackinnons Keells Limited	4,170,662	10.70	4,073,686	10.42
CF Insurance Brokers (Pvt) Ltd	2,117,807	5.43	2,068,564	5.29
CF Growth Fund Ltd A/C No. 01	2,103,451	5.40	2,054,542	5.26
Mr. Esufally Murtaza Ali Abidhussen Hassanaly	210,083	0.54	205,199	0.53
Mr. Jafferjee Mufaddal Gulzar Hussein Ibrahim	140,055	0.36	136,799	0.35
The Incorporated Trustees of the Church of Ceylon	25,118	0.06	24,534	0.06
Mr. Balendra Krishan Niraj Jayasekara	19,673	0.05	19,216	0.05
Mr. Hirdaramani Siddharth Janak	18,267	0.05	17,843	0.05
Mr. Fernando Dilhan Crishantha	15,542	0.04	15,181	0.04
Vinik (Pvt) Ltd	12,786	0.03	12,489	0.03
People's Leasing & Finance PLC / Mr. A. B. K. Weeraman	10,503	0.03	-	-
Mr. Hirdaramani Janak Bhagwandas	10,467	0.03	10,224	0.03
Mrs. Dias Bandaranaike Elizabeth Muktulakshmi	8,303	0.02	6,707	0.02
Jafferjee Brothers (Exports) Ltd	7,584	0.02	7,408	0.02
Mr. K. O. V. S. M. S. Wijesinghe	7,242	0.02	7,074	0.02
Miss Weerasinghe Theja Thushari	6,392	0.02	-	-
Mr. Esufally Imtiaz Abidhusen Hasanaly	5,724	0.01	5,591	0.01
	38,859,124	99.71	36,218,739	92.67
Others	113,907	0.29	2,863,724	7.33
Total	38,973,031	100.00	39,082,463	100.00

*Shareholding as at 31 December 2018 of the top twenty shareholders as at 31 December 2019.

DEBENTURE INFORMATION

The rated unsecured subordinated redeemable debentures 2016/21, 2018/23, 2019/24 and 2019/26 of the Bank are listed in the Colombo Stock Exchange.

Debenture Categories	CSE Listing	Interest Payable Frequency	Issued Date	Maturity Date	Face Value		Market Values 2019			Interest Rates 2019			Interest Rate of Comparable Government Securities			Other Ratios as at Date of Last Trade	
					2019 LKR '000	2018 LKR '000	Highest LKR	Lowest LKR	Year End LKR	Coupon Rate	Effective Annual Yield	31.12.2019	31.12.2018	As at Issue Date	Interest Yield	Yield to Maturity	
Floating	NTB-BD-08/11/21-C2363	Semi-Annually	8-Nov-16	8-Nov-21	2,410	2,410	Not traded during the current year			9.17**	**	8.65**	11.49**	11.71**	Not traded during the current year		
Fixed Rate	NTB-BD-08/11/21-C2365-1265	Semi-Annually	8-Nov-16	8-Nov-21	3,885,800	3,885,800	100,000	98,500	100,000	12.65	13.05	8.65	11.49	11.71	12.65	12.62	
Fixed Rate	NTB-BD-08/11/21-C2364-128	Annually	8-Nov-16	8-Nov-21	1,111,790	1,111,790	Not traded during the current year			12.80	12.80	8.65	11.49	11.71	Not traded during the current year		
Fixed Rate	NTB-BD-20/04/23-C2402-1265	Semi-Annually	20-Apr-18	20-Apr-23	2,213,000	2,213,000	Not traded during the current year			12.65	13.05	9.33	11.54	9.99	Not traded during the current year		
Fixed Rate	NTB-BD-20/04/23-C2401-13	Annually	20-Apr-18	20-Apr-23	1,287,000	1,287,000	Not traded during the current year			13.00	13.00	9.33	11.54	9.99	Not traded during the current year		
Fixed Rate	NTB-BD-23/12/24-C2441-128	Annually	23-Dec-19	23-Dec-24	2,700,000	-	Not traded during the current year			12.80	12.80	9.74	-	9.89	Not traded during the current year		
Fixed Rate	NTB-BD-23/12/26-C2442-129	Annually	23-Dec-19	23-Dec-26	1,800,000	-	Not traded during the current year			12.90	12.90	9.87	-	10.11	Not traded during the current year		
					13,000,000	8,500,000											

Ratios of Debt

	2019	2018
Debt * /Equity Ratio (%)	110.18	99.75
Interest Cover (Times)	3.24	3.76
Quick Asset Ratio (%)	125	115

* Borrowings over five years original maturity are considered for debt

** Floating rate debenture repricing at 6 months T-Bill rate + 1.5%

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 2019.

Nations Trust Bank PLC – Utilization of Funds Raised via Capital Market as at 31.12.2019

The utilization of LKR 4.5 Bn raised through the issue of debentures on 23 December 2019.

Objective Number	Objective as Per Prospectus	Amount Allocated as per Prospectus in LKR	Proposed Date of Utilisation as per Prospectus	Amount Allocated from Proceeds in LKR (A)	% of Total Proceeds	Amounts Utilised in LKR (B)	% of Utilisation against Allocation (B/A)	Clarification if Not Fully Utilized including where the Funds are Invested
1	Expansion of Loan Book	4.5 Bn	Within 6 to 18 months from date of receipt of cash flows	4.5 Bn	100%	-	-	Proposed time lines are not yet lapsed & unutilized funds are invested in reverse repurchase agreements
2	Improve the Tier II Capital Base thus, increasing the Capital Adequacy Ratio (CAR)	4.5 Bn	Subsequent to CBSL approval	4.5 Bn	100%	4.5 Bn	100%	N/A

RISK MANAGEMENT ANNEXURE

Credit Risk

Table 01

Gross Loans & Advances - Individual Impairment (as per financial reporting)

2019	Exposure		Impairment		Age Analysis			
	On Balance sheet	Off Balance Sheet	Impairment Provision	Net Present Value of Future Cash Flows*	Write Offs During the period	0 - 30 Days	31 -90 Days	Above 90 Days
Corporate Loans	6,156,869	-	597,966	5,670,032	-	3,757,236	1,302,513	1,097,120
Retail, SME & Consumer	9,562,229	-	2,118,602	8,494,968	-	4,396,776	861,480	4,303,973
Housing Loans	19,545	-	258	19,287	-	19,545	-	-
Leasing	632,186	-	171,191	467,659	-	367,653	45,608	218,925
	16,370,829	-	2,888,017	14,651,946	-	8,541,210	2,209,601	5,620,018

*Sum of net present value of cash flows expected through normal business activities and collateral liquidation.

Table 02

Gross Loans & Advances - Collective Impairment (as per financial reporting)

2019	Exposure		Impairment		Age Analysis			
	On Balance sheet	Off Balance Sheet	Impairment Provision	Write Offs During the period	0 - 30 Days	31 -90 Days	Above 90 Days	
Corporate Loans	68,375,402	-	136,787	-	66,928,335	1,333,830	113,237	
Retail, SME & Consumer	98,829,570	-	3,777,514	1,704,060	87,396,251	4,780,046	6,653,273	
Housing Loans	4,412,150	-	159,505	-	3,967,242	111,973	332,935	
Leasing	43,510,547	-	621,596	252,412	32,828,634	8,693,327	1,988,586	
	215,127,669	-	4,695,402	1,956,472	191,120,462	14,919,176	9,088,031	

*Staff loans are not assessed for impairment.

Table 03

Performing & Non Performing Loans(as per regulatory reporting)

2019	Performing Loans				Non Performing Loans						
	Exposure		Exposure		Provision		Write Offs		Age Analysis		
	On Balance sheet	Off Balance Sheet	On Balance sheet	Off Balance Sheet	Specific Provision	Collateral Information	During the period	Special Mention	Substandard	Doubtful	Loss
Corporate Loans	73,158,714	-	1,373,557	-	774,821	-	-	646,999	97,297	103,246	526,015
Retail, SME & Consumer	97,306,910	-	11,084,889	-	5,682,472	3,650,988	1,704,060	2,206,154	2,811,597	2,727,674	3,339,464
Housing Loans	4,098,760	-	332,935	-	71,558	419,253	-	129,834	67,309	17,742	118,050
Leasing	41,632,807	-	2,509,926	-	774,409	-	252,412	1,368,150	644,972	379,280	117,524
	216,197,191	-	15,301,307	-	7,303,260	4,070,241	1,956,472	4,351,137	3,621,175	3,227,942	4,101,053

Note: Rs 7,584Mn worth of NPL contracts were not impaired individually as they were below individually significant threshold.

Market Risk

Table: 1

Composition of Trading and Non-Trading Book

Assets	2019		
	Trading book (LKR million)	Non-trading book (LKR million)	Total (LKR million)
Cash and Cash Equivalents	-	8,756	8,756
Balances with Central Bank of Sri Lanka	-	8,377	8,377
Reverse Repurchase Agreements	-	13,827	13,827
Derivative Financial Instruments	193	-	193
Financial Assets	634	38,315	38,949
Other Financial Assets	-	-	-
Financial Assets at Amortised Cost - Debt Instruments	-	19,063	19,063
Financial Assets at Amortised Cost – Loans and Advances	-	226,792	226,792
Other Assets	-	2,134	2,134
Investments in Subsidiaries	-	679	679
Fixed Assets (PPE, ROU & Intangibles)	-	6,270	6,270
Total	827	324,213	325,040
Liabilities			
Due to Banks	-	6,484	6,484
Derivative Financial Instruments	312	-	312
Due to Depositors	-	226,880	226,880
Repurchase Agreements	-	11,033	11,033
Due to other Borrowers	-	27,381	27,381
Debt Securities Issued	-	13,263	13,263
Retirement benefit obligations	-	652	652
Tax Liabilities (Current & Deferred)	-	2,334	2,334
Other Liabilities	-	6,358	6,358
Equity & Other Reserves	-	30,343	30,343
Total	312	324,728	325,040
Contingent Liabilities & Commitments	39,041	160,314	199,355
Commitment & Guarantees	-	160,314	160,314
Forward on Government Securities	309	-	309
Derivative Assets - Held for Trading (Net)	38,732	-	38,732

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		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 & Off Balance sheet)	93.459	52.388	46.664	38.475	11.621	6.476	4.810	(0.829)
	Liabilities (On & Off Balance sheet)	59.874	36.477	33.420	27.816	37.487	9.979	49.669	
	Periodic Gap	33.585	15.911	13.244	10.659	(25.866)	(3.503)	(44.859)	
GBP	Assets (On & Off Balance sheet)	7.064	3.659	0.014	0.033	0.091	0.004	0.014	0.033
	Liabilities (On & Off Balance sheet)	0.924	2.536	0.579	1.021	0.822	0.311	4.653	
	Periodic Gap	6.140	1.123	(0.565)	(0.988)	(0.731)	(0.307)	(4.639)	
EUR	Assets (On & Off Balance sheet)	6.412	4.789	0.018	0.057	0.085	0.008	0.080	0.014
	Liabilities (On & Off Balance sheet)	1.250	0.766	0.594	0.852	2.517	0.955	4.501	
	Periodic Gap	5.162	4.023	(0.576)	(0.795)	(2.432)	(0.947)	(4.421)	
AUD	Assets (On & Off Balance sheet)	7.919	8.053	0.004	0.009	0.038	0.026	-	(0.319)
	Liabilities (On & Off Balance sheet)	2.013	1.427	1.433	2.053	0.528	0.201	8.713	
	Periodic Gap	5.906	6.626	(1.429)	(2.044)	(0.490)	(0.175)	(8.713)	
JPY	Assets (On & Off Balance sheet)	42.174	0.209	0.330	6.433	1.569	-	17.297	0.011
	Liabilities (On & Off Balance sheet)	59.047	0.594	0.733	0.271	2.249	0.845	4.262	
	Periodic Gap	(16.873)	(0.385)	(0.403)	6.162	(0.680)	(0.845)	13.035	

Liquidity Risk

Table: 3

Maturity gaps in major currencies (in millions of respective currency)

CCY		Up to One month	1 - 3 Months	3 - 6 Months	6 - 12 Months	1 - 3 Years	3 - 5 Years	Over 5 Years
LKR	Assets (On & Off Balance sheet)	90,588	20,147	18,642	21,932	64,440	29,792	50,389
	Liabilities (On & Off Balance sheet)	52,693	31,775	27,076	26,556	19,446	20,262	263,106
	Periodic Gap	37,895	(11,628)	(8,434)	(4,624)	44,994	9,530	(212,717)
	Cumulative GAP	37,895	26,267	17,833	13,209	58,203	67,733	(144,984)
USD	Assets (On & Off Balance sheet)	54	61	61	47	60	32	12
	Liabilities (On & Off Balance sheet)	74	57	34	37	65	19	106
	Periodic Gap	(20)	4	27	10	(5)	13	(94)
	Cumulative GAP	(20)	(16)	11	21	16	29	(65)
GBP	Assets (On & Off Balance sheet)	7	4	-	-	-	-	-
	Liabilities (On & Off Balance sheet)	1	3	1	1	1	-	11
	Periodic Gap	6	1	(1)	(1)	(1)	-	(11)
	Cumulative GAP	6	7	6	5	4	4	(7)
EUR	Assets (On & Off Balance sheet)	6	5	-	-	-	-	-
	Liabilities (On & Off Balance sheet)	1	1	1	1	3	1	8
	Periodic Gap	5	4	(1)	(1)	(3)	(1)	(8)
	Cumulative GAP	5	9	8	7	4	3	(5)
AUD	Assets (On & Off Balance sheet)	8	8	-	-	-	-	-
	Liabilities (On & Off Balance sheet)	2	1	1	2	1	-	8
	Periodic Gap	6	7	(1)	(2)	(1)	-	(8)
	Cumulative GAP	6	13	12	10	9	9	1
JPY	Assets (On & Off Balance sheet)	42	-	-	6	2	-	17
	Liabilities (On & Off Balance sheet)	70	12	1	-	2	1	209
	Periodic Gap	(28)	(12)	(1)	6	-	(1)	(192)
	Cumulative GAP	(28)	(40)	(41)	(35)	(35)	(36)	(228)

RISK MANAGEMENT ANNEXURE

Table: 4

Interest Rate Sensitive gap Analysis (in millions of respective currency)

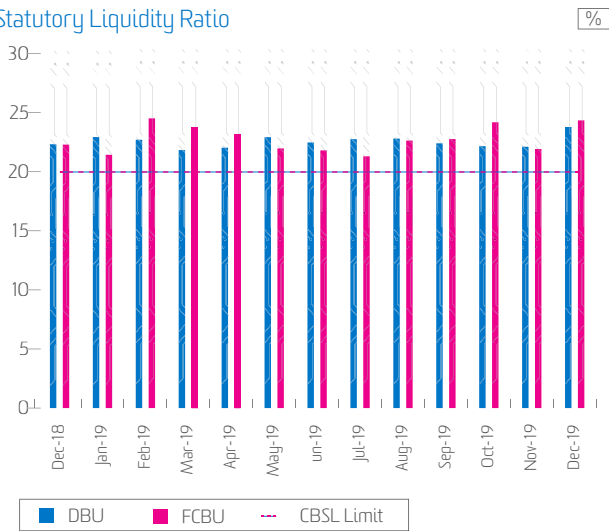
CCY		Up to One month	1 - 3 Months	3 - 6 Months	6 - 12 Months	1 - 3 Years	3 - 5 Years	Over 5 Years	Total
LKR	Assets	113,288	22,158	19,852	26,108	45,456	26,294	9,937	263,093
	Liabilities	71,235	46,374	48,020	46,524	8,210	10,842	3,853	235,058
	Periodic Gap	42,053	(24,216)	(28,168)	(20,416)	37,246	15,452	6,084	28,035
USD	Assets	69	137	71	36	3	1	-	317
	Liabilities	96	104	78	30	-	-	-	308
	Periodic Gap	(27)	33	(7)	6	3	1	-	9
GBP	Assets	7	4	-	-	-	-	-	11
	Liabilities	4	4	1	2	-	-	-	11
	Periodic Gap	3	-	(1)	(2)	-	-	-	-
EUR	Assets	6	5	-	-	-	-	-	11
	Liabilities	9	1	1	1	-	-	-	12
	Periodic Gap	(3)	4	(1)	(1)	-	-	-	(1)
AUD	Assets	8	8	-	-	-	-	-	16
	Liabilities	4	3	4	5	-	-	-	16
	Periodic Gap	4	5	(4)	(5)	-	-	-	-
JPY	Assets	28	-	-	2	-	-	-	30
	Liabilities	66	1	1	-	-	-	-	68
	Periodic Gap	(38)	(1)	(1)	2	-	-	-	(38)

Table: 5

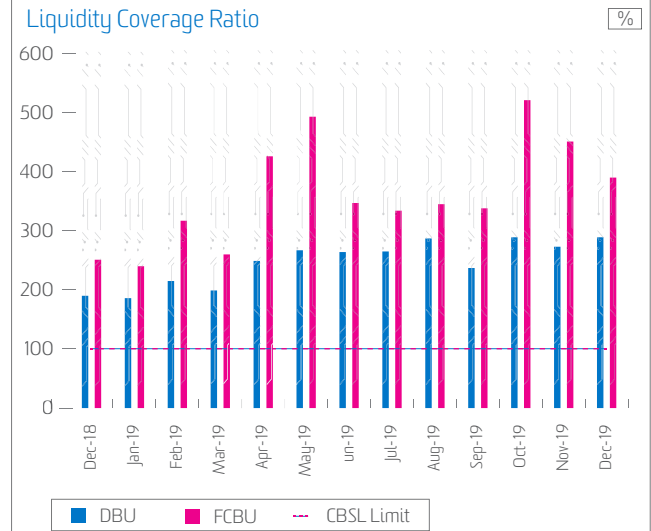
Interest Rate Risk in Banking Book- Economic Value at Risk- in Millions (LKR equivalent)

		Up to One month	1 - 3 Months	3 - 6 Months	6 - 12 Months	1 - 3 Years	3 - 5 Years	Over 5 Years	Total
LKR	Up by 200bp	(6.80)	69.18	177.40	318.40	(963.83)	(229.59)	(288.94)	(924.18)
	Down by 200bp	6.93	(70.75)	(182.04)	(329.05)	1,027.36	251.46	350.40	1,054.32
USD	Up by 200bp	(1.23)	(17.51)	74.10	60.95	(9.94)	(7.36)	(1.54)	97.48
	Down by 200bp	1.25	17.98	(76.32)	(63.13)	10.64	8.16	1.79	(99.63)
GBP	Up by 200bp	0.19	1.80	2.36	8.50	(0.54)	(0.06)	-	12.25
	Down by 200bp	(0.2)	(1.84)	(2.43)	(8.81)	0.58	0.06	-	(12.63)
EUR	Up by 200bp	0.19	0.61	0.90	2.60	(0.30)	(0.06)	-	3.94
	Down by 200bp	(0.19)	(0.63)	(0.93)	(2.69)	(0.32)	(0.06)	-	(4.05)
AUD	Up by 200bp	0.20	1.40	3.62	9.46	(0.20)	(0.22)	-	14.25
	Down by 200bp	(0.21)	(1.43)	(3.72)	(9.79)	0.21	0.25	-	(14.69)

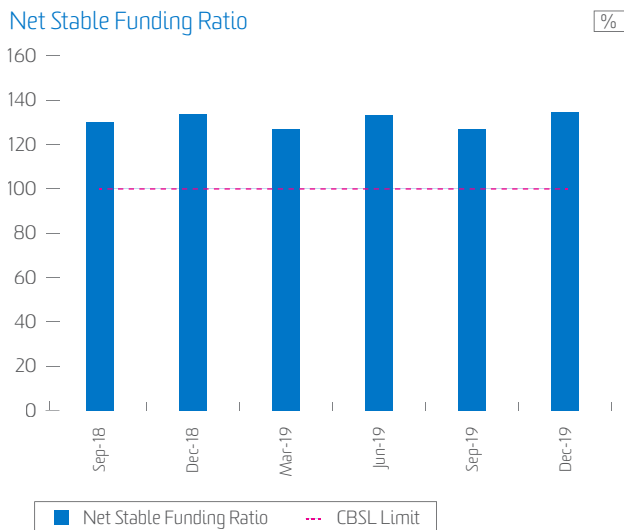
Statutory Liquidity Ratio



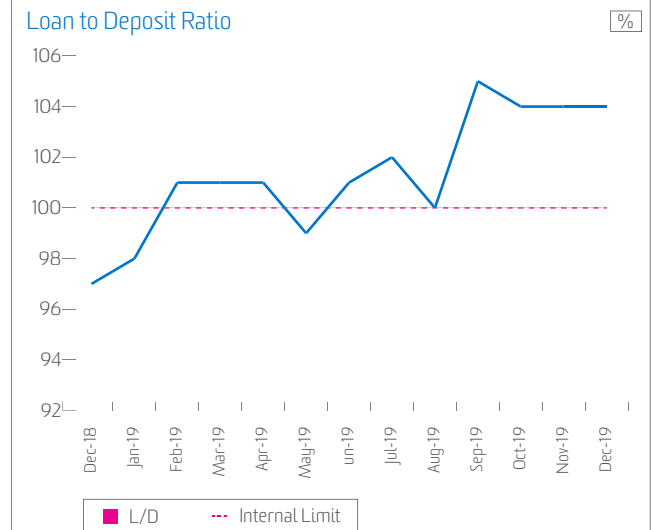
Liquidity Coverage Ratio



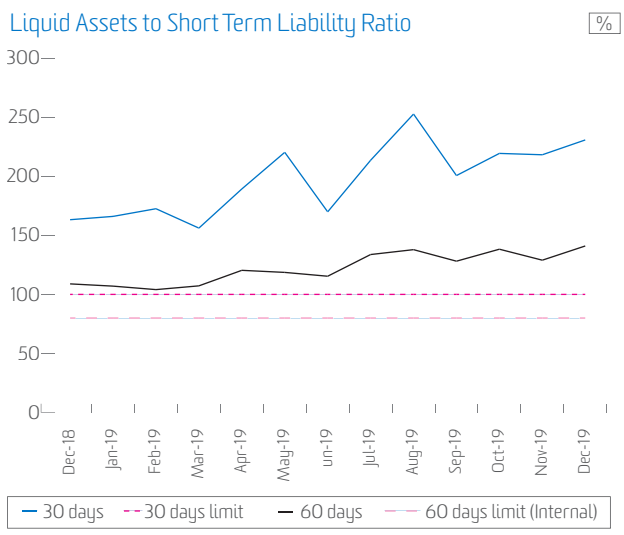
Net Stable Funding Ratio



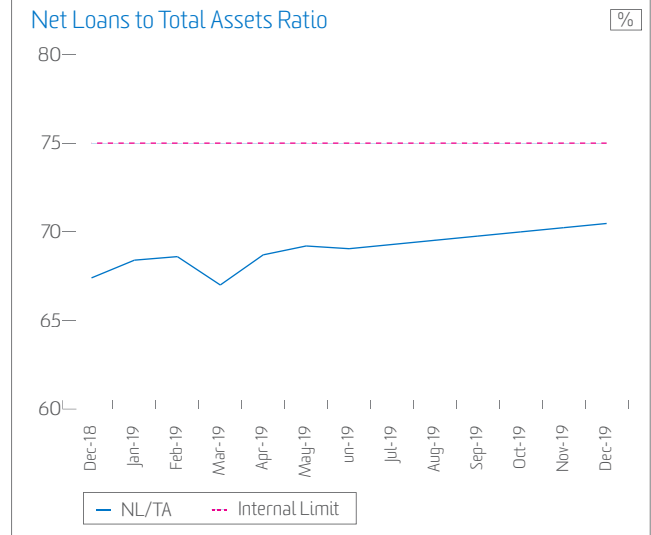
Loan to Deposit Ratio



Liquid Assets to Short Term Liability Ratio



Net Loans to Total Assets 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-2019	31-Dec-2018	31-Dec-2019	31-Dec-2018
Regulatory Capital (LKR '000)				
Common Equity Tier 1	28,561,701	24,935,511	29,178,446	25,292,362
Tier 1 Capital	28,561,701	24,935,511	29,178,446	25,292,362
Total Capital	38,785,371	32,106,836	39,402,116	32,463,687
Regulatory Capital Ratios (%)				
Common Equity Tier 1 Capital Ratio (Minimum Requirement - 7.00%)	12.99%	11.96%	13.30%	12.15%
Tier 1 Capital Ratio (Minimum Requirement - 8.50%)	12.99%	11.96%	13.30%	12.15%
Total Capital Ratio (Minimum Requirement - 12.50%)	17.64%	15.40%	17.96%	15.59%
Leverage Ratio (Minimum Requirement -3%)	8.47%	7.44%	8.64%	7.55%
Regulatory Liquidity				
Statutory Liquid Assets				
Domestic Banking Unit (LKR'000)	63,911,288	60,396,397		
Off-Shore Banking Unit (LKR'000)	5,666,387	4,568,492		
Statutory Liquid Assets Ratio % (Minimum Requirement - 20%)				
Domestic Banking Unit (%)	23.78%	22.32%		
Off-Shore Banking Unit (%)	24.34%	22.29%		
Total Stock of High-Quality Liquid Assets (LKR'000)	47,734,687	56,908,941		
Liquidity Coverage Ratio (%)				
Rupee (Minimum Requirement - 100%)	400.77%	250.57%		
All Currency (Minimum Requirement - 100%)	295.15%	189.66%		

Table 2

Basel III Computation of Capital Ratios

ITEM	Bank LKR '000		Group LKR '000	
	31-Dec-2019	31-Dec-2018	31-Dec-2019	31-Dec-2018
Common Equity Tier 1 (CET1) Capital after Adjustments	28,561,701	24,935,511	29,178,446	25,292,362
Common Equity Tier 1 (CET1) Capital	29,937,283	26,553,409	30,554,608	26,911,955
Equity Capital (Stated Capital)/Assigned Capital	9,408,135	8,865,523	9,408,135	8,865,523
Reserve Fund	1,371,853	1,199,130	1,371,854	1,199,130
Published Retained Earnings/(Accumulated Retained Losses)	18,976,109	16,586,839	19,593,434	16,945,384
Published Accumulated Other Comprehensive Income (OCI)	181,185	(98,083)	181,185	(98,083)
General and other Disclosed Reserves	-	-	-	-
Unpublished Current Year's Profit/Loss and Gains reflected in OCI	-	-	-	-
Ordinary Shares issued by Consolidated Banking and Financial Subsidiaries of the Bank and held by Third Parties	-	-	-	-
Total Adjustments to CET1 Capital	1,375,582	1,617,899	1,376,162	1,619,593
Goodwill (net)	-	-	-	-
Intangible Assets (net)	1,375,582	1,301,248	1,376,162	1,302,942
Shortfall of the Cumulative Impairment to Specific Provisions	-	316,650	-	316,650
Additional Tier 1 (AT1) Capital after Adjustments	-	-	-	-
Additional Tier 1 (AT1) Capital	-	-	-	-
Qualifying Additional Tier 1 Capital Instruments	-	-	-	-
Instruments issued by Consolidated Banking and Financial Subsidiaries of the Bank and held by Third Parties	-	-	-	-
Total Adjustments to AT1 Capital	-	-	-	-
Investment in Own Shares	-	-	-	-
Others (specify)	-	-	-	-
Tier 2 Capital after Adjustments	10,223,670	7,171,325	10,223,670	7,171,325
Tier 2 Capital	10,223,670	7,171,325	10,223,670	7,171,325
Qualifying Tier 2 Capital Instruments	8,666,667	5,866,667	8,666,667	5,866,667
Revaluation Gains	337,316	337,316	337,316	337,316
Loan Loss Provisions	1,219,688	967,343	1,219,688	967,343
Instruments issued by Consolidated Banking and Financial Subsidiaries of the Bank and held by Third Parties	-	-	-	-
Total Adjustments to Tier 2	-	-	-	-
Investment in Own Shares	-	-	-	-
Others (specify)	-	-	-	-
CET1 Capital	28,561,701	24,935,511	29,178,446	25,292,362
Total Tier 1 Capital	28,561,701	24,935,511	29,178,446	25,292,362
Total Capital	38,785,371	32,106,836	39,402,116	32,463,687

Note :

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 50% of the first day impact (Rs. 511 Mn) against the retained earnings of the Bank for the purpose of calculating Capital Adequacy Ratio as at 31 December 2019. If 100% of the first day impact is considered, the Bank total Tier 1 Capital ratio and Bank Total Capital ratio would be decreased by 0.23%.

RISK MANAGEMENT ANNEXURE

Table 2 (Contd.)

Basel III Computation of Capital Ratios

Item	Bank LKR '000 31-Dec-2019	Bank LKR '000 31-Dec-2018	Group LKR '000 31-Dec-2019	Group LKR '000 31-Dec-2018
Total Risk Weighted Assets (RWA)	219,814,897	208,535,184	219,397,465	208,201,892
RWAs for Credit Risk	188,095,481	180,709,189	187,795,048	180,523,460
RWAs for Market Risk	7,292,301	5,989,190	7,292,301	5,989,190
RWAs for Operational Risk	24,427,115	21,836,805	24,310,115	21,689,242
CET1 Capital Ratio (including Capital Conservation Buffer, Countercyclical Capital Buffer & Surcharge on D-SIBs) (%)	12.99%	11.96%	13.30%	12.15%
of which: Capital Conservation Buffer (%)	2.500%	1.875%	2.500%	1.875%
of which: Countercyclical Buffer (%)	-	-	-	-
of which: Capital Surcharge on D-SIBs (%)	-	-	-	-
Total Tier 1 Capital Ratio (%)	12.99%	11.96%	13.30%	12.15%
Total Capital Ratio (including Capital Conservation Buffer, Countercyclical Capital Buffer & Surcharge on D-SIBs) (%)	17.64%	15.40%	17.96%	15.59%
of which: Capital Conservation Buffer (%)	2.500%	1.875%	2.500%	1.875%
of which: Countercyclical Buffer (%)	-	-	-	-
of which: Capital Surcharge on D-SIBs (%)	-	-	-	-

Table 3

Basel III Computation of Leverage Ratio

Item	Bank Amount (LKR '000)		Group Amount (LKR '000)	
	31-Dec-2019	31-Dec-18	31-Dec-2019	31-Dec-18
Tier 1 Capital	28,561,701	24,935,511	29,178,446	25,292,362
Total Exposures	337,243,362	335,320,528	337,572,151	335,173,551
On-Balance Sheet Items (excluding Derivatives and Securities Financing Transactions, but including Collateral)	309,651,464	323,076,300	309,977,763	322,924,418
Derivative Exposures	819,853	762,771	819,853	762,771
Securities Financing Transaction Exposures	13,820,317	180,500	13,822,806	185,405
Other Off-Balance Sheet Exposures	12,951,728	11,300,956	12,951,728	11,300,956
Basel III Leverage Ratio (%) (Tier 1/Total Exposure)	8.47%	7.44%	8.64%	7.55%

Table 4

Basel III Computation of Liquidity Coverage Ratio (All Currency)

Item	Total Un-weighted Value LKR '000 31-Dec-2019	Total Weighted Value LKR '000 31-Dec-2018	Total Un-weighted Value LKR '000 31-Dec-2018	Total Weighted Value LKR '000 31-Dec-2018
Total Stock of High-Quality Liquid Assets (HQLA)	47,734,687	47,734,687	56,920,136	56,908,941
Total Adjusted Level 1A Assets	46,963,554	46,963,554	57,429,989	57,429,989
Level 1 Assets	47,734,687	47,734,687	56,897,746	56,897,746
Total Adjusted Level 2A Assets	-	-	-	-
Level 2A Assets	-	-	-	-
Total Adjusted Level 2B Assets	-	-	22,390	11,195
Level 2B Assets	-	-	22,390	11,195
Total Cash Outflows	403,299,052	47,419,929	399,813,425	60,292,082
Deposits	210,838,658	21,083,866	194,296,248	19,429,625
Unsecured Wholesale Funding	23,495,793	10,918,949	46,734,129	22,429,177
Secured Funding Transactions	379,822	-	1,102,676	-
Undrawn Portion of Committed (Irrevocable) Facilities and Other Contingent Funding Obligations	164,140,425	10,972,760	148,621,941	9,374,848
Additional Requirements	4,444,354	4,444,354	9,058,432	9,058,432
Total Cash Inflows	63,268,225	31,246,760	52,302,283	30,286,978
Maturing Secured Lending Transactions Backed by Collateral	13,832,999	-	172,043	-
Committed Facilities	-	-	1,000,000	-
Other Inflows by Counterparty which are Maturing within 30 Days	47,123,353	30,064,691	50,607,354	29,828,105
Operational Deposits	-	-	-	-
Other Cash Inflows	2,311,873	1,182,070	522,887	458,873
Liquidity Coverage Ratio (%) (Stock of High Quality Liquid Assets/ Total Net Cash Outflows over the Next 30 Calendar Days) * 100		295%		190%

RISK MANAGEMENT ANNEXURE

Table 5

Main Features of Regulatory Capital Instruments

Description of the Capital Instrument	Ordinary Shares (Voting)	Ordinary Shares (Non Voting)	Subordinated Debt (Debentures)	Subordinated Debt (Debentures)
Issuer	Nations Trust Bank PLC	Nations Trust Bank PLC	Nations Trust Bank PLC	Nations Trust Bank PLC
Unique Identifier (e.g., ISIN or Bloomberg Identifier for Private Placement)	LK0309N00001	LK0309N00001	NTB-BD-08/11/21-C2365-12.65	NTB-BD-08/11/21-C2364-12.8
Governing Law(s) of the Instrument	Companies Act, No.7 of 2007	Companies Act, No.7 of 2007	Companies Act, No.7 of 2007 Monetary Law Act No. 58 of 1949	Companies Act, No.7 of 2007 Monetary Law Act No. 58 of 1949
Original Date of Issuance	3-May-99	20-Feb-18	8-Nov-16	8-Nov-16
Par Value of Instrument	22.12	80	100	100
Perpetual or Dated	Perpetual	Perpetual	Dated	Dated
Original Maturity Date, if Applicable	N/A	N/A	8-Nov-21	8-Nov-21
Amount Recognised in Regulatory Capital (in LKR '000 as at the Reporting Date)	6,289,306	3,118,828	1,424,793	407,656
Accounting Classification (Equity/Liability)	Equity	Equity	Liability	Liability
Issuer Call subject to Prior Supervisory Approval				
Optional Call Date, Contingent Call Dates and Redemption Amount (LKR '000)	N/A	N/A	N/A	N/A
Subsequent Call Dates, if Applicable	N/A	N/A	N/A	N/A
Coupons/Dividends				
Fixed or Floating Dividend/Coupon	Discretionary dividend amount	Discretionary dividend amount	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%	12.80%
Non-Cumulative or Cumulative	Non-Cumulative	Non-Cumulative	Non-Cumulative	Non-Cumulative
Convertible or Non-Convertible	Non-Convertible	Convertible	Non-Convertible	Non-Convertible
If Convertible, Conversion Trigger (s)	Non-Convertible	Starting from last market date of quarter ending 30th June and forward	Non-Convertible	Non-Convertible
If Convertible, Fully or Partially	Non-Convertible	Fully or Partially	Non-Convertible	Non-Convertible
If Convertible, Mandatory or Optional	Non-Convertible	Optional	Non-Convertible	Non-Convertible
If Convertible, Conversion Rate	Non-Convertible	1:1	Non-Convertible	Non-Convertible

Subordinated Debt (Debentures)	Subordinated Debt (Debentures)	Subordinated Debt (Debentures)	Subordinated Debt (Debentures)	Subordinated Debt (Debentures)
Nations Trust Bank PLC	Nations Trust Bank PLC	Nations Trust Bank PLC	Nations Trust Bank PLC	Nations Trust Bank PLC
NTB-BD-08/11/21-C2363	NTB-BD-20/04/23-C2402-12.65	NTB-BD-20/04/23-C2401-13	NTB-BD-23/12/24 - C2441 - 12.8	NTB-BD-23/12/26 - C2442 - 12.9
Companies Act, No.7 of 2007 Monetary Law Act No. 58 of 1949	Companies Act, No.7 of 2007 Monetary Law Act No. 58 of 1949	Companies Act, No.7 of 2007 Monetary Law Act No. 58 of 1949	Companies Act, No.7 of 2007 Monetary Law Act No. 58 of 1949	Companies Act, No.7 of 2007 Monetary Law Act No. 58 of 1949
8-Nov-16	20-Apr-18	20-Apr-18	23-Dec-19	23-Dec-19
100	100	100	100	100
Dated	Dated	Dated	Dated	Dated
8-Nov-21	20-Apr-23	20-Apr-23	23-Dec-24	23-Dec-26
884	1,475,333	858,000	2,700,000	1,800,000
Liability	Liability	Liability	Liability	Liability
N/A	N/A	N/A	N/A	N/A
N/A	N/A	N/A	N/A	N/A
Floating	Fixed	Fixed	Fixed	Fixed
9.17%	12.65%	13.00%	12.80%	12.90%
Non-Cumulative	Non-Cumulative	Non-Cumulative	Non-Cumulative	Non-Cumulative
Non-Convertible	Convertible	Convertible	Convertible	Convertible
Non-Convertible	As per Banking Act Direction No. 1 of 2016	As per Banking Act Direction No. 1 of 2016	As per Banking Act Direction No. 1 of 2016	As per Banking Act Direction No. 1 of 2016
Non-Convertible	Fully or Partially	Fully or Partially	Fully or Partially	Fully or Partially
Non-Convertible	Mandatory	Mandatory	Mandatory	Mandatory
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.	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 6

Credit Risk under Standardised Approach – Credit Risk Exposures and Credit Risk Mitigation (CRM) Effects

Asset Class	Bank					
	LKR'000 as at -31-Dec-2019				RWA and RWA Density (%)	
	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)
Claims on Central Government and CBSL	26,489,626	-	26,489,626	-	843,054	3%
Claims on Foreign Sovereigns and their Central Banks	-	-	-	-	-	0%
Claims on Public Sector Entities	-	-	-	-	-	0%
Claims on Official Entities and Multilateral Development Banks	-	-	-	-	-	0%
Claims on Banks Exposures	4,411,592	36,974,802	4,411,592	769,380	2,105,068	41%
Claims on Financial Institutions	9,236,145	3,270,978	9,236,145	1,213,161	6,576,362	63%
Claims on Corporates	65,293,748	88,212,393	65,293,748	9,038,623	72,107,571	97%
Retail Claims	106,088,045	74,730,209	106,088,045	2,703,118	82,898,691	76%
Claims Secured by Residential Property	8,580,908	-	8,580,908	-	6,247,199	73%
Claims Secured by Commercial Real Estate	668,810	40,359	668,810	17,500	686,310	100%
Non-Performing Assets (NPAs)(i)	8,684,090	-	8,684,090	-	10,645,923	123%
Higher-risk Categories	25,803	-	25,803	-	64,507	250%
Cash Items and Other Assets	13,252,470	-	13,252,470	-	5,920,797	45%
Total	242,731,236	203,228,741	242,731,236	13,741,782	188,095,481	73%

Asset Class	Group					
	LKR'000 as at -31-Dec-2019				RWA and RWA Density (%)	
	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)
Claims on Central Government and CBSL	26,489,626	-	26,489,626	-	843,054	3%
Claims on Foreign Sovereigns and their Central Banks	-	-	-	-	-	0%
Claims on Public Sector Entities	-	-	-	-	-	0%
Claims on Official Entities and Multilateral Development Banks	-	-	-	-	-	0%
Claims on Banks Exposures	4,411,651	36,974,802	4,411,651	769,380	2,105,080	41%
Claims on Financial Institutions	9,236,145	3,270,978	9,236,145	1,213,161	6,576,362	63%
Claims on Corporates	65,296,237	88,216,518	65,296,237	9,038,623	72,110,061	97%
Retail Claims	106,088,045	74,730,209	106,088,045	2,703,118	82,898,691	76%
Claims Secured by Residential Property	8,580,908	-	8,580,908	-	6,247,199	73%
Claims Secured by Commercial Real Estate	668,810	40,359	668,810	17,500	686,310	100%
Non-Performing Assets (NPAs)(i)	8,684,090	-	8,684,090	-	10,645,923	123%
Higher-risk Categories	-	-	-	-	-	0%
Cash Items and Other Assets	13,014,065	-	13,014,065	-	5,682,368	44%
Total	242,469,577	203,232,866	242,469,577	13,741,782	187,795,048	73%

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.

Bank					
LKR'000 as at -31-Dec-2018					
Exposures before Credit Conversion Factor (CCF) and CRM		Exposures post CCF and CRM		RWA and RWA Density (%)	
On-Balance Sheet Amount	Off-Balance Sheet Amount	On-Balance Sheet Amount	Off-Balance Sheet Amount	RWA	RWA Density(ii)
25,296,968	-	25,296,968	-	782,888	3%
-	-	-	-	-	0%
-	-	-	-	-	0%
-	-	-	-	-	0%
1,928,632	37,790,696	1,928,632	776,434	1,003,952	37%
13,229,173	3,845,670	13,229,173	1,172,885	7,529,533	52%
56,394,370	77,969,149	56,394,370	7,516,188	61,178,409	96%
111,221,643	70,572,055	111,221,643	2,635,431	87,169,949	77%
8,793,378	-	8,793,378	-	6,279,153	71%
894,721	56,198	894,721	25,898	920,619	100%
5,640,268	-	5,640,268	-	7,526,209	133%
25,803	-	25,803	-	64,507	250%
15,807,771	-	15,807,771	-	8,253,970	52%
239,232,727	190,233,768	239,232,727	12,126,835	180,709,189	72%

Group					
LKR'000 as at -31-Dec-2018					
Exposures before Credit Conversion Factor (CCF) and CRM		Exposures post CCF and CRM		RWA and RWA Density (%)	
On-Balance Sheet Amount	Off-Balance Sheet Amount	On-Balance Sheet Amount	Off-Balance Sheet Amount	RWA	RWA Density(ii)
25,296,968	-	25,296,968	-	782,888	3%
-	-	-	-	-	0%
-	-	-	-	-	0%
-	-	-	-	-	0%
1,928,663	37,790,696	1,928,663	776,434	1,003,958	37%
13,229,173	3,845,670	13,229,173	1,172,885	7,529,533	52%
56,399,275	77,972,305	56,399,275	7,516,188	61,183,314	96%
111,221,643	70,572,055	111,221,643	2,635,431	87,169,949	77%
8,793,378	-	8,793,378	-	6,279,153	71%
894,721	56,198	894,721	25,898	920,619	100%
5,640,268	-	5,640,268	-	7,526,209	133%
-	-	-	-	-	0%
15,681,660	-	15,681,660	-	8,127,836	52%
239,085,750	190,236,924	239,085,750	12,126,835	180,523,460	72%

RISK MANAGEMENT ANNEXURE

Table 7

Credit Risk under Standardised Approach: Exposures by Asset Classes and Risk Weights

Description	Bank								Total Credit Exposures Amount
	LKR'000 as at 31-Dec-2019 (Post CCF & CRM)								
Risk Weight Asset Classes	0%	20%	50%	60%	75%	100%	150%	>150%	
Claims on Central Government and Central Bank of Sri Lanka	22,274,355	4,215,271	-	-	-	-	-	-	26,489,626
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	-	3,399,791	712,144	-	-	1,069,038	-	-	5,180,972
Claims on Financial Institutions	-	306,764	7,255,065	-	-	2,887,476	-	-	10,449,305
Claims on Corporates	-	5,551	4,722,027	-	-	69,323,483	281,310	-	74,332,371
Retail Claims	339,334	68,819	-	2,642,807	97,763,842	7,976,362	-	-	108,791,163
Claims Secured by Residential Property	-	-	4,667,419	-	-	3,913,489	-	-	8,580,908
Claims Secured by Commercial Real Estate	-	-	-	-	-	686,310	-	-	686,310
Non-Performing Assets (NPAs)	-	-	240,849	-	-	4,278,725	4,164,516	-	8,684,090
Higher-risk Categories	-	-	-	-	-	-	-	25,803	25,803
Cash Items and Other Assets	5,865,018	1,833,320	-	-	-	5,554,133	-	-	13,252,470
Total	28,478,707	9,829,514	17,597,505	2,642,807	97,763,842	95,689,016	4,445,826	25,803	256,473,018

Description	Group								
	LKR'000 as at 31-Dec-2019 (Post CCF & CRM)								
Risk Weight Asset Classes	0%	20%	50%	60%	75%	100%	150%	>150%	Total Credit Exposures Amount
Claims on Central Government and Central Bank of Sri Lanka	22,274,355	4,215,271	-	-	-	-	-	-	26,489,626
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	-	3,399,849	712,144	-	-	1,069,038	-	-	5,181,031
Claims on Financial Institutions	-	306,764	7,255,065	-	-	2,887,476	-	-	10,449,305
Claims on Corporates	-	5,551	4,722,027	-	-	69,325,973	281,310	-	74,334,860
Retail Claims	339,334	68,819	-	2,642,807	97,763,842	7,976,362	-	-	108,791,163
Claims Secured by Residential Property	-	-	4,667,419	-	-	3,913,489	-	-	8,580,908
Claims Secured by Commercial Real Estate	-	-	-	-	-	686,310	-	-	686,310
Non-Performing Assets (NPAs)	-	-	240,849	-	-	4,278,725	4,164,516	-	8,684,090
Higher-risk Categories	-	-	-	-	-	-	-	-	-
Cash Items and Other Assets	5,865,041	1,833,320	-	-	-	5,315,705	-	-	13,014,065
Total	28,478,730	9,829,573	17,597,505	2,642,807	97,763,842	95,453,077	4,445,826	-	256,211,359

Bank								
LKR'000 as at 31-Dec-2018 (Post CCF & CRM)								
0%	20%	50%	60%	75%	100%	150%	>150%	Total Credit Exposures Amount
21,382,529	3,914,439	-	-	-	-	-	-	25,296,968
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	1,276,193	1,360,318	-	-	68,554	-	-	2,705,065
-	3,697,242	7,829,462	-	-	2,875,354	-	-	14,402,059
-	-	5,464,297	-	-	58,446,261	-	-	63,910,558
98,384	228,591	-	2,789,194	101,160,762	9,580,143	-	-	113,857,074
-	-	5,028,450	-	-	3,764,928	-	-	8,793,378
-	-	-	-	-	920,619	-	-	920,619
-	-	49,507	-	-	1,769,373	3,821,388	-	5,640,268
-	-	-	-	-	-	-	25,803	25,803
5,419,519	2,667,853	-	-	-	7,720,400	-	-	15,807,771
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

Group								
LKR'000 as at 31-Dec-2018 (Post CCF & CRM)								
0%	20%	50%	60%	75%	100%	150%	>150%	Total Credit Exposures Amount
21,382,529	3,914,439	-	-	-	-	-	-	25,296,968
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	1,276,224	1,360,318	-	-	68,554	-	-	2,705,097
-	3,697,242	7,829,462	-	-	2,875,354	-	-	14,402,059
-	-	5,464,297	-	-	58,451,166	-	-	63,915,463
98,384	228,591	-	2,789,194	101,160,762	9,580,143	-	-	113,857,074
-	-	5,028,450	-	-	3,764,928	-	-	8,793,378
-	-	-	-	-	920,619	-	-	920,619
-	-	49,507	-	-	1,769,373	3,821,388	-	5,640,268
-	-	-	-	-	-	-	-	-
5,419,542	2,667,853	-	-	-	7,594,266	-	-	15,681,660
26,900,455	11,784,350	19,732,035	2,789,194	101,160,762	85,024,403	3,821,388	-	251,212,585

RISK MANAGEMENT ANNEXURE

Table 8

Market Risk under Standardised Measurement Method

Item	Bank RWA (LKR'000)		Group RWA (LKR'000)	
	31-Dec-2019	31-Dec-2018	31-Dec-2019	31-Dec-2018
(a) RWA for Interest Rate Risk	887,576	703,460	887,576	703,460
General Interest Rate Risk	887,576	703,460	887,576	703,460
(i) Net Long or Short Position	887,576	703,460	887,576	703,460
(ii) Horizontal Disallowance	-	-	-	-
(iii) Vertical Disallowance	-	-	-	-
(iv) Options	-	-	-	-
Specific Interest Rate Risk	-	-	-	-
(b) RWA for Equity	-	-	-	-
(i) General Equity Risk	-	-	-	-
(ii) Specific Equity Risk	-	-	-	-
(c) RWA for Foreign Exchange & Gold	23,962	7,756	23,962	7,756
Capital Charge for Market Risk [(a) + (b) + (c)] * CAR	7,292,301	5,989,190	7,292,301	5,989,190

Table 9

Operational Risk under Basic Indicator Approach/ The Standardised Approach/ The Alternative Standardised Approach

Business Lines	Bank									
	Capital Charge Factor	Fixed Factor	Gross Income (LKR'000) as at 31-Dec-2019			Capital Charge Factor	Fixed Factor	Gross Income (LKR'000) as at 31-Dec-2018		
			1st Year	2nd Year	3rd Year			1st Year	2nd Year	3rd Year
The Basic Indicator Approach	15%		17,622,084	21,254,398	22,191,304	15%		13,217,045	17,622,084	21,023,282
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	3,053,389					2,593,121				
The Standardised Approach	-					-				
The Alternative Standardised Approach	-					-				
Risk Weighted Amount for Operational Risk (LKR'000)										
The Basic Indicator Approach	24,427,115					21,836,805				
The Standardised Approach	-					-				
The Alternative Standardised Approach	-					-				

Table 9 (Contd.)

Operational Risk under Basic Indicator Approach/ The Standardised Approach/ The Alternative Standardised Approach

Business Lines	Group									
	Capital Charge Factor	Fixed Factor	Gross Income (LKR'000) as at 31-Dec-2019			Capital Charge Factor	Fixed Factor	Gross Income (LKR'000) as at 31-Dec-2018		
			1st Year	2nd Year	3rd Year			1st Year	2nd Year	3rd Year
The Basic Indicator Approach	15%		16,913,568	21,309,585	22,552,135	15%		13,519,915	16,913,568	21,078,467
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	3,038,764					2,575,598				
The Standardised Approach	-					-				
The Alternative Standardised Approach	-					-				
Risk Weighted Amount for Operational Risk (LKR'000)										
The Basic Indicator Approach	24,310,115					21,689,242				
The Standardised Approach	-					-				
The Alternative Standardised Approach	-					-				

RISK MANAGEMENT ANNEXURE

Table 10

Differences between Accounting and Regulatory Scopes and Mapping of Financial Statement Categories with Regulatory Risk Categories

Bank	LKR '000 as at 31-Dec-2019				
	a	b	c	d	e
	Carrying Values as Reported in Published Financial Statements	Carrying Values under Scope of Regulatory Reporting	Subject to Credit Risk Framework	Subject to Market Risk Framework	Not subject to Capital Requirements or Subject to Deduction from Capital
Assets	325,040,079	324,150,411	241,457,723	38,469,075	45,171,643
Cash and Cash Equivalents	8,755,848	6,655,029	6,655,029	-	-
Balances with Central Banks	8,377,478	8,220,448	8,220,448	-	-
Placements with Banks	13,827,423	16,057,000	2,257,000	-	13,800,000
Derivative Financial Instruments	192,714	-	-	-	-
Financial Assets - Recognised through Profit or Loss	634,075	38,469,075	-	38,469,075	-
Financial Assets Designated at Fair Value through Profit or Loss	-	-	-	-	-
Loans and Receivables to Banks	-	-	-	-	-
Financial Assets at Amortised Cost	-	-	-	-	-
- Loans and Advances	226,791,569	226,084,188	197,052,087	-	29,980,131
Financial Assets at Fair Value through Other Comprehensive Income	38,315,147	-	-	-	-
Financial Assets at Amortised Cost	-	-	-	-	-
- Debt Instruments	19,062,606	18,621,840	18,621,840	-	-
Investments in Subsidiaries	678,710	678,710	678,710	-	-
Investments in Associates and Joint Ventures	-	-	-	-	-
Property, Plant and Equipment	4,894,505	3,069,684	3,069,684	-	-
Investment Properties	-	-	-	-	-
Goodwill and Intangible Assets	1,375,581	-	-	-	-
Other Assets	2,134,422	6,294,437	4,902,925	-	1,391,512
Liabilities	294,696,761	294,543,818	-	-	-
Due to Banks	6,484,157	12,873,100	-	-	-
Derivative Financial Instruments	311,971	-	-	-	-
Other Financial Liabilities Held-For- Trading	-	-	-	-	-
Financial Liabilities Designated at Fair Value Through Profit or Loss	-	-	-	-	-
Due to Depositors	226,880,034	221,709,349	-	-	-
Due to Other Borrowers	38,413,725	29,865,862	-	-	-
Debt Securities Issued	-	-	-	-	-
Current Tax Liabilities	1,337,499	-	-	-	-
Deferred Tax Liabilities	995,073	-	-	-	-
Other Provisions	-	-	-	-	-
Other Liabilities	7,010,868	17,095,508	-	-	-
Due to Subsidiaries	-	-	-	-	-
Subordinated Term Debts	13,263,434	13,000,000	-	-	-
Off-Balance Sheet Liabilities	199,355,131	212,042,142	208,032,991	-	4,009,151
Guarantees	624,094	624,094	624,094	-	-
Performance Bonds	17,405,062	17,405,062	15,336,411	-	2,068,651
Letters of Credit	7,758,860	7,758,860	6,976,027	-	782,833
Other Contingent Items	3,536,649	3,536,649	3,536,649	-	-
Undrawn Loan Commitments	130,989,966	132,053,172	132,053,172	-	-
Other Commitments	39,040,500	50,664,305	49,506,637	-	1,157,667
Shareholders' Equity	-	-	-	-	-
Equity Capital (Stated Capital)/Assigned Capital	9,408,135	9,408,134	-	-	-
of which Amount Eligible for CET1	9,408,135	9,408,135	-	-	-
of which Amount Eligible for AT1	-	-	-	-	-
Retained Earnings	18,465,483	18,999,328	-	-	(510,627)
Accumulated Other Comprehensive Income	301,976	-	-	-	-
Other Reserves	2,167,723	1,199,130	-	-	458,555
Total Shareholders' Equity	30,343,317	29,606,593	-	-	(52,072)

Notes:

- 1) Differences in Cash and Cash Equivalents, Financial Assets - Recognised through Profit or Loss, Financial Assets at Amortised Cost – Loans and Advances, Financial Assets at Amortised Cost - Debt Instruments, Property, Plant and Equipment, Other Assets, Due to Banks, Due to Depositors, Due to Other Borrowers, Subordinated Term Debts and Other Liabilities is due to Classification differences and adjustments to published financial statements subsequently.
- 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).

CORPORATE GOVERNANCE ANNEXURE

Rule Number	Rule	Remarks
3(1)	The Responsibilities of the Board	
3 (1) (i)	The board shall strengthen the safety and soundness of the bank by ensuring the implementation of the following;	
3 (1) (i) (a)	Approve and oversee the bank's strategic objectives and corporate values and ensure that these are communicated throughout the Bank	<p>Complied</p> <p>Strategic Plan 2017-2019 was approved by the Board in December 2016. Strategic Plan for 2020-2022 was approved by the Board at the meeting held on 31st January 2020</p> <p>Vision, mission and corporate values have been communicated to the staff via intranet of the Bank and regular training.</p>
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.	<p>Complied</p> <p>Refer comments on 3 (1) (i) (a)</p> <p>Board has approved the Risk Policy which includes the Risk management procedures and mechanisms with measurable goals.</p> <p>The Bank annually revises Risk Goals contained in the Risk Policy in order to dynamically manage risk appetite of the Bank.</p>
3 (1) (i) (c)	Identify the principal risks and ensure implementation of appropriate systems to manage the risks prudently.	<p>Complied</p> <p>The implementation of the Risk Policy is being monitored by the Integrated Risk Management Committee (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 IRMC.</p>
3 (1) (i) (d)	Approve implementation of a policy of communication with all stakeholders, including depositors, creditors, share-holders and borrowers	<p>Complied</p> <p>The Board has approved and implemented a policy of communication.</p> <p>Board approved communication policy has been communicated to the staff via intranet of the Bank.</p>
3 (1) (i) (e)	Review the adequacy and the integrity of the bank's internal control systems and management information systems	<p>Complied</p> <p>Such review is being carried out routinely by the Board. Risk control matrices are being looked at by individual departments at predetermined intervals. Implementation of internal controls is also looked into by the Internal Audit Department (IAD). Board monitors these through the IRMC and the Board Audit Review Committee (BARC).</p>
3 (1) (i) (f)	Identify and designate key management personnel, as defined in the International Accounting Standards, who are in a position to <ul style="list-style-type: none"> (i) significantly influence policy; (ii) direct activities; and (iii) exercise control over business activities, operations and risk management 	<p>Complied</p> <p>The Board has identified Key Management Personnel (KMP), as required by the Direction.</p>

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>Complied</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>Complied</p> <p>Oversight of affairs of the Bank is carried out through a Board sub Committee, namely 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 IAD to BARC.</p> <p>Board exercise oversight of the affairs of the Bank by KMP through the minutes of the meetings of the IRMC, BARC and Assets and 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"> (i) the selection, nomination and election of directors and key management personnel; (ii) the management of conflicts of interests and (iii) the determination of weaknesses and implementation of changes where necessary. 	<p>Complied</p> <p>The Board appraises its performance annually by using the Board of Directors self assessment questionnaire. Every Director is required to complete the questionnaire which aims to obtain Directors' feedback on the Board's performance on many aspects. The responses received from the Directors are reviewed by the Senior Director and discussed at the Board meeting.</p>
3 (1) (i) (j)	Ensure that the bank has an appropriate succession plan for key management personnel.	<p>Complied</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.</p> <p>Succession Plan for KMP has been approved by the Board.</p> <p>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.</p>

Rule Number	Rule	Remarks
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	Complied Refer comment on 3 (1) (i) (h) above
3 (1) (i) (l)	Understand the regulatory environment and ensure that the bank maintains an effective relationship with regulators.	Complied The Company Secretary is statutorily responsible for communications with the Registrar of Companies. This is included in the JD of the Company Secretary. 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 the Compliance Officer. The Board is updated of the changes in the regulatory environment by the relevant KMP at the Board subcommittee and Board levels which discusses/endorse the steps taken to comply with such changes as appropriate. Compliance with statutory regulations is monitored regularly by the Board. The Compliance Officer of the Bank submits a monthly compliance report which covers all returns submitted to the regulators. 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.
3 (1) (i) (m)	Exercise due diligence in the hiring and oversight of external auditors	Complied 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.
3 (1) (ii)	The Board shall appoint the chairman and the chief executive officer and define and approve the functions and responsibilities of the chairman and the chief executive officer in line with direction 3 (5) of these Directions.	Complied Functions and the responsibilities of the Chairman and the CEO have been defined and approved by the Board. Chairman's functions and responsibilities are distinct from those of the CEO.
Board procedure		
3 (1)(iii)	The Board shall meet regularly and board meetings shall be held at least twelve times a year at approximately monthly intervals. Such regular board meetings shall normally involve active participation in person of a majority of directors entitled to be present. Obtaining the board's consent through the circulation of written resolutions/papers shall be avoided as far as possible.	Complied Board met 13 times in the year on a monthly basis which includes two meetings held in the month of September. All Directors actively participate at such meetings. Any concern or comment by such directors requiring action is minuted. Approval of the Board by circular resolutions has been kept to a minimum and resorted to only where necessary.
3 (1) (iv)	The board shall ensure that arrangements are in place to enable all directors to include matters and proposals in the agenda for regular board meetings where such matters and proposals relate to the promotion of business and the management of risks of the bank.	Complied 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.

CORPORATE GOVERNANCE ANNEXURE

Rule Number	Rule	Remarks
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>Complied</p> <p>The Board Procedure, provides that 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>Any change to the schedule shall be notified to the Directors at least 7 days prior to the date of the meeting.</p> <p>Board procedure further 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>Complied</p> <p>The Board procedure contains a similar provision.</p> <p>Details of the Directors attendance is set out on Page 56 of the Annual Report, 2019.</p> <p>No director has violated this requirement during the financial year 2019.</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>Complied</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 advise and services of the company secretary with a view to ensure that board procedures and all applicable rules and regulations are followed.	<p>Complied</p> <p>All Directors have access to the advice and services of the Company Secretary.</p> <p>Board Procedure provides for same.</p>
3 (1) (ix)	The company secretary shall maintain the minutes of Board meetings and such minutes shall be open for inspection at any reasonable time, on reasonable notice by any director.	<p>Complied</p> <p>Board minutes are maintained by the Company Secretary. The Board Procedure also provides for same. The Directors have access to the Board papers and minutes through a secure electronic link.</p>

Rule Number	Rule	Remarks
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"> (a) A summary of data and information used by the Board in its deliberations (b) The matters considered by the board (c) The fact finding discussions and the issues of contention or dissent which may illustrate whether the Board was carrying out its duties with due care and prudence. (d) The testimonies and confirmations of relevant executives which indicate compliance with the Board's strategies and policies and adherence to relevant laws and regulations (e) The Board's knowledge and understanding of the risks to which the bank is exposed and an overview of the risk management measures adopted (f) The decisions and board resolutions. 	<p>Complied</p> <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.</p> <p>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>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>	<p>Complied</p> <p>Approved Board procedure includes a provision to enable the Directors to seek independent professional advice at the Bank's expense.</p>
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>Complied</p> <p>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)	<p>The board shall have a formal schedule of matters specifically reserved to it for decision to ensure that the direction and control of the bank is firmly under its authority.</p>	<p>Complied</p> <p>There is a schedule of matters reserved for Board approval which has been approved by the Board.</p>

CORPORATE GOVERNANCE ANNEXURE

Rule Number	Rule	Remarks
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>Complied</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.</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>Complied</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>Complied</p> <p>Report is published in page 54 of the Annual Report of 2019.</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>Complied</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>
3 (2)	The Board's composition	
3(2)(i)	The number of directors on the board shall not be less than 7 and not more than 13	<p>Complied</p> <p>Board composition was in compliance with this requirement throughout the year.</p>
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.	<p>Complied</p> <p>No Director served for a period exceeding Nine years during the year.</p>
3(2)(iii)	An employee of a bank may be appointed, elected or nominated as a director of the bank (hereinafter referred to as an 'executive director') provided that the number of executive directors shall not exceed one-third of the number of directors of the board. In such an event, one of the executive directors shall be the chief executive officer of the bank.	<p>Complied</p> <p>The Board consisted of twelve directors with one Executive Director and eleven Non-Executive Directors as at 31st December, 2019. Number of Executive Directors has not exceeded the specified number at any time during the year.</p>

Rule Number	Rule	Remarks
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> <ol style="list-style-type: none"> has direct and indirect shareholding of more than 1% of the bank; 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; has been employed by the bank during the two year period immediately preceding the appointment as director 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; represents a specific stakeholder of the bank is an employee or a director or a material shareholder in a company or business organization; <ol style="list-style-type: none"> 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 in which any of the other directors of the bank are employed or are directors or are material shareholders; or 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. 	<p>Complied</p> <p>The Bank had five Independent Non-Executive Directors throughout the year thus complies with the requirement.</p> <p>The Board determined the independent and non-independent status of the Non-Executive Directors based on the declarations submitted by them in accordance with the criteria defined in this direction.</p>
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.	<p>Not Applicable</p> <p>No alternate director has been appointed during the year.</p>
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.	<p>Complied</p> <p>Directors possess qualifications and experience to meet the criteria specified in the Rule. Brief profiles of the Directors are given on pages 12 to 15 of the Annual Report, 2019.</p> <p>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.</p> <p>Central Bank approval is also obtained for all new appointments and for continuing directors, annually.</p>

CORPORATE GOVERNANCE ANNEXURE

Rule Number	Rule	Remarks
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.	Complied All meetings of the Board held during the year 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.	Complied Composition of the Board, including the names of the Chairman, Executive Directors, Non-Executive Directors and Independent Non- Executive directors are disclosed in page 58 of the Annual Report, 2019.
3 (2) (ix)	There shall be a formal, considered and transparent procedure for the appointment of new directors to the board. There shall also be procedures in place for the orderly succession of appointments to the board.	Complied 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.	Complied Mr. Arjun Fernando who was appointed to the Board in January 2019 was elected at the AGM held in March 2019. No further appointments were made during the year.
3(2)(xi)	If a director resigns or is removed from office, the board shall : (a) announce the director's resignation or removal and the reasons for such removal or resignation including but not limited to information relating to the relevant director's disagreement with the bank, if any; and (b) issue a statement confirming whether or not there are any matters that need to be brought to the attention of shareholders.	Complied One Director retired from the Board during the year. Necessary formalities as required by the Rule have been complied with.
3(2)(xii)	A director or an employee of a bank shall not be appointed, elected or nominated as a director of another bank except where such bank is a subsidiary company or an associate company of the first mentioned bank.	Complied Based on the quarterly declarations submitted by individual directors in the year 2019, 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)	Criteria to assess the fitness and propriety of directors 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.	

Rule Number	Rule	Remarks
3(3) (i)	The age of a person who serves as a director shall not exceed 70 years.	There are no directors on the Board of the Bank who are over 70 years of age.
3(3)(ii)	A person shall not hold office as a director of more than 20 companies/entities/institutions inclusive of subsidiaries or associate companies of the bank.	Complied No director of the Bank holds Directorships in more than 20 companies.
3(3)(iii)	A Director or a Chief Executive Officer of a licensed bank operating in Sri Lanka shall not be appointed as a Director or a Chief Executive Officer of another licensed bank operating in Sri Lanka before the expiry of a period of 6 months from the date of cessation of his/her office at the licensed bank in Sri Lanka. Any variation thereto in exceptional situations such as where expertise of retiring bankers may be required when reconstituting Boards of licensed banks which need restructuring, shall be subject to the prior approval of the Monetary Board. In this regard, licensed banks shall ensure to adhere to the requirement of the cooling-off period when appointing Directors or Chief Executive Officer. If a Director is appointed to the licensed bank by an appointing authority violating these Directions, the licensed bank shall take steps to prevent such appointee from exercising any powers or enjoying any privileges or benefits.	Complied One Director was appointed during the year and he has not functioned as a Director of another licensed bank during last six months prior to his appointment. No change to the position Chief Executive Officer during the year.
3 (4)	Management functions delegated by the Board	
3 (4) (i)	The directors shall carefully study and clearly understand the delegation arrangements in place	Complied Board Procedure includes a provision for delegation of powers by the Board. Board has delegated matters pertaining to the affairs of the Bank to the Board sub committees within the scope of the respective Board approved Terms of Reference. 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.	Complied 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.	Complied 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)	The Chairman and the Chief Executive Officer	
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.	Complied 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.

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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>Complied</p> <p>Mr. Gihan Cooray, a Non-Executive Director is the Chairman as at 31st December, 2019. An Independent Non-Executive Director Mr. Murtaza Jafferjee functioned as the Senior Director during the year till his retirement on 15th December, 2019. Independent Director Mr. J C A D'souza was appointed as the Senior Director with effect from 16th December 2019. Terms of Reference of the Senior Director is approved by the Board.</p> <p>The designation of the Senior Director has been disclosed in the Annual Report, 2019.</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>Complied</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 2019. No relationship exists amongst the members of the Board other than in respect of the following:</p> <ul style="list-style-type: none"> Directors Mr. Gihan Cooray and Ms. Sherin Cader were nominated to the Board by the Bank's material shareholder John Keells Holdings PLC. Directors Mr. Suran Wijesinghe, Mr. Prasanna De Silva and Mr. Arjun Fernando were nominated to the Board by the Bank's material shareholder Central Finance Company PLC.
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>Complied</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>Complied</p> <p>According to 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>Complied</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. Provision contained in the 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>Complied</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
3 (5) (viii)	The chairman shall facilitate the effective contribution of non-executive directors in particular and ensure constructive relations between executive and non-executive directors	Complied 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.	Complied 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.	Complied 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. 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.	Complied The Board approved paper on 'Functions of the Chairman and CEO' evidences the requirement of the rule.
3 (6)	Board appointed committees	
3 (6) (i)	Each bank shall have at least the following Board committees; 3(6)(ii) Audit Committee 3(6)(iii) Human Resources and Remuneration committee 3(6)(iv) Nomination Committee 3(6)(v) Integrated Risk Management Committee	Complied The Bank has established all four Board sub committees as required by the Rule.
	Each committee shall report directly to the board.	Complied All minutes of the Board sub committees are submitted to the Board and constitute a regular agenda item.
	Each committee shall appoint a secretary to arrange the meetings and maintain minutes, records etc. under the supervision of the chairman of the committee	Complied All Board sub committees have formally appointed secretaries.
	The board shall present a report of the performance on each committee, on their duties and roles at the annual general meeting	Complied Reports are contained in the Annual Report of 2019.
3 (6) (ii)	Audit committee	
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.	Complied The Chairperson of the Board Audit Review Committee (BARC), Ms. Rachini Rajapaksa is an Independent Non-Executive Director She is a Chartered Financial Analyst of the CFA Institute, USA and is a Fellow Member of the Chartered Institute of Management Accountants of UK. She possesses relevant skills and experience required for this position.
3 (6) (ii) (b)	All members of the committee shall be Non-Executive directors	Complied All members of the BARC are Non-Executive directors.

CORPORATE GOVERNANCE ANNEXURE

Rule Number	Rule	Remarks
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>Complied</p> <p>The reappointment of the external auditor for audit services has been recommended to the Board by the BARC.</p> <p>The BARC has discussed the implementation of CBSL guidelines issued to auditors from time to time and the application of the relevant accounting standards.</p> <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>Complied</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>
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> <p>I. whether the skills and experience of the audit firm make it a suitable provider of the non-audit services;</p> <p>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</p> <p>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</p>	<p>Complied</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.</p> <p>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 cover all aspects stated in this Direction. This Policy was reviewed by the BARC and was approved by the Board of Directors in February 2019.</p> <p>BARC further monitors the payments made to the auditor during the year for non-audit services to ensure compliance to the Direction.</p>

Rule Number	Rule	Remarks
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> <ul style="list-style-type: none"> (i) an assessment of the bank's compliance with the relevant directions in relation to corporate governance and the management's internal controls over financial reporting; (ii) the preparation of financial statements for external purposes in accordance with relevant accounting principles and reporting obligations; and (iii) the coordination between firms where more than one audit firm is involved. 	<p>Complied</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> <ul style="list-style-type: none"> (i) major judgemental areas (ii) any changes in accounting policies and practices (iii) significant adjustments arising from the audit (iv) the going concern assumption; and (v) the compliance with relevant accounting standards and other legal requirements. 	<p>Complied</p> <p>BARC meetings were held in 2019 to review/comment and discuss the Bank's financial information and reports that are submitted by the CEO/CFO to ensure the integrity 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>The Financial Statements discussed and reviewed are recommended to the Board for approval.</p>
3 (6) (ii) (h)	<p>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>	<p>Complied</p> <p>The BARC met the External Auditors in the absence of the management of the Bank on two occasions in 2019. The External Auditors were invited to draw the attention of BARC any areas of concern or any matter they wish to raise regarding the accounts or otherwise.</p>
3 (6) (ii) (i)	<p>The committee shall review the external auditor's management letter and the management's response thereto.</p>	<p>Complied</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>

CORPORATE GOVERNANCE ANNEXURE

Rule Number	Rule	Remarks
3 (6) (ii) (j)	The committee shall take the following steps with regard to the internal audit function of the bank;	Complied The BARC carries out the following with regard to the Internal Audit function:
	(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;	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 Internal Audit Department as well as the staff requirements were reviewed/ discussed at the time of approving the Audit Plan.
	(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;	The Audit plan for the year was approved by the BARC and the progress was reviewed on a regular basis.
	(iii) Review any appraisal or assessment of the performance of the head and senior staff members of the internal audit department.	The committee reviewed the internal audit reports and considered the findings, recommendations and corrective action.
	(iv) Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function;	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. All senior appointments to the audit team were recommended by the BARC. Vice President - Internal Audit was appointed in 4Q 2019 to understudy Executive Vice President - Internal Audit to assume duties upon his retirement. Additionally, one new senior appointment was made to the Audit team during the year 2019 upon a move by the existing incumbent to a another division in the Bank.
	(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	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 2019).
	(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;	The internal audit staff directly reports to EVP- IA who in turn directly reports to BARC for independence. The audits are performed impartially, proficiently and with due professional care.
3 (6) (ii) (k)	The committee shall consider the major findings of internal investigations and management's responses thereto	Complied 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 key recommendations arising from such investigations are implemented.

Rule Number	Rule	Remarks
3 (6) (ii) (l)	<p>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.</p> <p>However, at least twice a year, the committee shall meet with the external auditors without the executive directors being present.</p>	<p>Complied</p> <p>CEO attends all BARC meetings upon invitation. Where it is deemed necessary, other corporate heads including the CFO/ CRO/CCO are called for the meetings.</p> <p>During the period under review, BARC met with the External Auditor on fourteen occasions including two occasions without the presence of the management.</p>
3 (6) (ii) (m)	<p>The committee shall have</p> <ul style="list-style-type: none"> (i) explicit authority to investigate into any matter within its terms of reference (ii) the resources which it needs to do so (iii) full access to information; and (iv) authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary 	<p>Complied</p> <p>This has been covered in detail in the Terms of Reference of the BARC and Internal Audit Charter.</p> <p>Please refer the Board Audit Review Committee Report on page 84 of the Annual Report</p>
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.	<p>Complied</p> <p>The committee met fourteen times during the year, 2019. Adequate notices of issues to be discussed are made available to all members of BARC. Minutes of proceedings of BARC are maintained by Head of the Internal Audit who functions as the Secretary to the BARC.</p>
3 (6) (ii) (o)	<p>The board shall disclose in an informative way,</p> <ul style="list-style-type: none"> (i) details of the activities of the audit committee (ii) the number of audit committee meetings held in the year (iii) details of attendance of each individual director at such meetings 	<p>Complied</p> <p>Please refer the Board Audit Review Committee Report on page 84 of the Annual Report.</p>
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.	<p>Complied</p> <p>Detailed minutes are maintained by the Head of the Internal Audit who is the secretary to the BARC.</p>
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>Complied</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 February 2019.</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>

CORPORATE GOVERNANCE ANNEXURE

Rule Number	Rule	Remarks
3 (6) (iii)	Human Resources and Remuneration Committee (HRRC)	
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.	Complied Board approved remuneration policy is in place
3 (6) (iii) (b)	The committee shall set goals and targets for the directors, CEO and key management personnel.	Complied 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.
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.	Complied Minutes of the meeting of the HRRC indicate that such evaluations and the proposal put forward by HR/CEO for the remuneration in 2019 has been approved.
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.	Complied Approved TOR includes the provisions stipulated. CEO has attended all meetings and was excused when matters relating to her were discussed.
3 (6) (iv)	Nomination Committee	
3 (6) (iv) (a)	The Committee shall implement a procedure to select/appoint new directors, CEO and key management personnel	Complied Approved TOR of the Nomination Committee includes the provisions stipulated. Nomination Committee has also adopted a process to select/recruit Chief Executive Officer and Key Management Personnel.
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.	Complied The Committee has considered and recommended re-election of directors in compliance with the Rule.
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.	Complied 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.	Complied Affidavits and declarations of the Directors and CEO were submitted to the Committee during 2019 in order for the Committee to determine the suitability of the Directors and CEO. Having considered the Affidavits and 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.	Complied The Committee has met the criteria set out in the Rule.

Rule Number	Rule	Remarks
3 (6) (iv) (f)	<p>The committee shall be chaired by an Independent Director and preferably be constituted with a majority of Independent Directors.</p> <p>The CEO may be present at the meetings by invitation.</p>	<p>Complied</p> <p>Mr. Murtaza Jafferjee, Senior Independent Non-Executive Director functioned as the Chairman during the year till his retirement from the Board on 15th December, 2019. Independent Director Mr J C A D'souza was designated as the Senior Director and appointed as the Chairman of the Committee with effect from 16th December, 2019.</p> <p>CEO was invited to attend when her presence was deemed required by the Committee.</p>
3 (6) (v)	Integrated Risk Management Committee (IRMC)	
3 (6) (v) (a)	<p>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.</p> <p>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.</p>	<p>Complied</p> <p>IRMC comprises of three non-executive directors, CEO and other relevant KMP.</p> <p>Committee functions as per the Board approved Terms of Reference in close co-operation with relevant KMP</p> <p>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.</p>
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.	<p>Complied</p> <p>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.</p>
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>Complied</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>Complied</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>Complied</p> <p>The IRMC has held meetings once in two months</p>

CORPORATE GOVERNANCE ANNEXURE

Rule Number	Rule	Remarks
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>Complied</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 Terms of Reference 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>Complied</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>Complied</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>
3 (7)	Related Party Transactions	
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"> (a) Any of the bank's subsidiary companies (b) Any of the bank's associate companies (c) Any of the directors of the bank (d) Any of the bank's key management personnel (e) A close relation of any of the bank's directors or key management personnel (f) A shareholder owning a material interest in the bank (g) A concern in which any of the bank's directors or a close relation of any of the bank's directors or any of its material shareholders has a substantial interest 	<p>Complied</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 Related Party Transactions and monitors its implementation through Related Party Transactions Review Committee.</p>

Rule Number	Rule	Remarks
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"> (a) The grant of any type of accommodation, as defined in the Monetary Board's Directions on maximum amount of accommodation (b) The creation of any liabilities of the bank in the form of deposits, borrowings and investments (c) The provision of any services of a financial or non financial nature provided to the bank or received from the bank (d) The creation or maintenance of reporting lines and information flows between the bank and any related parties which may lead to the sharing of potentially proprietary, confidential or otherwise sensitive information that may give benefits to such related parties. 	<p>Complied</p> <p>The Board approved related party policy contains provisions for same.</p>
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> <ul style="list-style-type: none"> (a) Granting of 'total net accommodation' to related parties, exceeding a prudent percentage of the bank's regulatory capital, as determined by the board. For purpose of this sub-direction; <ul style="list-style-type: none"> (i) 'Accommodation' shall mean accommodation as defined in the Banking Act Directions No.7 of 2007 on Maximum Amount of Accommodation. (ii) the 'total net accommodation' shall be computed by deducting from the total accommodation, the cash collateral and investments made by such related parties in the Bank's share capital and debt instruments with a maturity of 5 years or more. (b) Charging of a lower rate of interest than the bank's best lending rate or paying more than the bank's deposit rate for a comparable transaction with an unrelated comparable counterparty; (c) Providing of preferential treatment, such as favorable terms, covering trade losses and/or waiving fees/commissions, that extend beyond the terms granted in the normal course of business undertaken with unrelated parties; (d) Providing services to or receiving services from a related-party without an evaluation procedure; (e) Maintaining reporting lines and information flows that may lead to sharing potentially proprietary, confidential or otherwise sensitive information with related parties, except as required for the performance of legitimate duties and functions. 	<p>Complied</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 2019.</p>

CORPORATE GOVERNANCE ANNEXURE

Rule Number	Rule	Remarks
3(7)(iv)	A bank shall not grant any accommodation to any of its directors or to a close relation of such director unless such accommodation is sanctioned at a meeting of its board of directors, with not less than two-thirds of the number of directors other than the director concerned, voting in 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.	Complied All accommodations to directors and/or their close relatives have been granted with the approval of the Board. The Board ensured that such accommodation was secured by security determined by the Monetary Board.
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>	Not applicable 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.
3(7)(vi)	A bank shall not grant any accommodation or 'more favourable treatment' relating to the waiver of fees and/or commissions to any employee or a close relation of such employee or to any concern in which the employee or close relation has a substantial interest other than on the basis of a scheme applicable to the employees of such bank or when secured by security as may be approved by the Monetary Board in respect of accommodation granted as per Direction 3(7)(v) above	Complied Board approved Related Party Transactions policy contains provisions to ensure compliance.
3(7)(vii)	No accommodation granted by a bank under Direction 3(7) (v) and 3 (7) (vi) above, nor any part of such accommodation, nor any interest due thereon shall be remitted without the prior approval of the Monetary Board and any remission without such approval shall be void and of no effect.	Complied No such facility has been remitted in violation of this rule.
3(8)	Disclosures	
3(8) (i)	The Board shall ensure that;	Complied
	<p>(a) annual audited financial statements and quarterly financial statements are prepared and published in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards and that</p> <p>(b) such statements are published in the newspapers in an abridged form, in Sinhala, Tamil and English.</p>	

Rule Number	Rule	Remarks
3 (8) (ii)	The Board shall ensure that the following minimum disclosures are made in the Annual Report;	Complied
(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.	Included in page 87 of the Annual Report of 2019
(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.	Included in pages 81 to 82 of the Annual Report of 2019.
(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.	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 2019.
(d)	Details of Directors, including names, fitness and propriety transactions with the Bank the total of fees/remuneration paid by the Bank	Included in pages 57 to 61 of the Annual Report of 2019
(e)	Total net accommodation as defined in 3(7)(iii) granted to each category of related parties. The net accommodation granted to each category of related parties shall also be disclosed as a percentage of the Bank's regulatory capital.	Disclosed under Report of Board of Directors on the Affairs of the Bank included in pages 57 to 60 of the Annual Report 2019.
(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.	Included in pages 57 to 60 of the Annual Report of 2019.
(g)	The external auditor's certification of the compliance with these Directions in the Annual Corporate Governance reports published after January 1, 2010.	All findings of the 'Factual Findings Reports' of auditors issued under "Sri Lanka Related Services Practice Statement 4750" have been incorporated in this report.
(h)	A report setting out details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any material non-compliances	Included in the Annual Report, 2019.
(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.	No such matter has been specified by the Monetary Board of CBSL.

TEN YEAR KEY PERFORMANCE TRENDS

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
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Year Ended December 31st

LKR Mn (Group)

OPERATING RESULTS

Gross Income	12,215	11,885	17,673	20,362	20,854	20,279	25,547	35,333	43,461	46,314
Net Interest Income	4,565	4,404	5,755	7,675	8,940	9,105	9,786	11,909	15,164	16,134
Net Fees & Other Income	2,125	2,089	2,576	2,235	3,177	3,414	3,925	5,005	6,146	6,418
Total Operating Income	6,690	6,493	8,331	9,910	12,117	12,519	13,711	16,914	21,310	22,552
Operating Expenses	(3,996)	(4,017)	(4,697)	(5,779)	(6,363)	(6,862)	(7,620)	(8,773)	(10,310)	(10,808)
Impairment	(203)	235	(433)	(451)	(1,182)	(985)	(690)	(1,089)	(3,274)	(3,301)
Profit Before Taxation	2,492	2,711	3,201	3,681	4,571	4,672	5,400	7,052	7,726	8,444
Taxation & Levies	(1,408)	(1,105)	(1,250)	(1,544)	(2,035)	(2,058)	(2,531)	(3,680)	(4,024)	(4,730)
Profit After Taxation	1,084	1,607	1,951	2,136	2,537	2,614	2,869	3,371	3,702	3,714
Other Comprehensive Income (OCI)				(9)	104	(32)	(236)	1,262	(288)	664
Total Comprehensive Income				2,127	2,641	2,582	2,633	4,634	3,414	4,378

As at December 31st

ASSETS

Cash & Short-Term Funds	1,531	3,695	2,534	3,020	6,900	6,392	4,188	6,850	6,438	8,756
Statutory Deposits with Central Bank	2,416	4,284	5,089	4,032	3,992	5,284	8,512	11,213	12,762	8,377
Government Treasury Bills & Bonds	26,876	24,982	34,038	44,812	40,696	31,623	36,738	49,335	74,254	71,839
Investment Securities	4,020	3,153	2,221	2,315	3,949	7,065	6,926	7,028	-	-
Loans & Advances	44,571	61,188	73,424	82,327	98,347	121,143	149,818	186,746	221,506	226,794
Other Assets	1,287	2,280	2,591	2,894	1,419	1,386	1,814	1,941	5,085	4,154
Property Plant & Equipment	1,788	1,891	1,908	2,048	2,194	2,143	1,996	3,364	3,669	4,073
Intangible Assets	759	600	642	680	1,283	1,224	1,189	1,154	1,303	1,376
Total Assets	83,248	102,073	122,447	142,128	158,781	176,262	211,180	267,629	325,016	325,369

LIABILITIES

Deposits	48,315	67,633	86,274	95,730	111,010	129,158	151,502	194,269	231,463	226,872
Due to Banks	500	1,277	2,712	1,401	2,923	2,276	11,851	12,315	18,475	6,484
Deferred Tax Liabilities	456	236	280	341	413	733	969	1,828	1,050	1,160
Borrowings	21,979	20,203	18,695	27,508	25,402	23,433	23,536	30,573	36,676	50,735
Other Liabilities	5,193	4,095	4,390	5,410	5,138	5,491	6,001	7,175	10,294	8,723
Total Liabilities	76,443	93,444	112,351	130,390	144,887	161,090	193,859	246,159	297,957	293,974

SHAREHOLDERS' FUNDS

Share Capital/Stated Capital	4,368	5,101	5,101	5,101	5,101	5,101	5,101	5,101	8,866	9,408
Reserve Fund	156	224	314	419	538	661	796	1,011	1,199	1,372
Reserves	2,281	3,304	4,681	6,217	8,255	9,409	11,423	15,358	16,994	20,616
Total Shareholders' Funds	6,805	8,629	10,096	11,738	13,895	15,171	17,321	21,470	27,059	31,396
Total Liabilities & Shareholders' Funds	83,248	102,073	122,447	142,128	158,781	176,262	211,180	267,629	325,016	325,369
Commitments & Contingencies	60,547	72,792	86,239	90,267	98,799	96,792	123,585	171,587	190,602	199,359

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
RATIOS (GROUP)										
Operating Income Growth (%)	17.20	(2.94)	28.31	18.95	22.27	3.33	9.52	23.36	25.99	5.83
Cost/Income Ratio (%)	59.73	61.86	56.38	58.31	52.52	54.81	55.58	51.87	48.38	47.92
Return On Average Assets (%)	1.41	1.73	1.74	1.61	1.69	1.56	1.48	1.41	1.25	1.14
Total Assets to Shareholders' Funds (Times)	12.23	11.83	12.13	12.11	11.43	11.62	12.19	12.47	12.01	10.36
Tier 1 Capital Adequacy Ratio (%)	13.43	13.42	13.82	14.78	14.16	13.15	11.40	10.83	12.15	13.30
Total Capital Adequacy Ratio (%)	15.74	17.44	18.18	20.00	18.28	15.53	15.82	13.89	15.59	17.96
Return on Average Shareholders' Funds (%)	18.72	20.82	20.84	19.57	19.79	17.99	17.66	17.38	15.26	12.71
SHAREHOLDER INFORMATION (GROUP)										
Market Value per Share (LKR) - Voting	83.40	57.00	56.00	62.20	97.00	86.30	80.90	78.00	89.20	80.00
Market Value per Share (LKR) - Non Voting									82.10	80.00
Net Asset Value per Share (LKR)	32.46	37.42	43.78	50.90	60.25	65.79	75.11	93.10	97.42	110.61
Earnings Per Share (LKR)	5.02	6.79	8.24	9.03	10.72	11.04	12.12	14.24	13.10	13.08
Price Earning Ratio (Times)	16.60	8.40	6.79	6.89	9.05	7.81	6.67	5.48	6.81	6.11
Earnings Yield (%)	6.02	11.91	14.72	14.51	11.05	12.80	14.98	18.26	14.69	16.35
Cash Dividend Per Share (LKR)	2.00	2.10	2.10	2.10	2.10	2.10	2.10	-	-	2.30
Scrip Dividend Per Share (LKR)	-	-	-	-	-	-	-	2.10	2.10	-
Dividend Payout Ratio (%)	39.81	30.94	25.48	23.27	19.60	19.02	17.33	14.74	16.03	17.58
% of 20 Largest Shareholders - Voting	78.58	78.22	65.78	79.64	81.53	86.02	87.69	88.77	89.51	89.90
% of 20 Largest Shareholders - Non Voting									99.57	99.71
OTHER INFORMATION (GROUP)										
Number of Employees	1,608	1,853	2,037	2,262	2,562	2,695	2,770	2,943	3,128	3,151
Number of Branches	40	48	57	72	89	92	93	93	94	96
No of ATMs/CRMs	51	60	70	100	124	131	136	136	172	176

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

SERVICE NETWORK

No	Name of the Branch	Address
1	Akkaraipathu	No. 210, Main Street, Akkaraipathu.
2	Akuressa	No. 73, Matara Road, Akuressa.
3	Aluthgama	No. 411, Galle 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	No. 107, New Ratnapura Road, Avissawella.
8	Badulla	No. 10, Bank Road, Badulla.
9	Balangoda	No. 86/A, Bans Ratwatte Mawatha, Balangoda.
10	Bandaragama	No. 14, Panadura 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, Colombo 08.
16	Chillaw	No. 43, Kurunegala Road, Chillaw.
17	Cinnamon Gardens	No. 4 A, Independence Avenue, Colombo 07.
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	Giriulla	No.145/A, Kurunegala Road, Giriulla.
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	Kalutara	No. 340 Main Street, Kalutara.
44	Kandy	No. 147, Kotugodella Veediya, Kandy.
45	Kandy City Centre	L1-17, Level 1, Kandy City Centre, No.05, Dalada Veediya, Kandy.
46	Karapitiya	No. 241, Hirimbura Road, Karapitiya.
47	Katugastota	No. 146, Kurunegala Road, Katugastota.
48	Kegalle	No. 176, Walawwa watta, Kegalle.

No	Name of the Branch	Address
49	Kiribathgoda	No.69, Makola Road, Kiribathgoda.
50	Kohuwala	No.135 A,Tissara Plaza, Dutugemunu Street, Kohuwala.
51	Kollupitiya	No.349, Lee Hedges Building, Galle Road, Colombo 03.
52	Kotahena	No. 258, George R De Silva Mawatha, Colombo 13.
53	Kottawa	No. 269/1, Mahalwarawa Junction, Kottawa.
54	Kuliyapitiya	No. 72 A, Hettipola Road, Kuliyapitiya.
55	Kurunegala	No. 37, Puttalam Road, Kurunegala.
56	Mahabage	No. 590, Negombo Road, Mahabage.
57	Maharagama	No. 129,High Level Road, Maharagama.
58	Malabe	No. 410/4, Athurugiriya Road, Malabe.
59	Matale	No. 237/241, Main Street, Matale.
60	Matara	No. 56, Esplanade Road, Matara.
61	Mathugama	No. 123/1, Agalawatta Road, Matugama.
62	Mawathagama	No. 56, Kurunegala Road, Mawathagama.
63	Millennium	No. 46/58, Nawam Mawatha, Colombo 02.
64	Minuwangoda	No.59, Negombo Road, Minuwangoda.
65	Monaragala	No. 190, Wellawaya Road, Monaragala.
66	Moratuwa	No. 89, New Galle Road,Moratuwa.
67	Mount Lavinia	No. 269, Galle Road, Mount Lavinia.
68	Narahrenpita	No 255/2, Kirula Road, Colombo 05.
69	Nawala	No. 267A, Nawala Road, Nawala.
70	Negombo	No. 72A, Old Chillaw Road, Negombo.
71	Nelliady	No. 171/1, Jaffna - Point Pedro Road, Nelliady.
72	Nittambuwa	No. 39, Kandy Road, Nittambuwa.
73	Nugegoda	No. 128, High Level Road, Nugegoda.
74	Nuwara Eliya	No. 86, Kandy Road, Nuwara Eliya.
75	Old Moor Street	No. 360, Old Moor Street, Colombo 12.
76	Panadura	No. 229, Galle Road, Panadura.
77	Peradeniya	Royal Mall Complex, No. 903/18, William Gopallawa Mawatha, Kandy.
79	Pettah Bankshall Street	No. 54 A, Bankshall Street, Colombo 11.
78	Pettah Main Street	No. 244, Main Street, Pettah.
81	Pilimathalawa	No.234, Colombo Road, Pilimathalawa.
80	Piliyandala	No. 30, Moratuwa Road, Piliyandala.
82	Rajagiriya	No. 196, Sri Jayawardanapura Mawatha, Welikada, Rajagiriya.
83	Ratnapura	No. 189, Main Street, Ratnapura.
84	Sri Sangaraja	No. 545 A, Sri Sangaraja Mawatha,Colombo 10.
85	Tangalle	No. 110, Tissa Road, Tangalle.
86	Thalawathugoda	No. 245/2, Pannipitiya Road,Thalawathugoda.
87	Tissamaharama	No. 43/2, Kachcheriyagama, Hambanthota Road, Tissamaharama.
88	Trincomalee	No. 96, Main Street, Trincomalee.
89	Vavuniya	No.45A, O2nd Cross Street, Vavuniya.
90	Ward Place	No. 16, Ward Place, Colombo 07.
91	Wariyapola	No. 84, Puttalam Road, Wariyapola.
92	Wattala	No.492, Negombo Road, Wattala.
93	Weligama	No. 354/29, Samaraweera Place, Sirimavo Bandaranayake Mawatha, Weligama.
94	Wellawatte	No. 595, Galle Road, Wellawatte.
95	Wennappuwa	No. 289, Chilaw Road, Wennappuwa.
96	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

SERVICE NETWORK

OFFSITE ATMS

No	ATM Location	Address
1	Arpico Hyde Park	Arpico Super Centre, No.69, Hyde Park Corner, Colombo 02.
2	Arpico Matara	Arpico Super Centre, No A2, Matara Road, Matara.
3	Arpico Navinna	Arpico Super Centre, No.310, High Level Road, Navinna, Maharagama.
4	Arpico Panadura	Arpico super center, No. 542, Galle road, Panadura.
5	Asiri-General Hospital	No. 181, Kirula Road, Narahenpita.
6	Asiri-Surgical Hospital	No. 21, Kirimandala Mawatha , Narahenpita.
7	Athurugiriya	No. 25, Malabe Road, Athurugiriya.
8	Attidiya	L & S Engineering (Pvt) Ltd, No 208, Main Road, Attidiya.
9	Awissawella Union Apparel	Union Apparel (Pvt) Ltd, Block C1, C.V.Gunaratne Industrial Park, Seethawakapura, Awissawella.
10	Cinnamon Lakeside	No: 115, Sir Chittampalam A Gardiner Mawatha, Colombo 02.
11	Dambulla	Dambulla Ciman Hala, Dambulla.
12	Digana	MAS Factory, BOI, Pallekelle.
13	Galle Sahana	"Sahana" No 438, Matara Road, Megalle, Galle.
14	Gampaha Railway Station	Railway station, Gampaha.
15	Ganemulla	Railway Station, Ganemulla.
16	JKH Water Front	Water Front, No. 92, Glennie Street, Colombo 02.
17	Kaduruwela	Texwin Clothing (PVT) Ltd, BOP 398, Abayapura, Pulasthigama, Kaduruwela.
18	Kaduwela	Main Bus Stand, Awissawella Road, Kaduwela.
19	Kandy Railway Station	Railway Station, Kandy.
20	Keells Borella	Keells Super, No 85, Dr N.M. Perera Mawatha, Colombo 08.
21	Keells Kalubowila	Keells super, No. 53, Hospital Road, Kalubowila, Dehiwala.
22	Keells Kottawa	Keells super, No. 119, Horana Road, Kottawa.
23	Keells Mt Lavinia	Keells Super, Mt. Lavinia, No. 388, Galle Road, Mt. Lavinia.
24	Kolonnawa	Laughs Supermarket, No 228, Kolonnawa Road, Kolonnawa.
25	Laughs Kohuwala	Laughs Sun-up Super Market, No.17, Sunethradevi Mawatha, Kohuwala.
26	Laughs Nedimala	Laughs Sun-up Super Market, No. 288, Hill Street, Dehiwala.
27	Laughs Pitakotte	No: 338, Kotte Road, Pitakotte.
28	Laughs Seeduwa	Laughs Sun-up Super Market, No: 10, Kotugoda Road, Seeduwa.
29	Leesons Ragama	Leesons Hospital, No: 32, Thewatta Road, Ragama.
30	Mawaramandiya	Biyagama Multi Corporative Society Limited, "Samupakara Mandiraya", Mawaramandiya, Siyambalape.
31	Miriswatte	Lanka Filling Station, No: 144, Kandy Road, Miriswatte, Mudungoda.
32	Negombo	Negombo Super K, No: 250, Colombo Road, Negombo.
33	Orion City	Orion Management Consortium Ltd, No 752/1, Base Line Road, Colombo 09.
34	PBC Kandana	Arpico Daily, No: 88, Negombo road, Kandana.
35	PBC Rajagiriya	Keells Super Rajagiriya, No.475, Sri Jayewardenepura Road, Rajagiriya.
36	PBC Wattala	Keells Super-Wattala, No.385, Negombo Road, Wattala.
37	Peradeniya	Royal Mall Shopping Complex, No. 903/18, William Gopallawa Mawatha, Kandy.
38	Rathmalana	Lanka Sathosa Limited, Rathmalana Mega, Police Trans Camp, No. 650/A, Galle Road, Rathmalana.
39	Rathnapura	No. 278, Colombo Road, Rathnapura.

OFFSITE CRMS

No	CRM Location	Address
1	Ampara Off-site	Liyanwala Building, Nidahas Mawatha, Ampara.
2	ANC Education	ANC Education, No. 310, R A De Mel Mawatha, Colombo 03.
3	CINEC	CINEC Maritime Campus, Millennium Drive, IT Park ,Malabe.
4	Kurunegala	Arpico Super centre, No 271,Colombo Road, Kurunegala.
5	SLIT	SLIT, New Kandy Road, Malabe.

GLOSSARY

A

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.

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

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.

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.

GLOSSARY

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 interest earning 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 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.

NET INTEREST INCOME

Difference between what banks earn on assets such as loans and securities and what it pays on liabilities such as deposits, refinance funds and inter-bank borrowings.

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.

NON-PERFORMING ADVANCES COVER (NPA COVER)

Cumulative loan loss provision as a percentage of total Non-Performing Advances (net of Interest in Suspense).

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.

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.

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 Twenty First Annual General Meeting of Nations Trust Bank PLC will be held at 10.00 a.m. on 31st March, 2020 at the 6th Floor, CA 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, 2019 with the Report of the Auditors thereon.
3. To re-elect Mr. Prasanna De Silva 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. Suran Wijesinghe 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 re-elect Ms. Rachini Rajapaksa who retires by rotation at the Annual General Meeting as a Director in terms of Article 27 of the Articles of Association of the Company.
6. To approve the sale of Bank owned vehicle used by the Chief Executive Officer since 2016, a Mercedes Benz E 200, to the Chief Executive Officer on her retirement on 01 April 2020 at the book value as at that date, as per the Board approved terms of employment.
7. To reappoint Auditors and to authorise the Directors to determine their remuneration.
8. To authorise the Directors to determine and make donations.
9. 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

Colombo
27th February 2020

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. 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 31st March, 2020 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, 2020.

.....
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 2019 with the Report of the Auditors thereon.	<input type="radio"/>	<input type="radio"/>
2.	To re-elect Mr. Prasanna De Silva 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. Suran Wijesinghe 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 re-elect Ms. Rachini Rajapaksa who retires by rotation at the Annual General Meeting as a Director in terms of Article 27 of the Articles of Association of the Company.	<input type="radio"/>	<input type="radio"/>
5.	To approve the sale of Bank owned vehicle used by the Chief Executive Officer since 2016, a Mercedes Benz E 200, to the Chief Executive Officer on her retirement on 01 April 2020 at the book value as at that date, as per the Board approved terms of employment.	<input type="radio"/>	<input type="radio"/>
6.	To reappoint Auditors and to authorise the Directors to determine their remuneration.	<input type="radio"/>	<input type="radio"/>
7.	To authorise the Directors to determine and make donations.	<input type="radio"/>	<input type="radio"/>
8.	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. Gihan Cooray	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 31st March, 2020 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, 2020.

.....
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.
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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:	

NOTES

[illegible]



CORPORATE INFORMATION

REGISTERED NAME

Nations Trust Bank PLC

LEGAL FORM

A Public Limited Liability Company incorporated in Sri Lanka under the Companies Act No.17 of 1982 and re-registered under the Companies Act No.07 of 2007. A Licensed Commercial Bank established under the Banking Act No. 30 of 1988.

COMPANY REGISTRATION NUMBER

PQ 118

DATE OF INCORPORATION

21st January 1999

COMPANY SECRETARY

Mr. Theja Silva

REGISTERED OFFICE

No. 242, Union Place, Colombo 2.

Telephone : +94 11 4313131

Facsimile : +94 11 2307854

E-mail : ntb.investorrelations@nationstrust.com

Web page : www.nationstrust.com

SWIFT : NTBCLKLX

AUDITORS

Messrs. Ernst & Young
Chartered Accountants,
No. 201, De Saram Place,
Colombo 10.

CREDIT RATING

A (Ika) from Fitch Ratings Lanka Ltd.

DIRECTORS

Mr. Gihan Cooray - Chairman

Mr. Conrad D'Souza - Senior Director

Ms. Rachini Rajapaksa

Mr. Prasanna De Silva

Mr. Suran Wijesinghe

Mr. Russell De Mel

Mr. Sumit Maheshwari

Mr. Savanth Sebastian

Ms. Sherin Cader

Mr. Chanaka Wickramasuriya

Mr. Arjun Fernando

Ms. Renuka Fernando

Mr Murtaza Jafferjee, Independent/Senior Director
retired from the Board on 15th December 2019

Board Supervisory Committee

Mr. Suran Wijesinghe - Chairman

Mr. Prasanna de Silva

Mr. Savanth Sebastian

Ms. Sherin Cader

Mr. Arjun Fernando

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. Prasanna De Silva

Ms. Rachini Rajapaksa

Mr. Russell De Mel

Nomination Committee

Mr. Conrad D'Souza -Chairman

Mr. Gihan Cooray

Mr. Prasanna De Silva

Mr. Chanaka Wickramasuriya

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 Rajapaksa

Ms. Sherin Cader

Mr. Arjun Fernando

Related Party Transactions Review Committee

Mr. Russell De Mel - Chairman

Ms. Renuka Fernando

Mr. Chanaka Wickramasuriya



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