



SAMPATH
SIMPLIFIED



Read this Report Online
www.sampath.lk

SAMPATH SIMPLIFIED

Welcome to the world of Sampath Simplified. Over the last few years we've been strategically re-shaping your Bank, looking at our systems and processes in new ways and developing simpler, smarter ways of working that will unlock our own potential to serve you-our stakeholder, much, much better. We're examining how we can increase growth in key areas like market share, network and revenue; delivering better, faster and more economical processes while reducing costs and managing risk at every level of operations.

So whenever you communicate with us, you will see how we begin and end every transaction with cheerful positivity and how, in a world that is increasingly fast-paced and isolating, we're bringing you the highest standards of product and service excellence, delivered with the friendly Sampath Smile.

That's why this report is all about what we're doing to put a smile on the face of every stakeholder we serve-through the precision, speed and ease of Sampath Simplified.



Sampath Bank

WE PRESENT YOUR FUTURE

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REPORT PROFILE

The purpose of this Integrated Annual Report 2018 is to offer an accurate assessment of the Bank's ongoing efforts to create sustainable value for all stakeholders. In the interest of providing all relevant information as clearly and concisely as possible, this report has been prepared in accordance with the "Six Capitals" Reporting Framework promulgated by the International Integrated Reporting Council (IIRC).

Scope and Boundary GRI 102-46, 50, 52

The report provides material information relating to the Bank's strategy and business model, operating context, material risks, stakeholder interests, performance and prospects, as well as governance and risk management frameworks for the period 1st January 2018 to 31st December 2018.

Also included in the report is a summary of the performance of the four subsidiaries under the Sampath Group.

All economic, environmental and social information included in this report is based on the principle of materiality, which has been discussed further on pages 4 and 5. In addition, detailed disclosures on management approaches pertaining to material topics are presented in supplementary report available online.

Reporting Frameworks GRI 102-12, 54

Integrated Reporting	<ul style="list-style-type: none"> The International Integrated Reporting Framework of the International Integrated Reporting Council (IIRC)
Sustainability Reporting	<ul style="list-style-type: none"> Global Reporting Initiative (GRI) standards – "In Accordance Comprehensive", issued by Global Sustainability Standards Board Guidance on ESG Reporting by the Colombo Stock Exchange (CSE) United Nations Sustainability Development Goals (SDGs)
Financial Reporting	<ul style="list-style-type: none"> Sri Lanka Accounting Standards issued by the Institute of Chartered Accountants of Sri Lanka Companies Act No. 07 of 2007 Banking Act Direction No. 11 of 2007
Governance, Compliance and Risk Reporting	<ul style="list-style-type: none"> Code of Best Practice for Corporate Governance issued by the Institute of Chartered Accountants of Sri Lanka Banking Act Direction No. 11 of 2007 on Corporate Governance for Licensed Commercial Banks in Sri Lanka, issued by the Central Bank of Sri Lanka and any amendments thereto Banking Act Direction No. 01 of 2016 on Capital Requirements under BASEL III Listing Rules of the Colombo Stock Exchange (CSE) Companies Act No. 07 of 2007

Assurance GRI 102-56

Sampath Bank PLC follows a combined assurance model, where internal assurances and compliance are provided by the management. External assurance is sought for the Bank's financial statements as well as an independent assurance on selected sustainability information. The Bank's external auditors, Messrs Ernst & Young, fulfil such external assurance requirements.

Forward-Looking Statements

Certain statements found in this report may be considered as "forward-looking". However it should be noted that matters

discussed in these "forward-looking" statements are subject to unforeseen risks, trends and uncertainties that may cause actual results to differ materially from those projected, anticipated or implied by these "forward-looking statements". As such, the Bank does not undertake the responsibility for updating or revising any "forward-looking" statements.

Feedback GRI 102-53

The Bank welcomes any feedback and requests regarding this Annual Report to be directed to the Company Secretary of Sampath Bank PLC through the Stakeholder Feedback Form on page 387 of this report.

Our Progress in Sustainability Reporting GRI 102-51

Year	Report Profile	GRI Application Level	External Assurance Provided
2011	Stand-alone Report	GRI 3.1 Level B	Yes
2012	Incorporated in Annual Report	GRI 3.1 Level B	Yes
2013	Stand-alone Report	GRI G4 - Comprehensive	Yes
2014 - 2016	Integrated Report	GRI G4 - Comprehensive	Yes
2017	Integrated Report	GRI Standards - Comprehensive	Yes
2018	Integrated Report	GRI Standards - Comprehensive	Yes

MATERIAL TOPICS

GRI 102-32, 46, 47,49/103-1

Material topics are those that have been identified through the stakeholder engagement process or arise as a result of the challenges and opportunities in the immediate operating environment or through the horizon scan of the regulatory compliance requirements that may become relevant from time to time. Topics deemed to be material are then incorporated in the Bank's strategy and go on to influence the actions taken on a day-to-day basis in order to meet key stakeholder deliverables.

In addition to the material topics identified through stakeholder survey executed in 2017, cyber security was identified as a new material topic of the Bank in 2018. This was established through the ongoing horizon scan of the regulatory environment, which revealed additional compliance requirements set by the CBSL under the new baseline internet security standards.

Apart from this, there has been no significant change in the material topics from those highlighted in the previous year.

Shown below are the 20 most material topics for Sampath Bank along with a summary of the Bank's Management Approach towards addressing each key topic.

Material Topic	Management Approach	Related GRI Indicator	Level of Materiality to Sampath Bank	Level of Materiality to Stakeholders
Profitability and Financial Stability	Combine a robust business model, strong governance and an integrated risk management framework to ensure long-term profitability and financial stability in a highly competitive industry	GRI 201 GRI 202 GRI 203	High	High
Anti-Corruption Practices	Promoting a culture of honesty and fair dealing and encouraging employees to observe ethical business practices at all times and not attempt to improperly influence others or be influenced by others (directly or indirectly) by paying or accepting bribes or kickbacks in any form	GRI 205	High	Medium
Business Continuity Planning	Building resilience, capability and triggering an effective response to safeguard the interests of key stakeholders, the Bank's reputation, brand and business activities, in the event of unforeseen disruptions	n/a	High	High
Brand Equity	Building customer confidence and generating a loyal customer following, with equal emphasis on strengthening stakeholder perceptions of the brand	n/a	High	High
Research and Development	Conduct market research to identify how customer needs are evolving in order to realign our existing product portfolio accordingly Product research to help develop new products and services in order to become the preferred bank among all key customer segments	n/a	High	High
Cyber Security	Investing in the latest developments in the global cyber security ecosystem Raising awareness among staff regarding cyber risks and in particular new social engineering and phishing techniques Strengthening the governance framework to ensure risks are regularly reviewed and appropriate proactive and reactive measures are in place as and when needed	GRI 418	High	High
Channel Management (Customer Access)	Strengthen visibility and enhance customer convenience through better accessibility (multi delivery)	n/a	High	High

Material Topic	Management Approach	Related GRI Indicator	Level of Materiality to Sampath Bank	Level of Materiality to Stakeholders
Digitisation Agenda (Cheaper-Better-Faster delivery to the customer)	Investment in IT infrastructure to enhance technological capabilities	n/a	High	High
Employee Relations	Work towards creating an inclusive work environment encompassing gender diversity and a multi-cultural, multi-generational workforce	GRI 402 GRI 403	High	Medium
Talent Acquisition and Management	Attract and retain the best people with the right mix of technical and behavioural competencies to meet targeted business requirements in the long term	GRI 202 GRI 401 GRI 405	High	Medium
Training and Development	Build a strong leadership pipeline and a future ready workforce by equipping our employees with the desired level of knowledge and skills that encourage them to innovate and lead the change in the industry	GRI 404	High	Medium
Employee Engagement	Create a work environment where employees feel recognised for their talents and valued for their commitment to the Bank's strategic vision	n/a	High	Medium
Customer Convenience	Look for new and more innovative ways to give our customers a more convenient banking experience and in doing so strive to capture the diverse needs of each customer segment and create customised solutions that are best suited for each target group	n/a	High	High
Customer Health and Safety	Make certain that the Bank's products or services are not used in the furtherance of financial crime, such as money laundering, financing of terrorism, fraud and corruption	GRI 416	High	High
Marketing and Labelling	Ensuring that all product promotions, sales and marketing communications are designed to provide our customers with adequate, timely and relevant information to enable them to make informed decisions	GRI 417	High	High
Customer Privacy	Ongoing investments in enhanced security systems and verification protocols across all available channels of service	GRI 418	High	High
Complaint Management	Reduce the number of customer complaints with each successive year by tackling the root cause for repetitive complaints and engaging necessary remedial action to prevent a recurrence of the same issue	GRI 418	High	High
Promote Financial Inclusion	Ensure all Sri Lankans have access to financial services regardless of where they live or socio-economic status, in turn reducing poverty and increasing prosperity	n/a	High	Medium
Community Development	Respond to Sri Lanka's emerging socio-economic needs in a manner that would trigger meaningful societal change in the longer term	GRI 413	High	Medium
Environmental Management	Find solutions to such global challenges as climate change, resource scarcity and natural capital loss	GRI 302 GRI 305 GRI 306	High	Medium

Note: Comprehensive management approaches of all above material topics have been published in a supplementary report for the Annual Report 2018 available on the Sampath Bank's corporate website (please use the QR code in Inner Front Cover).

FINANCIAL HIGHLIGHTS

GRI 102-7

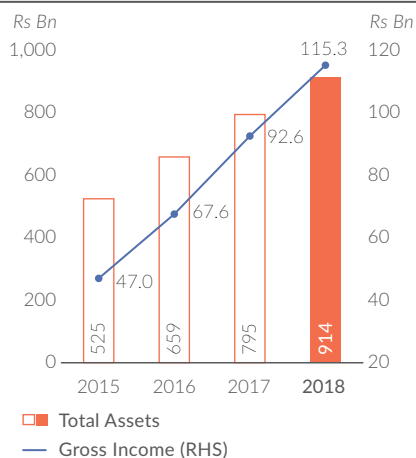
	2018*	Bank 2017	Change %	2018*	Group 2017	Change %
Profitability (Rs Mn)						
Gross income	115,310	92,590	24.5	121,884	97,440	25.1
Total operating income	53,743	39,979	34.4	57,233	42,473	34.8
Operating expenses, impairment charge & taxes on financial services	35,393	23,373	51.4	38,112	24,963	52.7
Profit before income tax	18,350	16,606	10.5	19,121	17,510	9.2
Income tax expense	6,207	4,502	37.9	6,515	4,828	35.0
Profit for the year	12,143	12,104	0.3	12,606	12,683	(0.6)
Assets & Liabilities (Rs Mn)						
Due to banks & other customers (Deposits only)	698,085	630,442	10.7	707,368	639,269	10.7
Loans to & receivables from banks & other customers after impairment provisions	650,014	562,883	15.5	677,538	588,455	15.1
Total equity	84,389	63,650	32.6	90,051	68,908	30.7
Total liabilities	829,836	731,452	13.5	857,735	757,808	13.2
Total assets	914,225	795,102	15.0	947,785	826,717	14.6
Investor Information						
Net asset value per share (Rs)	300.42	293.02	2.5	320.58	317.23	1.1
Market value per share (Rs)	235.00	315.70	(25.6)			
Earnings per share - Basic/Diluted (Rs)	45.13	56.06	(19.5)	46.85	58.74	(20.2)
Dividend per share (Rs)	16.25	17.20	(5.5)			
Dividend cover (Times)	2.66	2.63	1.1			
Dividend payout ratio (%)	37.59	38.00	(1.1)			
Gross dividend (Rs Mn)	4,565	4,598	(0.7)			
Market capitalisation (Rs Mn)	66,012	68,577	(3.7)			
Other Ratios						
Dividend yield (%)	6.91	5.45	26.8			
Earnings yield (%)	19.20	17.76	8.1	19.94	18.61	7.1
Price earning ratio (Times)	5.21	5.63	(7.5)	5.02	5.37	(6.5)
Price to book value (Times)	0.78	1.08	(27.8)	0.73	1.00	(27.0)
Total impairment as a % of loans to & receivables from other customers	3.03	1.52	99.3	3.14	1.56	101.3
Cost of risk (%)	1.69	0.44	284.1	1.74	0.47	270.2
Non-performing loan ratio (%)	3.69	1.64	125.0			
Liquid assets ratio						
- Domestic Banking Unit (%)	21.50	22.22	(3.2)			
- Off-Shore Banking Unit (%)	25.78	24.90	3.5			
Fitch Rating	A+ (lka) (Stable)	A+ (lka) (Negative)				
Moody's Rating	B2 (Stable)	B1 (Negative)				

FINANCIAL GOALS AND ACHIEVEMENTS - BANK

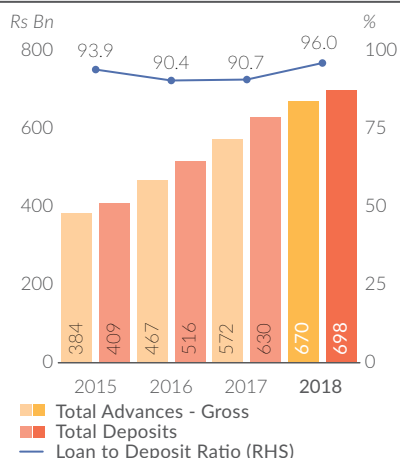
	Goal	2018*	2017	2016	2015	2014
Financial Indicator						
Return on average assets (before tax) (%)	Over 2.00	2.13	2.29	2.14	1.90	1.69
Return on average assets (after tax) (%)	Over 1.00	1.41	1.67	1.55	1.28	1.23
Return on average equity (after tax) (%)	Over 16.00	16.02	23.35	23.47	18.42	16.35
Growth in profit (%)	Over 15.00	0.32	32.65	48.76	24.83	43.27
Growth in total assets (%)	Over 15.00	14.98	20.74	25.36	21.58	13.08
Cost to income ratio (excluding VAT, NBT & DRL) (%)	Below 50.00	35.92	42.32	47.83	52.75	54.82
Capital adequacy ratios		Basel III	Basel III		Basel II	
Common Equity Tier I (%)	Over 8.50	12.08	10.26	n/a	n/a	n/a
Total Tier I (%)	Over 10.00	12.08	10.26	8.31	7.90	8.83
Total capital (Tier I+Tier II) (%)	Over 14.00	15.73	14.41	12.87	12.26	13.62

* The amounts for the year ended 31st December 2018 have been prepared in accordance with Sri Lanka Accounting Standard - SLFRS 9 (Financial Instruments), whereas prior period amounts have not been restated.

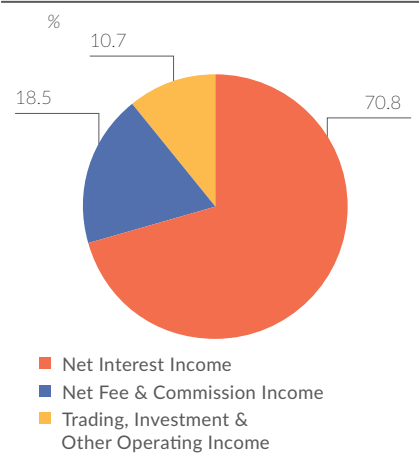
Total Assets & Gross Income



Total Advances & Total Deposits



Composition of Total Operating Income 2018



TOTAL ASSETS

Rs 914.2 Bn

Rs 795.1 Bn in 2017 | ▲ 15%

GROSS ADVANCES

Rs 670.3 Bn

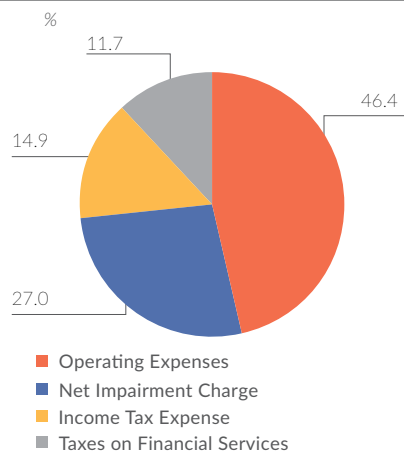
Rs 571.5 Bn in 2017 | ▲ 17%

TOTAL DEPOSITS

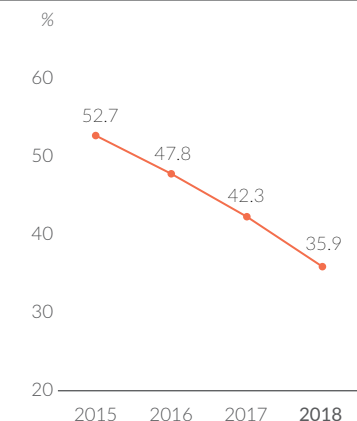
Rs 698.1 Bn

Rs 630.4 Bn in 2017 | ▲ 11%

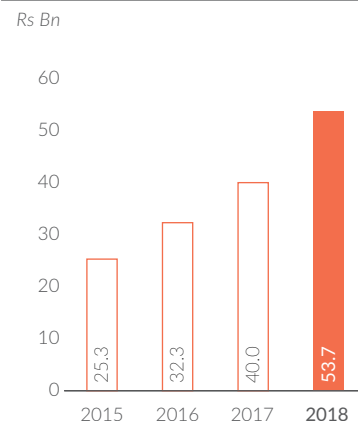
Composition of Total Expenses 2018



Cost to Income



Total Operating Income



PROFIT BEFORE TAX

Rs 18.3 Bn

Rs 16.6 Bn in 2017 | ▲ 11%

TOTAL OPERATING INCOME

Rs 53.7 Bn

Rs 40.0 Bn in 2017 | ▲ 34%






TOTAL TAXES PAID TO THE GOVERNMENT

Rs 12.3 Bn

Rs 9.4 Bn in 2017 | ▲ 31%

NON-FINANCIAL HIGHLIGHTS

GRI 102-7

Key Indicator	Measurement	2018	2017
Manufactured Capital			
 Number of ATMs	Number	419	391
Number of Deposit Kiosks	Number	365	183
Intellectual Capital			
 Investment in IT development	Rs Mn	517	783
Human Capital			
 Total employees	Number	4,189	4,011
Investment in training	Rs Mn	70.4	69.8
Training hours per employee	Hours	31.5	39.0
Internal staff promotions	Number	228	377
Staff retention rate	%	98.0	97.7
Return to work after maternity leave	%	99.2	98.2
Industrial disputes	Number	Nil	Nil
Percentage of employees receiving performance appraisals	%	100	100
Gender diversity ratio (male : female)	Ratio	65:35	65:35
Profit per employee	Rs Mn	2.9	3.0
Employee volunteerism for CSR	Number	1,420	1,160
Social & Relationship Capital			
 Number of MSMEs trained under Sampath Saviya programme	Number	980	459
Number of beneficiaries from community projects	Number	156,321	143,251
Employment generation	Number	322	232
Intern and industrial placements intake	Number	1,613	804
Value distributed among investors	Rs Mn	8,696	7,503
Total taxes paid	Rs Bn	12.3	9.4
Natural Capital			
 Carbon footprint of the Bank	tCO ₂ e	11,261	12,399
Investment on Environmental CSR	Rs Mn	7.5	6.0
Loans disbursed on green lending schemes	Rs Mn	655.7	224.6
Electricity saving through solar power generation	kWh	95,317	49,174

OUR STAFF STRENGTH

4.4% **4,189**
4,011 in 2017

STAFF RETENTION RATE

0.3% **98.0%**
97.7% in 2017

INTERNSHIP OPPORTUNITIES CREATED

100.6% **1,613**
804 in 2017

EMPLOYMENT GENERATION

38.8% **322**
232 in 2017

VOLUNTEERED EMPLOYEES FOR CSR

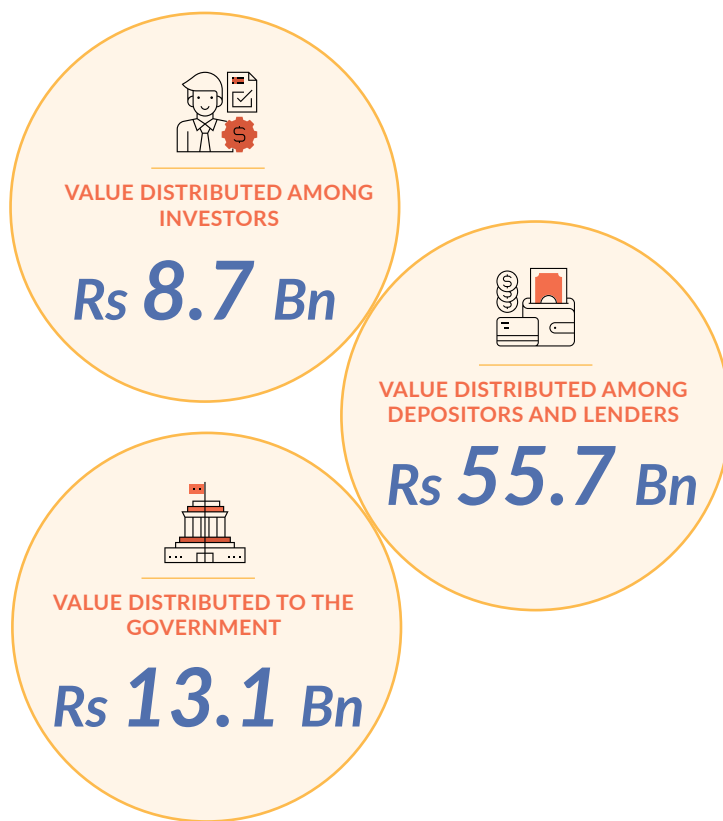
22.4% **1,420**
1,160 in 2017

MSMEs TRAINED

113.5% **980**
459 in 2017

ELECTRICITY SAVED THROUGH SOLAR POWER GENERATION

93.8% **95,317 kWh**
49,174 kWh in 2017



CSR INITIATIVES

	ENTREPRENEURSHIP DEVELOPMENT	13 Projects	10.8 Investment (Rs Mn)
	COMMUNITY CAPACITY BUILDING	15 Projects	7.9 Investment (Rs Mn)
	EDUCATION FOR ALL	21 Projects	13.9 Investment (Rs Mn)
	ENVIRONMENTAL CSR	13 Projects	7.5 Investment (Rs Mn)

BENEFICIARIES

>372,000
Persons

GREEN RECOGNITION

Sampath Bank PLC Annual Report 2018: A Carbon Neutral Product




As part of the ongoing commitment to achieving a Net Zero Carbon Footprint, the Sampath Bank Annual Report 2018 was declared a Carbon Neutral Product, following an independent assessment by Climate Smart Initiatives (Pvt) Ltd. This is the fourth consecutive year in which the Annual Report has been declared as a Carbon Neutral Product.

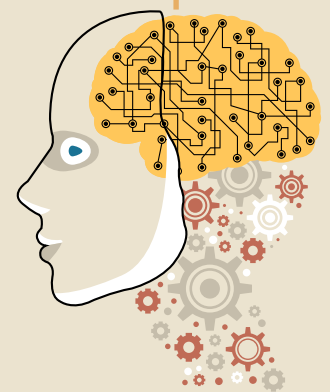
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SYSTEMS AND PROCESSES SIMPLIFIED



Artificial Intelligence

Sampath Bank's Banking Robot uses an AI interface to detect your presence and start a conversation. The Robot is activated by verbal commands and will execute many tasks including cash withdrawals, balance inquiries, dispensing information on exchange rates, interest rates, loan status and credit cards and providing instructions such as how to open an account.

OUR VISION AND VALUES

GRI 102-16

Our Vision

“The Growing
Force in Sri Lankan
Financial Services”

Our Values

Create a learning culture that promotes individual and organisational development as well as promoting innovation and value for customers.

Encourage and promote teamwork in all aspects of behaviour.

Monitor and demonstrate an impressive commitment to results.

Open to feedback and demonstrate an eagerness for personal development.

Uncompromising ethical and professional standards of behaviour.

Treat all internal and external customers the way we would like to be treated.

ABOUT THE BANK

GRI 102-2

"We have made it our mission to serve all customer segments and in doing so, our aim is to provide our customers the best-in-class financial products and services that would enable them achieve their financial goals."

Incorporated in 1987, Sampath Bank PLC was the third Sri Lankan private commercial bank in the country at the time. Since then we have continued to invest in further improving our capacity and our capabilities. Thanks to this firm commitment, Sampath Bank today is ranked among the top three private banks in the country, with a base of over 2.9 Mn customers as at 31st December 2018, while our current market capitalisation value of Rs 66 Bn points to the strength and stability of our strategy, business model and governance structure. With 4,189 employees, Sampath Bank is considered to be one of the largest employers among private banks in Sri Lanka.

These achievements testify to our main purpose-to contribute fully towards economic and social development of our country and its people. We have made it our mission to serve all customer segments and in doing so, our aim is to provide our customers the best-in-class financial products and services that would enable them achieve their financial goals.

For our retail customers, we offer the widest possible range of consumer banking products and services accessible through our robust, multi-channel environment, including an island-wide network of 229 fully-fledged branches (which includes 13 super branches), 419 ATMs, the Sampath Vishwa internet banking platform and an ever-growing list of digital channels.

Our corporate banking suite consists of a range of dynamic products and advisory services as well as a host of end-to-end digital financial solutions to facilitate the evolving needs of the country's corporate and SME sectors.

Our Strategy

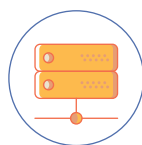
Customer Focus

Customer focus is the overarching priority of our strategy.
 To support our customers we invest in four capabilities:



People

Vibrant customer focused culture and people



Technology

Application of world leading technology to financial services



Productivity

Productivity and efficiency for better customer service



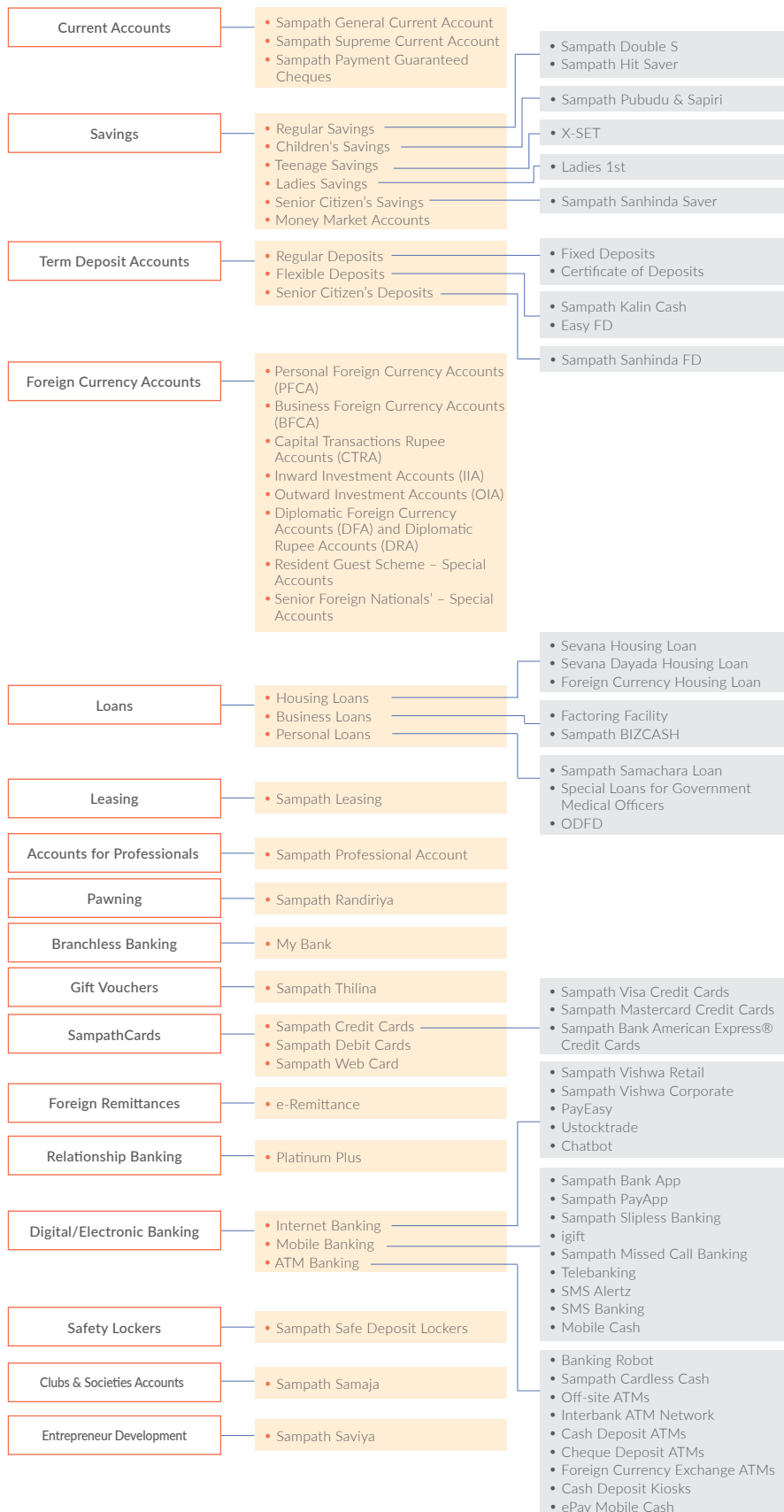
Financial Strength

Strength and flexibility of our balance sheet

This strategy enables us to create long-term value for customers, shareholders, our people and the broader community.

PRODUCT PORTFOLIO

CONSUMER BANKING



GRI 102-2

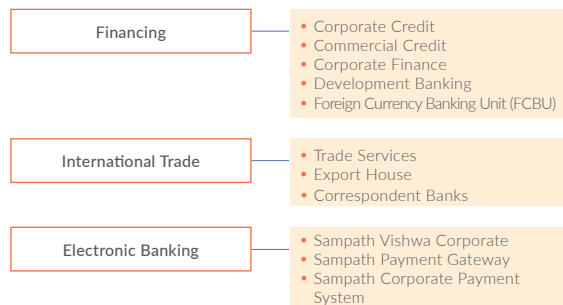


මම ඉගැන්වීමේ කොටස
 මාගේ මුදල් සඳහා
 Children's Savings Accounts





CORPORATE BANKING



TREASURY



NEW OFFERINGS

Sampath Slipless Banking

Moving yet another step closer towards its goal of eco-friendly, paperless banking, Sampath Bank launched Sampath Slipless – a convenient tool that allows customers to carry out cash deposits, withdrawals and bill/credit card payments without filling out any cumbersome physical forms. The mobile app that is available on both iOS and Android platforms has helped the Bank cut down on the use of paper while providing customers with a more convenient way to bank.

Sampath igift

Redefining the way Sri Lanka celebrates momentous occasions, Sampath Bank launched Sampath igift – a unique person-to-person gifting mobile app. The app enables all Sampath Bank account holders to gift anyone in their smartphone’s contact list. The app is built using blockchain technology, making Sampath Bank the first to develop and introduce a blockchain based banking solution in Sri Lanka.

Virtual Teller Machine (VTM)

Ushering in the next era of digital banking services in Sri Lanka, Sampath Bank unveiled the country’s first Virtual Teller Machine (VTM) at the National ICT Exhibition, INFOTEL 2018. Serving as a fully-fledged digital branch, it is equipped to offer an extensive range of banking services to the Bank’s customers. They can connect with the Bank’s customer service representatives in real-time using the built-in video calling facility and request a host of banking services.

BOARD OF DIRECTORS



MR CHANNA PALANSURIYA
Chairman



MR NANDA FERNANDO
Managing Director



PROF MALIK RANASINGHE
Deputy Chairman



MR SANJIVA SENANAYAKE
Senior Independent Director



MR DEEPAL SOORIYAARACHCHI
Director



MRS DHARA WIJAYATILAKE
Director



MISS ANNIKA SENANAYAKE
Director



MR RANIL PATHIRANA
Director



MRS SAUMYA AMARASEKERA, P.C.
Director



MR RUSHANKA SILVA
Director



MR DILIP DE S WIJEYERATNE
Director



MR MUDITHA WALPOLA
Company Secretary
(until 31st January 2019)



MR LASANTHA SENARATNE
Company Secretary
(w.e.f. 1st February 2019)

BOARD OF DIRECTORS

GRI 102-22,23

MR CHANNA PALANSURIYA

Chairman

Non-Independent, Non-Executive Director

QUALIFICATIONS, SKILLS & EXPERIENCE:

Earned Masters of Business Administration from The Open University of Malaysia and counts over thirty years of extensive experience in the apparel sector having headed the Orit Group of companies and through continuous leadership given to other companies in the apparel industry. Further, being a Board member of the Board of Investment of Sri Lanka for ten years, gained wide experience in public administration. He won the Asia Pacific Outstanding Entrepreneurship Award in 2013, the Silver Award of the National Chamber of Exporters of Sri Lanka for the Garment Extra Large category in 2004 and Sri Lankan Entrepreneur of the Year in 2002.

APPOINTED TO THE BOARD:

1st January 2012 as a Non-Independent Non-Executive Director. Appointed as Deputy Chairman on 26th January 2012, and held office as a Board member until 12th November 2015. Re-appointed to the Board on 28th April 2016 and was appointed as Chairman on 1st August 2016.

MEMBERSHIP IN BOARD SUB COMMITTEES:

Chairman of Board Strategic Planning Committee, Member of Board Human Resources and Remuneration Committee, Board Nomination Committee, Board Credit Committee and Board Marketing Committee.

CURRENT APPOINTMENTS:

Chairman of Sampath Bank PLC, Chairman of Siyapatha Finance PLC, Director of Braybrooke Residential Properties (Pvt) Ltd and Executive Committee Member of Joint Apparel Association Forum (JAAF).

FORMER APPOINTMENTS:

Chairman of Style Kraft Sportsware (Pvt) Ltd, Deputy Chairman of National Livestock Development Board, Chairman of Orit Apparels Lanka (Pvt) Ltd, Chairman of Orit Trading (Pvt) Ltd, Deputy Chairman of Sampath Bank PLC, Director of Siyapatha Finance PLC, Board Member of Sri Lanka Institute of Textile and Apparel, Chairman of Apparel Exporters' Association 200gfp during 2006-2008, Chairman of CG Lanka Clothing (Pvt) Ltd till 2013 and Board Member of Board of Investment of Sri Lanka.

MR NANDA FERNANDO

Managing Director

Executive Director

QUALIFICATIONS, SKILLS & EXPERIENCE:

Over 35 years of experience in banking and finance, driving multiple aspects of banking business, Transactional Banking in Retail and Corporate Banking, amongst many other key growth areas. Is a Senior Fellow member of The Institute of Bankers of Sri Lanka and holds a Masters of Business Administration degree specialising in Marketing from Sikkim Manipal University, India. He is also a qualified Four Bead Leader Trainer and functions as the Group Advisor to the Scouts Group Committee of S. Thomas' College, Mount Lavinia.

APPOINTED TO THE BOARD:

13th September 2016 as an Executive Director.

MEMBERSHIP IN BOARD SUB COMMITTEES:

Member of Board Integrated Risk Management Committee, Board Credit Committee, Board Shareholder Relations Committee, Board Strategic Planning Committee, Board Treasury Committee, Board Capital Planning Committee, Board IT Committee and Board Marketing Committee.

CURRENT APPOINTMENTS:

Managing Director of Sampath Bank PLC, Director of Lanka Financial Services Bureau Ltd, a Governing Board Director of the Institute of Bankers of Sri Lanka and a Director of Lanka Clear (Pvt) Ltd. Also functions as a Director of LankaBangla Finance Limited.

FORMER APPOINTMENTS:

Chairman of Bankers' Technical Advisory Committee which functions under the purview of the Sri Lanka Bankers' Association, a past District Commissioner of the Sri Lanka Scout Association and Director of SC Securities (Pvt) Ltd.

PROF MALIK RANASINGHE

Deputy Chairman

Independent, Non-Executive Director

QUALIFICATIONS, SKILLS & EXPERIENCE:

Extensive governance experience as a former Vice-Chancellor and a Non-Executive Director on Corporate Boards. A Fellow Member, Chartered Engineer and International Professional Engineer of the Institution of Engineers, Sri Lanka, Fellow of the National Academy of Sciences, Sri Lanka and the Institute of Project Managers of Sri Lanka, Graduate Member, Sri Lanka Institute of Directors, PhD from The University of British Columbia, Vancouver, Canada in Civil Engineering Economics as a Canadian Commonwealth Scholar; recipient of accolades and awards including the 1999 General Research Committee Award for Outstanding Contribution to Sri Lankan Science from the Sri Lanka Association for Advancement of Science, the Committee of Vice Chancellors and Directors (CVCD) Excellence Award for 2012 for the Most Outstanding Senior Researcher in Technology and related Sciences, the Award for Outstanding Contribution to Education 2012 at World Education Congress and the Education Leadership Award 2013 in Singapore.

APPOINTED TO THE BOARD:

30th August 2011 as an Independent Non Executive Director. Appointed as Deputy Chairman on 1st August 2016.

MEMBERSHIP IN BOARD SUB COMMITTEES:

Chairman of Board Credit Committee, Board Capital Planning Committee, Board IT Committee and Board Shareholder Relations Committee. Member of Board Audit Committee, Board Related Party Transactions Review Committee, Board Strategic Planning Committee, Board Treasury Committee and Board Human Resource and Remuneration Committee.

CURRENT APPOINTMENTS:

Deputy Chairman of Sampath Bank PLC, Senior Professor in Civil Engineering at University of Moratuwa, Member of University Grants Commission, Independent, Non-Executive Director of Teejay Lanka PLC, UML Heavy Equipment Ltd, Access Engineering PLC, United Motors Lanka PLC and Resus Energy PLC.

FORMER APPOINTMENTS:

Vice Chancellor of the University of Moratuwa, Chairman of the Committee of Vice Chancellors and Directors of Sri Lanka, Council Member of the Association of Commonwealth Universities, Fellow of the National University of Singapore, Independent Non Executive Director of the Colombo Stock Exchange, Lanka IOC PLC and Hemas Power PLC.

MR SANJIVA SENANAYAKE

*Senior Independent Director
Non-Executive Director*

QUALIFICATIONS, SKILLS & EXPERIENCE:

Extensive experience in the financial services sector locally and overseas having served in senior management positions at premier financial institutions and as an independent consultant. Holds Master of Science and Bachelor of Science Degrees in Engineering from University of London.

APPOINTED TO THE BOARD:

1st January 2012 as an Independent Non-Executive Director and appointed as Senior Director on 26th January 2012.

MEMBERSHIP IN BOARD SUB COMMITTEES:

Chairman of Board Integrated Risk Management Committee and Board Treasury Committee. Member of Board Nomination Committee, Board Related Party Transactions Review Committee, Board Capital Planning Committee, Board IT Committee and Board Human Resource and Remuneration Committee.

CURRENT APPOINTMENTS:

Senior Director of Sampath Bank PLC, Non-Executive Director of Hemas Pharmaceuticals (Pvt) Ltd.

FORMER APPOINTMENTS:

Senior Investment Officer - Global Financial Markets (West Africa), IFC (The private sector investment arm of World Bank Group); Resident Representative for Sri Lanka and the Maldives; Assistant General Manager (Treasury and Investment Banking) of National Development Bank PLC; Consultant (Treasury and Business Development) of Commercial Bank of Ceylon PLC; Senior Risk Manager - Citibank Sydney, Australia, Head of Treasury and Investment Banking Citibank Brunei, various positions including Treasurer and Head of Public Sector Business Citibank Colombo, and Non-Executive Director of Asian Hotel and Properties PLC.

MR DEEPAL SOORIYAARACHCHI

Non-Independent, Non-Executive Director

QUALIFICATIONS, SKILLS & EXPERIENCE:

Counts over 30 years' experience in Sales, Advertising, Marketing, Human Resources Development and Strategy with extensive experience in the field of Insurance. Fellow member of the Chartered Institute of Marketing UK and a Chartered Marketer, Fellow Member of the

Sri Lanka Institute of Marketing. Holds a Masters of Business Administration from the University of Sri Jayewardenepura. Pioneer in disseminating Management knowledge in Sinhala.

A leading Management Development Consultant, Author, Accredited Master Coach and Master Mentor.

APPOINTED TO THE BOARD:

5th August 2010 as an Independent Non-Executive Director.

MEMBERSHIP IN BOARD SUB COMMITTEES:

Chairman of Board Human Resources and Remuneration Committee (up to 12th November 2018) and Board Marketing Committee. Member of Board Audit Committee, Board Integrated Risk Management Committee, Board Related Party Transactions Review Committee, Board Shareholder Relations Committee, Board IT Committee and Board Human Resources and Remuneration Committee (w.e.f. 13th November 2018).

CURRENT APPOINTMENTS:

Non-Independent, Non-Executive Director of Sampath Bank PLC, Independent Non-Executive Director of AIA Insurance Lanka PLC, Pan Asian Power PLC, Singer Sri Lanka PLC and Hemas Manufacturing (Pvt) Ltd, Consulting Partner - RBL Group USA, Member of the Board of Management of the Postgraduate Institute of Management (PIM) appointed by the University Grants Commission.

FORMER APPOINTMENTS:

Past President of Sri Lanka Institute of Marketing, Managing Director Aviva NDB Insurance PLC, Commissioner - Sri Lanka Inventors' Commission.

BOARD OF DIRECTORS

MRS DHARA WIJAYATILAKE

Independent, Non-Executive Director

QUALIFICATIONS, SKILLS & EXPERIENCE:

Attorney-at-Law, LLB (Cey), Retired from the Public Service of Sri Lanka in August 2015, after 41 years of service. The first woman in the Public Service of Sri Lanka to be appointed as a Secretary to a Cabinet Ministry.

APPOINTED TO THE BOARD:

30th August 2011 as an Independent Non-Executive Director.

MEMBERSHIP IN BOARD SUB COMMITTEES:

Chairperson of Board Related Party Transactions Review Committee, Board Human Resources and Remuneration Committee (w.e.f. 13th November 2018) Member of Board Audit Committee, Board Nomination Committee, Board Strategic Planning Committee and Board Credit Committee.

CURRENT APPOINTMENTS:

Independent, Non-Executive Director of Sampath Bank PLC, Member of the Public Service Commission, Secretary General and CEO of The Ceylon Chamber of Commerce, Member of the Sri Lanka Law Commission, Non-Executive Director of SLINTEC Academy and Director of Ingame Entertainment (Pvt) Ltd.

FORMER APPOINTMENTS:

Secretary to the Ministry of Justice, Secretary to the Ministry of Plan Implementation, Secretary to the Ministry of Technology and Research, Advisor to Minister of Higher Education and Research.

MISS ANNIKA SENANAYAKE

Independent, Non-Executive Director

QUALIFICATIONS, SKILLS & EXPERIENCE:

Bachelor of Arts in Management Studies from the University of Nottingham. Heads Corporate Planning for the IWS Holdings Group, in diversified business interests in telecommunications, logistics, media and broadcast, automobiles, aviation, warehousing, food and beverage processing and packaging. Ms Senanayake is CNN's official business representative for Sri Lanka.

APPOINTED TO THE BOARD:

Appointed to the Board as an Independent, Non-Executive Director on 1st January 2012.

MEMBERSHIP IN BOARD SUB COMMITTEES:

Chairperson of the Board Nomination Committee, Member of the Board Strategic Planning Committee, Member of the Board Human Resources and Remuneration Committee, Member of the Board Integrated Risk Management Committee, Member of the Board Marketing Committee, Member of the Board Treasury Committee, Member of the Board IT Committee.

CURRENT APPOINTMENTS:

Independent, Non-Executive Director of Sampath Bank PLC. Director at IWS Holdings (Private) Limited. Director at IWS Leisure (Private) Limited. Scan Furniture (Private) Limited. Director at RAD Productions (Private) Limited. Trustee – Youth Business Sri Lanka, Ceylon Chamber of Commerce, Trustee of the Ray Wijewardene Charitable Trust in Sri Lanka.

MR RANIL PATHIRANA

Independent, Non-Executive Director

QUALIFICATIONS, SKILLS & EXPERIENCE:

Extensive experience in finance and management in financial, apparel and energy sectors. Fellow member of the Chartered Institute of Management Accountants, UK (FCMA) and holds a Bachelor of Commerce degree from the University of Sri Jayewardenepura.

APPOINTED TO THE BOARD:

1st January 2012 as a Non-Executive Director. Became an Independent Non-Executive Director on 31st January 2015.

MEMBERSHIP IN BOARD SUB COMMITTEES:

Chairman of Board Audit Committee, Member of Board Strategic Planning Committee and Board Capital Planning Committee.

CURRENT APPOINTMENTS:

Independent, Non-Executive Director of Sampath Bank PLC, Chairman of Renewgen (Pvt) Ltd, Managing Director of Hirdaramani International Exports (Pvt) Ltd, Director - Hirdaramani Group of Companies, Non-Executive Director of Windforce (Pvt) Ltd, Star Packaging (Pvt) Ltd, Alumex PLC, Odel PLC, Ambeon Capital PLC and Ceylon Hotels Corporation Ltd.

FORMER APPOINTMENTS:

Chief Executive Officer of Vanik Bangladesh Securities; Assistant Vice President of Vanik Incorporation, Director of Hayleys MGT Knitting PLC, Hayleys PLC and Nirmalapura Windpower (Pvt) Ltd.

**MRS SAUMYA AMARASEKERA,
 PRESIDENT'S COUNSEL**
Non-Independent, Non-Executive Director

**QUALIFICATIONS, SKILLS &
 EXPERIENCE:**

Counts over 30 years in active legal practice in Civil Law, practicing in the Original, Appellate and Supreme Courts as an Attorney-at-Law. Holds a Masters degree in Law from the University of Pennsylvania with particular emphasis on Insurance, Privacy and Defamation Laws. Has experience in areas relating to Property, Testamentary, Condominium Disputes, Trusts, Family Law, and Money Recovery. Also litigates on behalf of financial services sector clients and has specialised in local and international arbitrations.

APPOINTED TO THE BOARD:

1st June 2012 as a Non-Independent Non-Executive Director.

**MEMBERSHIP IN BOARD SUB
 COMMITTEES:**

Member of Board Nomination Committee, Board Human Resources and Remuneration Committee, Board Integrated Risk Management Committee and Board Marketing Committee.

CURRENT APPOINTMENTS:

Non-Independent, Non-Executive Director of Sampath Bank PLC, Legal practitioner, Member of the Bar Association of Sri Lanka. Director of Manson Investments (Pvt) Ltd, Ceylon Leisure Holdings (Pvt) Ltd and Leisure Lines Lanka (Pvt) Ltd.

MR RUSHANKA SILVA
Non-Independent, Non-Executive Director

**QUALIFICATIONS, SKILLS &
 EXPERIENCE:**

Dedicated professional with a solid background in Management Accounting, Marketing and Sales. An Associate Member of the Chartered Institute of Management Accountants UK (ACMA). Strategic and creative thinker who has proven his ability to develop strong client relationships quickly and promote teamwork efficiently and a leader with a rich mixture of experience and successes in the business world, having completed his secondary education at Trinity College, Kandy. Holds a Masters of Business Administration from University of Western Sydney, Australia. An alumnus of Harvard Business School (USA)

APPOINTED TO THE BOARD:

1st September 2017 as a Non-Independent Non-Executive Director.

**MEMBERSHIP IN BOARD SUB
 COMMITTEES:**

Member of Board Credit Committee, Board Strategic Planning Committee, Board Marketing Committee, Board Treasury Committee, Board Shareholder Relations Committee and Board IT Committee.

CURRENT APPOINTMENTS:

Non-Independent, Non-Executive Director of Sampath Bank PLC, Managing Director of Indra Traders (Pvt) Ltd, Director of Indra Motor Spares (Pvt) Ltd, Indra Property Development (Pvt) Ltd. Chairman of Braybrooke Residential Properties (Pvt) Ltd. Non-Executive Director of Sampath Centre Limited, Non-Executive Director of Siyapatha Finance PLC.

MR DILIP DE S WIJEYERATNE
Non-Independent, Non-Executive Director

**QUALIFICATION, SKILLS &
 EXPERIENCE:**

An Associate Member of the Institute of Chartered Accountants of Sri Lanka (ACA), Fellow Member of the Chartered Institute of Management Accountants, UK (FCMA) and a Graduate Member of the Australian Institute of Company Directors (GAICD). A Senior Finance/ Banking professional and a principal consultant who provides advisory services to companies globally, to expand operations within Middle East, Sri Lanka and Australia.

APPOINTED TO THE BOARD:

13th November 2018 as a Non-Independent, Non-Executive Director.

**MEMBERSHIP IN BOARD SUB
 COMMITTEES:**

Member of Board Strategic Planning Committee, Board Treasury Committee and Board Credit Committee (w.e.f. 01st January 2019).

CURRENT APPOINTMENTS:

Non-Independent, Non-Executive Director of Sampath Bank PLC, Non-Executive Director of Singer (Sri Lanka) PLC, Regnis Lanka PLC, Singer Industries (Ceylon) PLC, Hayleys Fibre PLC and a Director of Third Wave International WLL Bahrain.

FORMER APPOINTMENTS:

Head of Finance and Global Market operations of HSBC group Bahrain offices over a career span of 20 years. Also served as a Board member of the Bahrain Asian Traders' Committee of Bahrain Chamber of Commerce.

CORPORATE MANAGEMENT



Mr Nanda Fernando
Managing Director

SENIOR DEPUTY GENERAL MANAGERS



Mr Tharaka Ranwala
*Senior Deputy General Manager -
Consumer Banking*



Mrs Shashi Kandambi Jassim
*Senior Deputy General Manager -
Corporate Banking*



Mr Ajantha de Vas Gunasekara
Group Chief Financial Officer



Mr Ajith Salgado
Group Chief Information Officer

DEPUTY GENERAL MANAGERS



Mr Aruna Jayasekera
*Group Chief Human Resource
Officer*



Mr Dinusha Ihalalanda
*Deputy General Manager -
Operations*



Mr Pradeep Perera
Chief Internal Auditor



Mr Manoj Akmeemana
Chief Strategy Officer



Mrs Ayodhya Iddawela Perera
*Deputy General Manager -
SME & International Trade*



Mr Thusitha Nakandala
*Deputy General Manager -
Branch Banking*

ASSISTANT GENERAL MANAGERS



Mr Rajendra Ranasinghe
Assistant General Manager -
IT Business Development



Mr Sanath Abhayaratne
Assistant General Manager -
Deposit Mobilisation



Mr Sanjaya Gunawardena
Assistant General Manager -
Strategic Planning & Research



Mr Maheel Kuragama
Assistant General Manager -
Operations



Mr Amal Kirihene
Assistant General Manager -
Corporate Credit



Mr Prasantha De Silva
Assistant General Manager -
Treasury



Ms Nadi B Dharmasiri
Head of Marketing



Mr Sisira Dabare
Assistant General Manager -
Recoveries



Mrs Achala Wickremaratne
Group Chief Risk Officer



Mr Lalith Weragoda
Assistant General Manager -
Human Resources



Mr Deepal De Silva
Assistant General Manager -
Branch Banking



Ms Dulsiri Jayasinghe
Assistant General Manager -
Corporate Finance

CHIEF MANAGERS



Mr Dushyantha Dassanayaka
Chief Manager - Electronic
Delivery Channels



Mr Asoka Manikgoda
Head of Recoveries



Mr Ananda Wijitha
Head of Information Technology -
Electronic Data Processing



Mr Hemantha Marasinghe
Chief Manager - Administration



Mr Priam Kasturiratna
Chief Manager - Strategic
Planning



Mr Chatura Rudesh
Head of Trade Services &
International Operations



Mr Nalaka Gunawardena
Chief Manager - Systems Audit



Mr Prasanna Mullegama
Chief Manager - Branch Banking



Mr Janaka Jayasuriya
Chief Manager - Corporate Credit



Mrs Kumari Jayasuriya
Chief Manager - Branch Banking



Mr Pasan Manukith
Head of Information Technology -
Systems Development



Mr Halin Hettigoda
Head of Deposit Mobilisation



Mr Lasantha Senaratne
Group Compliance Officer



Mrs Aloka Ekanayake
Chief Manager - Investor
Relations



Mr Sumie Mithrapala
Chief Manager - Branch Banking



Mr Senaka Hewavitharana
Chief Legal Officer



Mrs Champika Nanayakkara
Chief Manager - Corporate Credit



Mr Shiran Kossinna
Chief Manager - Consumer
Banking



Mr Kasun Fernando
Chief Manager - Branch Banking



Mr Udara Suraweera
Chief Manager - Operations &
Business Process Re-engineering



Mr Kusal De Silva
Head of Card Centre,
E-Remittance & Bank Notes
Operations



Mr Lakmal Munasinghe
Chief Manager - Branch Banking



Mr Kasun Ratnayake
Chief Manager - Risk
Management



**Mr Thushantha
Sumithraarachchi**
Chief Manager - Systems &
Procedures

SENIOR MANAGERS



Mr Prasada Gooneratne
Senior Manager - Database
Administration



Mr Janaka Karunaratne
Senior Regional Manager



Mr Chinthake De Silva
Senior Manager - Consumer
Banking



Mr Keshan Dabare
Senior Manager - Consumer
Banking



Mr Madhupriya Dissanayake
Senior Regional Manager



Mr Prabodha Cooray
Senior Manager - Consumer
Banking



Mrs Nayana Jayasena
Senior Manager - IT Systems
Development



Mr Bharana Jayawardena
Senior Regional Manager



Mrs Manoji Hettigoda
Senior Manager - Consumer
Banking



Mr Sudath Illeperuma
Senior Regional Manager



Mr Amila Thewarapperuma
Head of Sales



Mr Manjula Seneviratne
Senior Manager - Bancassurance



Mr Priyanka De Silva
Senior Manager - Corporate
Credit



Mrs Piyami Cooray
Senior Manager - Corporate
Credit



Mr Chaminda Jayasinghe
Head of Data Governance Unit



Mrs Muditha Liyanapathirana
Senior Regional Manager



Mr Manjula Abeysundara
 Senior Manager - Administration



Mr Anura Jayakody
 Senior Manager - Consumer
 Banking



Mr Asantha Punchihewa
 Senior Manager - Corporate
 Finance



Mr Rohana Aluthgedara
 Senior Manager - Digital Banking
 Unit



Mr Vipula Kuruppuarachchi
 Senior Regional Manager



Mr Kithsiri Dodamgoda
 Senior Regional Manager



Mr Janaka Mohotty
 Senior Regional Manager



Mr Darshin Pathinayake
 Senior Manager - Card Marketing,
 Remittances, KPO & Bank Notes
 Operations



Mr N Jeyaseelan
 Senior Manager - Consumer
 Banking



Ms Subhashini Premachandra
 Senior Manager - Treasury
 Investments



Mr Sudarshana Jayasekera
 Senior Manager - Compliance



Mr Janaka Jayawickrema
 Senior Manager - Network
 Service Centre



Mr M H U Dhananjaya
 Senior Manager - Corporate
 Credit



Mr Aruna Jinadasa
 Senior Regional Manager



Mr Mahinda Amarasinghe
 Senior Manager - Kiribathgoda
 Branch



Mr Pujitha Rajapaksa
 Senior Manager - Marketing

SENIOR MANAGERS



Mr Crishantha Chaminda
Senior Manager - Consumer
Banking



Mr Namal Gunawardena
Senior Manager - FCBU



Mr Thushara Jayatunga
Senior Manager - IT Security



Mrs Chryshanthi Lokuhetty
Senior Manager - Human
Resources



Mr Nalin Tillekeratne
Senior Manager - Central
Processing Unit



Mrs Sajani Abeysekera
Senior Manager - Corporate
Finance



Mr Salinda Jayawardena
Senior Regional Manager



Mr Anton David
Senior Regional Manager



Mr Asanka Liyanage
Senior Manager - Finance



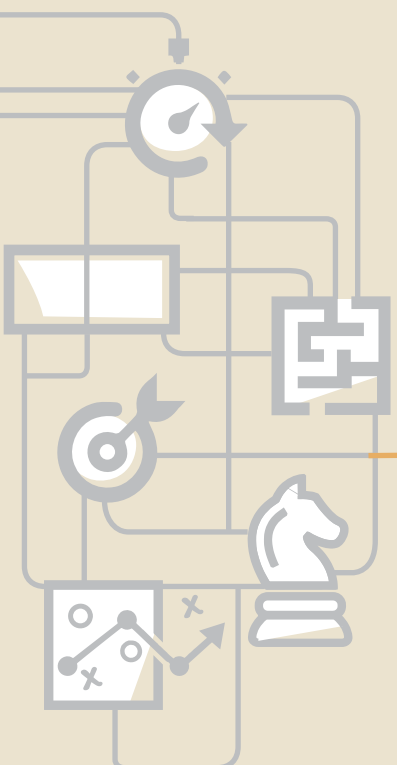
Mrs Sachithri Fernando
Senior Manager - Planning



Mrs Gayani Jinadasa
Senior Manager - Finance

2 MANAGING OUR BUSINESS

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SUCCESSFUL STRATEGIES SIMPLIFIED

Blockchain

Sampath Bank account holders can now gift money to anyone on their smartphone contact list simply by using 'Sampath igit'-a person-to-person gifting platform developed using sophisticated block-chain technology. The app is available on the Google Play Store and the Apple App Store.

CHAIRMAN'S MESSAGE

"Despite such unprecedented changes taking place all around us, Sampath Bank succeeded in delivering yet another solid performance. Gross Income grew by 24.5% to cross the Rs 115 Bn mark for the year 2018."



GRI 102-23

Dear Stakeholders

I am sure you recall that 2018 was believed to be the turning point for the global economy, which after years of dull growth had shown some improvement in 2017. It was therefore quite disconcerting to see the global GDP growth slow to a mere 3.0% in 2018. The Sri Lankan economy too continued to struggle amidst negative headwinds

that made it impossible to meet economic targets, causing GDP growth to contract to 3.3% for the nine months ended 30th September 2018. GDP falling short of forecasts for the third consecutive year and the political instability that erupted in the latter part of 2018 led to Sri Lanka's sovereign credit rating being downgraded by Moody's, S&P and Fitch.

It was also a difficult year for the banking sector, marked by diminished credit

demand, increased regulatory controls and the debt repayment levy introduced in October 2018. Further the impairment provisioning method changed from the previously used "incurred credit loss" method to a more forward looking "expected credit loss" method as a result of SLFRS 9 becoming effective from 1st January 2018. This increased the current year's collective impairment charge substantially.

DIVIDEND YIELD

6.91%

5.45% in 2017 | ▲ 27%

"While many in the industry have interpreted this to be a threat, we see it as an opportunity to increase our bandwidth and project ourselves as the #1 digital-enabled bank in Sri Lanka."

Despite such unprecedented changes taking place all around us, Sampath Bank succeeded in delivering yet another solid performance. Gross Income grew by 24.5% to cross the Rs 115 Bn mark for the year 2018, while PAT for the year touched Rs 12 Bn.

A dividend of Rs 16.25 per share was declared to shareholders for the year 2018. This is the ninth consecutive year in which the Bank has succeeded in maintaining the dividend payout ratio above 36%. I can confidently state that our ability to deliver on our promises even in times of uncertainty, is a testament to the soundness of our strategy.

The Sampath Bank share was one of the most actively traded shares at the CSE throughout the year. Increased share trading volumes led Sampath Bank to be included into the MSCI Frontier Market 100 Index during its semi-annual review in 2018, the first local bank and

the second Sri Lankan entity to ever be appointed to the index. While I do acknowledge that this is a considerable achievement for the Bank, I am more inclined to look at the bigger picture. I strongly feel that our appointment to the MSCI Frontier Market 100 Index will serve as a key catalyst in raising the country's investment profile and putting Sri Lanka on the global investor radar.

Determined to build on these achievements, we declared 2018 to be a year of action and began focused efforts to strengthen our strategic value drivers.

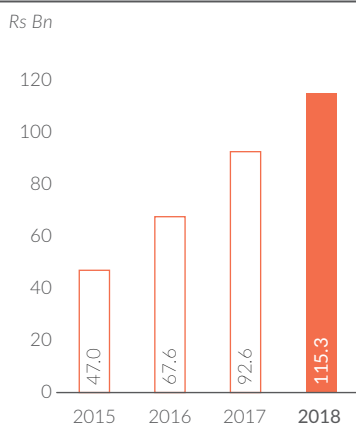
Customer Focus

Having been in business for the past 30+ years, we know that to be truly successful we must understand our customers, respond to their needs and requirements, and ultimately create exceptional customer experiences in all that we do. We continue to cement this commitment by striving to be 100% customer centric.

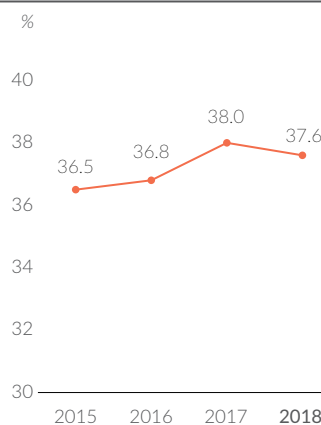
In 2018, we capitalised on all available opportunities to strengthen our customer franchise and position ourselves as the bank of choice for all Sri Lankans a trusted partner that supports the customer to achieve a winning outcome in good times and bad times. We spared no effort in deepening relationships with existing customers, paying special attention to support those challenged by the tough economic conditions. We began working with our customers to re-strategise their business models to enable them to service their commitments in a sustainable manner.

As a customer-centric bank we also continued to leverage on disruptive technology to meet growing demand for faster, simpler and more responsive banking solutions and made good progress in expanding our portfolio through digital channels in 2018. Sampath Bank now offers over 38 self-service channels that enable customers to perform routine banking transactions through mobile and digital devices.

Gross Income



Dividend Payout Ratio



IT Infrastructure

In my last year's review, I touched on the emergence of 'Fin-Techs' and 'Tel-Cos' whose digital capabilities have enabled them to deliver ever-more dynamic financial solutions. While many in the industry have interpreted this to be a threat, we see it as an opportunity to increase our bandwidth and project ourselves as the #1 digital-enabled bank in Sri Lanka.

CHAIRMAN'S MESSAGE

"What is important for us is not just to keep pace with these changes but to constantly rethink our own business approaches in order to become Sri Lanka's first fully digital, world-class bank."

PROFIT BEFORE TAX

Rs 18.3 Bn

Rs 16.6 Bn in 2017 | ▲ 11%

SHAREHOLDERS' FUND

Rs 84.4 Bn

Rs 63.6 Bn in 2017 | ▲ 33%

We have gradually been deepening our investments in IT infrastructure in order to transform ourselves into a client-centered, data-driven, digitally-enabled bank. And I am happy to see that these investments are finally coming into fruition. For instance the decision to move away from legacy systems and revamp our core architecture, has allowed us to adopt the best in class software including block chain technology to develop dynamic new front-end applications to create a unified banking experience across our channels. And we are now able to turn out more products faster, thanks to increased process automation. More recently we have also started using data analytics to learn, test and iterate, the same way 'Fin-Techs' do.

Governance and Risk

The entire Board works diligently to ensure that the Bank is well governed and supported by a strong risk management culture.

We continue to set the tone from the top by placing an extremely strong emphasis on our values on doing the right business the right way in compliance with all laws, regulations, standards and codes that apply to us. As part of this process, the Board and I spent a considerable amount of time reviewing and further strengthening the Terms of Reference of all twelve Governance Sub Committees.

Meanwhile, given the deteriorating economic conditions, a decision was made to review the risk appetite limits for key portfolios. As part of a focused effort to realign employees towards the Bank's approach to risk management, the Bank focuses on developing the right values and behaviours of employees and conducts regular training that promotes the required behaviours among them.

I am indeed very pleased to see that thanks to these proactive efforts, the Bank's overall Risk Profile continued to remain stable in 2018. This was further confirmed by Fitch Ratings Lanka Ltd. (Fitch) which reaffirmed our National Rating at A+(lka) with a Stable Outlook.

Capital Planning

Our capital planning activities for 2018 were defined by the BASEL III regulations. Accordingly, we raised Rs 12.5 Bn by way of a Rights Issue to support our Tier I capital and a further Rs 7.5 Bn by way of a debenture issue to boost Tier II capital.

The Bank maintained its Statutory Liquid Asset Ratio (SLAR) well above the required level right throughout the year.

Sustainability Goals

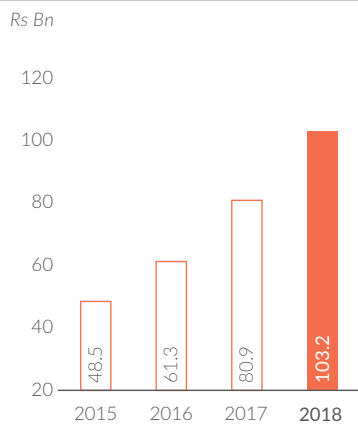
Sustainability has been ingrained in our DNA right from the very beginning and has continued to underpin our corporate citizenship activities. Over the years our sustainability strategy has evolved considerably and today our efforts are prioritised according to issues of national importance such as creating self-sustaining societies, education for all, etc.



Sampath Bank was the proud winner of five awards including the 'Most Innovative Bank of the Year' award at the LankaPay Technovation Awards 2018

"It is also noteworthy to mention that your Bank is well poised to achieve a one trillion balance sheet by year 2020."

Total Capital (Tier I + Tier II)



Since 2016 we have also chosen to support the UN Sustainability Development Goals (SDGs), broadly aimed at ending global poverty, protecting the planet and ensuring all people enjoy peace and prosperity.

With much work to be done, we have been gradually increasing the annual allocation to our CSR fund, through which all sustainability activities are driven.

The Future

While there are credible signs to suggest that the Sri Lankan economy will comparatively perform better in 2019, a number of stress points will likely continue to affect the prospects of many industries, key among them being the ad-hoc and unplanned regulatory changes that have become the leading cause of business uncertainty in the country. I believe a framework of stable and consistent business policies is the first step towards creating a conducive environment for local businesses, including the banking sector, to grow and continue to prosper in the long term.

That being said, I foresee the pace of change in our industry to further intensify in the coming years. What is important for us is not just to keep pace with these changes but to constantly rethink our own business approaches in order to become Sri Lanka's first fully digital, world-class bank.

It is also noteworthy to mention that your Bank is well poised to achieve a one trillion balance sheet by year 2020.

Appreciations

To conclude, I wish to express my deep and sincere gratitude to the Board of Directors for their enthusiastic participation in all Board matters and for the countless hours spent guiding our Governance Sub Committees.

A special word of thanks to our dynamic MD, Mr Nanda Fernando for his tireless efforts to ensure the Bank succeeds despite all odds.

I take this opportunity to appreciate Team Sampath for their commitment to building a bank that continues to outperform peers while transforming the lives of our stakeholders.

To our customers and depositors, I readily admit that none of our achievements would have been possible without your support and take this opportunity to thank you for banking with Sampath Bank. We are truly grateful to you for choosing us as your bank of choice and reaffirm our commitment to serve you even better in the future.

My sincere gratitude also to our shareholders who have remained fully invested in our growth; thank you for your continuing support, your confidence, and above all, for your trust. Rest assured that we are fully committed to generate the sustainable, profitable returns you rightfully expect from us in the years ahead.

Finally, to all our other stakeholders including the regulators, thank you for your support, without which our achievements would not have been possible.

CHANANA PALANSURIYA
Chairman

14th February 2019

MANAGING DIRECTOR'S REVIEW

"Our efforts to deepen the penetration into the SME segment were successfully led by the Business Support Centre (BSC), which was carved out following the Paradigm Shift of 2017. I am quite pleased to see that the BSC's door-step banking model continues to be well received by the target market."



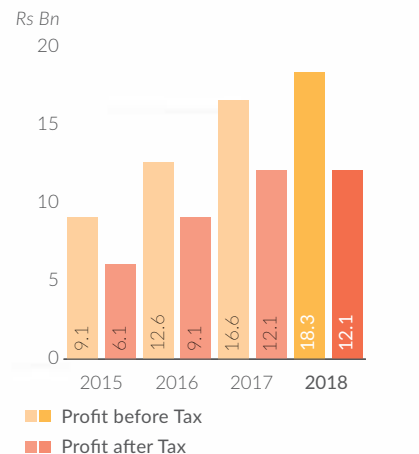
GRI 102-14

In my opinion, 2018 could be identified as one of the most challenging periods in recent history. We saw the global economic growth being moderate on the backdrop of weakening international trade and investments as well as escalating trade tensions among major economies. With most advanced and emerging economies alike underperforming, global growth is expected to have reached 3.0% in 2018, only because of the strong results reported by the super powers.

As was the case with many emerging economies, Sri Lanka's economy too registered only a moderate growth of 3.3% for the nine months ended 30th September 2018 as several key sectors remained under pressure for the second consecutive year. Low economic activity, the widening trade gap and the sharp depreciation of the rupee were the other main distress points for the local economy in 2018.

I must admit that while these conditions were far from ideal, the difficult backdrop created an excellent opportunity for us to gauge the agility of our business model; to test its resilience and to determine its capacity to generate and sustain a competitive advantage even in tough times.

Profit before Tax & Profit after Tax



GROSS INCOME

Rs 115.3 Bn

Rs 92.6 Bn in 2017 | ▲ 25%

Operational Targets - ACHIEVED

Despite what was widely seen as a lacklustre credit demand, we succeeded in growing our retail advances portfolio by 10.6% for 2018. This I believe is the result of our broad-based lending approach that focused on tapping into all retail customer segments, coupled with a well-timed effort to take advantage of the higher gold prices in order to grow the island-wide pawning portfolio.

Our efforts to deepen the penetration into the SME segment were successfully led by the Business Support Centre (BSC), which was carved out following the Paradigm Shift of 2017. I am quite pleased to see that the BSC's door-step banking model continues to be well received by the target market, as evidenced by the encouraging results for 2018.

The corporate loan book too continued to grow throughout the year, amidst the consistent demand from the financial services and renewable energy sectors. Meanwhile strong emphasis on offshore lending helped increase our range in this area as well, even resulting in Sampath Bank being appointed as the lead arranger to a large off-shore project in the region.

On the downside however, we found our NPL ratio moving up in 2018, as the

impact of weak economic activity was felt across many sectors. Redoubling our recovery efforts, we focused on minimising new entrants to the NPL bucket. We took steps to assist our customers to ride out the difficult times, while strengthening our credit control and post review processes. Thanks to these efforts, we were able to contain our NPL ratio to 3.69%, which despite being higher than the 2017 figure, was only slightly above the 2018 industry average of 3.4%.

On the deposits side, we continued with our strategy to mobilise mainly low-cost funds primarily to drive CASA growth.

Financial Results - EXCEEDED

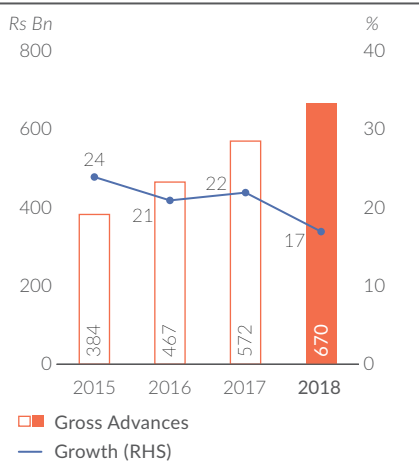
I am more than pleased to report that we have not only succeeded in meeting our financial deliverables, but exceeded expectations on many fronts. The Bank's gross income grew by 24.5% year-on-year to reach Rs 115.3 Bn in 2018. NII too registered a strong increase of 34.2% over the previous year, due to the success of timely repricing strategies that enabled the Bank to increase the average yield on advances to 13.50% in 2018 from 13.26% in 2017. I am also encouraged to see that our efforts to grow fee-based income both in the trade and non-trade

categories are proving to be successful, as evidenced by the 21.6% year-on-year increase in the Bank's fee-based income.

Bolstered by robust growth in both NII and fee-based income, our cost-to-income ratio reached an all-time low of 35.9% in 2018, despite higher operating expenses.

Profit before Tax grew by 10.5% from Rs 16.6 Bn in 2017 to Rs 18.3 Bn in 2018, whereas PAT recorded a year on year increase of 0.3%. The lower growth in profitability could be attributable mainly to three things. Firstly, the decision to identify all individually significant customers who have shown stress and make adequate provisions against them, which pushed up impairment charge against this customer segment to Rs 6.2 Bn in 2018 compared to Rs 1.4 Bn in the previous year. Secondly, the collective impairment charge for the year increased due to the slight deterioration of our portfolio quality given the current negative economic conditions. The other reason for the increase in our collective impairment charge, was the implementation of SLFRS 9, which called for a change in provisioning models from the 'incurred credit loss' approach used in the past to 'expected credit loss' approach.

Gross Advances & Its Growth



The Bank was recognised as one of Sri Lanka's 10 Most Admired Companies at the 'Most Admired Companies of Sri Lanka 2018' awards ceremony organised by the International Chamber of Commerce, Sri Lanka

"To complete our transformation as a truly digital bank, our strategy also focused on digitisation as a means of simplifying processes to create a more agile operational structure that would drive productivity and lower costs."

COST TO INCOME

35.9%

42.3% in 2017

▼ 15%

Finally, the new "debt repayment levy" that came into effect from 1st October 2018 also attracted an additional charge of Rs 524 Mn for the 4th quarter.

Risk Management - STRENGTHENED

I can say with absolute certainty that our ability to consistently deliver 'above average' results operationally and financially over the past three decades, can be attributed largely to the soundness of our risk management framework. Fine-tuning our risk framework is a continuous and ongoing exercise that we undertake in order to improve our long-term resilience.

In 2018, our risk priorities were mainly two-fold; credit risk and cybersecurity risk. We made several improvements to strengthen our credit risk management model as part of a broader effort to maintain asset quality. In parallel, we increased our vigilance towards the ever-present risk of cybercrime and engaged the services of a dedicated Information Security Officer in line with the recommendations set out under the CBSL's baseline cybersecurity standards.

Digital Transformation - ON TRACK

While many in the banking industry are only now beginning to realise the value of digitisation, we at Sampath Bank have been aware of its importance for some

time now. The turning point for us was as far back as 2015 when we first embarked on our digital transformation journey. Each progressive step taken since then has helped us reach more customers. And I must admit that the three-year head start we have over peers is proving to be a tremendous advantage in positioning Sampath as the primary bank for many of these customers.

However we do not take the liberty of being complacent with our achievements and continue to work diligently to strengthen our leverage as the leading digital bank in Sri Lanka. In 2018, a new digital strategy was rolled out outlining the key thrust areas that the Bank would broadly focus on over the next three years, with a great deal of time and resources being invested to linking these priorities and bringing them to life through our business model.

Stemming from this, we were able to make considerable headway in 2018 itself to firm up our position as the digital banking pioneer. For example, the launch of the Sampath "slip-less banking" app is perhaps the most significant development in the local banking industry since the launch of ATMs in 1987. The Virtual Teller Machine and the "igift" app, a person-to-person virtual gifting platform, are a few of the other breakthrough products launched in 2018 that gives us the first-mover advantage.

I am encouraged to see the high adoption rate for these products. For instance, within a few short months after its launch we found that over 47% of cash deposits were done through the "slip-less banking" app.

To complete our transformation as a truly digital bank, our strategy also focused on digitisation as a means of simplifying processes to create a more agile operational structure that would drive productivity and lower costs. Setting ourselves ambitious targets to aim for, we made considerable progress in 2018. We started with the digitisation of the customer on-boarding process to increase the speed and simplicity with which a customer can open new accounts. This was followed by the roll out of the FileNet data sharing platform to improve the speed and accuracy of internal credit assessment process.

The positive feedback we have received from our customers regarding these initiatives tells us that we are on the right track and the awards that we continue to receive further affirms this fact. At the LankaPay Technnovation Awards 2018 we scored top honours, clinching the coveted 'Most Innovative Bank of the Year' award. We also won several category awards - the 'Best Bank for Retail Payments', 'Best Common ATM Acquirer of the Year (category B)', overall runner up for the 'Excellence in Inter-Bank Payments among Banks' and the runner up in the 'Best Acquirer on Lanka Pay Online Payment Platform'. In addition we secured the award for the 'Best Digitally-Enabled Product/Service in the Financial Sector' at the SLT 01 awards.

Investment in Team Sampath - ONGOING

We remain acutely aware that our ability to compete and stay ahead of peers is contingent on the quality of our team. Hence we have continued to increase our investment in our people. In 2018, we spent a total of Rs 70.4 Mn on training and development activities, compared to Rs 69.8 Mn invested last year and Rs 69.7 Mn invested in 2016.

Sustainability Initiatives - IN PROGRESS

Our sustainability agenda is driven by one fundamental principle-the responsibility that we as a bank, have to improve the lives of all Sri Lankans. Being one of the few banks to have understood and

embraced this concept very early on in our business, we have since continued to maintain our focus on improving the lives of our stakeholders, and the broader community, while making a positive impact on the environment. In 2018, we made steady progress on all fronts; we reiterated our commitment to the customer through broad-based efforts aimed at creating exceptional customer experiences. We also worked diligently to improve our environmental track record and boost our credentials to achieve carbon neutral status and continued investing in CSR activities that can bring meaningful socio-economic benefit for underserved or marginalised communities across the country. Underpinned by our three-pillar CSR model, we continued with our ongoing programmes in addition to undertaking several new projects.

Awards and Accolades

Thanks to this all-round performance, we continue to receive recognition globally and locally. At the prestigious World Finance Banking Awards 2018 conducted by UK-based World Finance magazine, Sampath Bank was recognised as Sri Lanka's 'Best Retail Bank' and 'Best Commercial Bank' for the fifth consecutive year, a tremendous achievement given the stiff competition we face from peers.

Locally we were recognised as one of Sri Lanka's best performing companies at

the Business Today Top 30 Awards 2017-2018, moving up two places from last year, to be ranked fifth in this year's listings. We were also recognised as one of Sri Lanka's 10 Most Admired Companies at the 'Most Admired Companies of Sri Lanka 2018' awards ceremony organised by the International Chamber of Commerce, Sri Lanka (ICCSL) and the Chartered Institute of Management Accountants (CIMA) Sri Lanka in partnership with Daily FT, Aon, KPMG and AIA.

Going Forward

Over the past 30+ years, Sampath Bank has proven time and again that we can weather any challenge. Even in the most difficult times, our results speak to our commitment to meet the expectations of our stakeholders and ultimately to support Sri Lanka's economic growth.

Going forward, we will continue to do all this and strive to do it even better, regardless of external pressures that may come our way from time to time. And in doing so we expect to seize every possible opportunity that will enable us to reach our goals faster and then immediately set ourselves even more ambitious targets to strive for.

Our immediate priority therefore is to secure our place as the leading digital bank by 2020, if not sooner. Stemming from this, our long-term strategy is to reinvent Sampath as the country's top technology company providing financial solutions for the mass market.

In Closing

I would like to thank the Chairman, as well as my colleagues on the Board for their guidance and support which has been a source of immense strength for me this past year.



Sampath Bank recognised as Sri Lanka's 'Best Retail Bank' and 'Best Commercial Bank' for the fifth consecutive year, at the prestigious World Finance Banking Awards by UK-based World Finance Magazine

"We remain acutely aware that our ability to compete and stay ahead of peers is contingent on the quality of our team. Hence we have continued to increase our investment in our people."

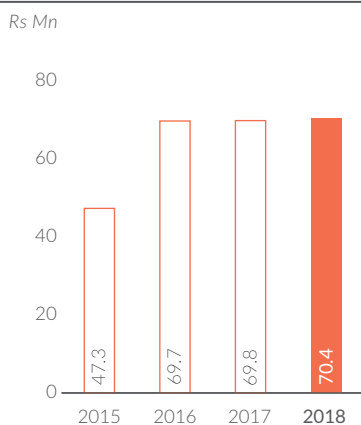
To the three million customers who choose to bank with Sampath Bank, to our shareholders and other stakeholders, I thank you for your unfailing support at all times.

I readily acknowledge that none of our achievements would have been possible without the hard work, commitment and dedication of Team Sampath and I take this opportunity to thank each and every one of them for contributing to a successful and rewarding year in a difficult environment.

NANDA FERNANDO
 Managing Director

Colombo, Sri Lanka
 14th February 2019

Investment in Training



OUR VALUE CREATING BUSINESS MODEL

Inputs



Financial Capital

- The equity and debt capital as well as the retained earnings available to grow the business in line with the Bank's strategic vision (Page 54)



Manufactured Capital

- The physical and digital resources that provide support to conduct the core business activities of the Bank (Page 58)



Intellectual Capital

- The intangible assets, including the knowledge base, unique systems and processes and the brand equity resulting from the success achieved over the past 30+ years (Page 62)



Human Capital

- The 4,189 members of Team Sampath who are the key architects of the Bank's success (Page 64)



Social & Relationship Capital

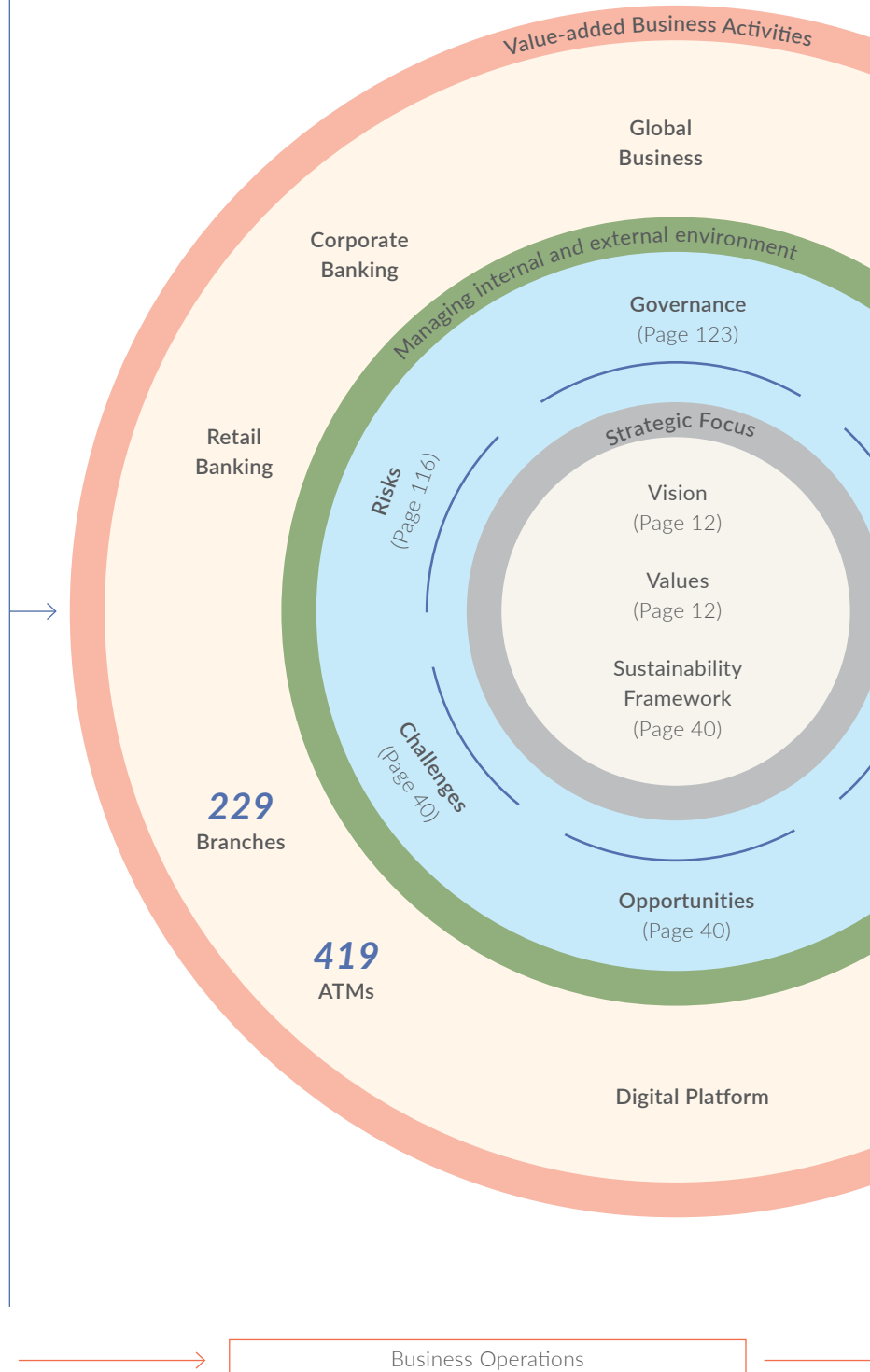
- The strength of the relationships with customers, suppliers and the community (Page 74)

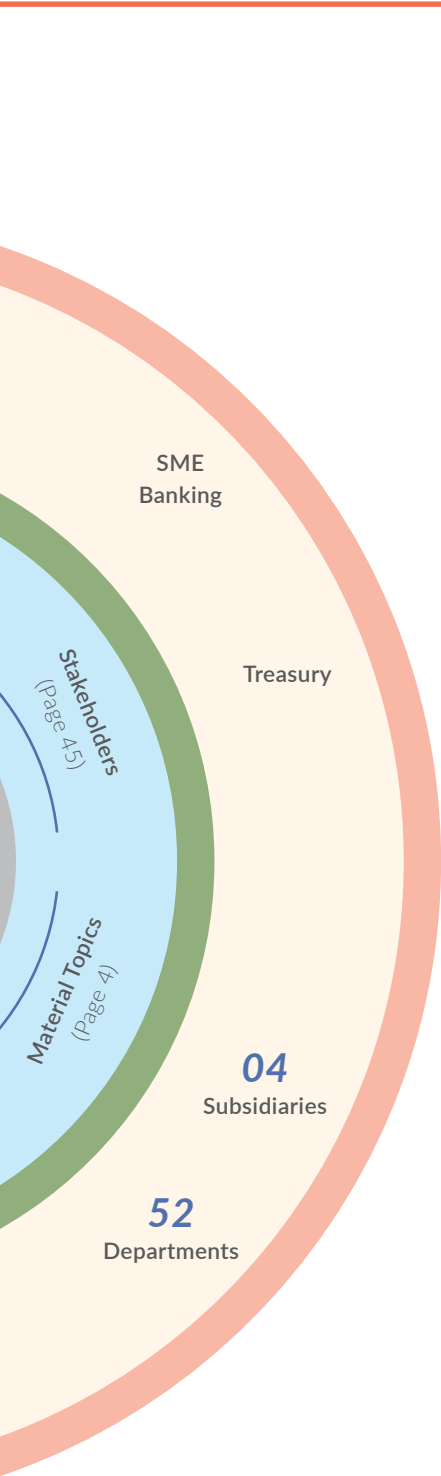


Natural Capital

- The natural resources utilised in the day-to-day activities of the Bank (Page 84)

Value Creation Process





Outcome/Output



Financial Capital

- Profit after Tax : Rs 12.1 Bn
- Return on Equity : 16.0%
- Earnings per Share : Rs 45.13
- Market Capitalisation : Rs 66.0 Bn
- Deposit Base : Rs 698.1 Bn



Manufactured Capital

- New Deposit Kiosks : 182
- Asset Base : Rs 914.2 Bn



Intellectual Capital

- Investment in IT : Rs 517.0 Mn



Human Capital

- Profit per Employee : Rs 2.9 Mn
- Employee Retention : 98.0%
- Investment in Training : Rs 70.4 Mn



Social & Relationship Capital

- Rs 32.6 Mn Investment in Community Projects
 - From CSR Fund : Rs 15.7 Mn
 - From Bank's Other Funds : Rs 16.9 Mn
- Invest in Training School Leavers and Undergraduates : Rs 75.5 Mn



Natural Capital

- Rs 7.5 Mn Investment in Environmental CSR
- 13 Environmental CSR Projects
- Finance for Renewable Energy Projects
- 95,317 kWh Solar Power Generation
- 11,261 tCO₂e Carbon Footprint

Value Creation to Stakeholders



Shareholders

- Net asset value per share : Rs 300.42
- Total gross dividend : Rs 4.6 Bn
- Dividend per share : Rs 16.25
- Dividend yield : 6.91%
- Interest on debentures : Rs 4.1 Bn



Employees

- Pension schemes
- Staff loans at concessionary rates
- Investment on professional development
- Medical benefits



Customers, Suppliers & Service Providers

- Economic value distributed to depositors and lenders : Rs 55.7 Bn
- Enhance customer convenience through the use of breakthrough technology
- Enhance supplier management mechanisms



Community

- Over 156,000 direct beneficiaries from community projects
- Employment generation : 322
- School leavers and undergraduates trained : 1,613



Regulators

- Taxes paid : Rs 12.3 Bn

Decision Making

Impact Assessment

Reviewing & Reporting

STRATEGIC SUSTAINABILITY FRAMEWORK

At Sampath Bank PLC, we view sustainability as a strategy to ensure the Bank continues to add value to its stakeholders, while contributing positively

towards Sri Lanka's socio-economic and environmental progress. Our commitment is underpinned by a comprehensive 360-degree approach to anchor sustainability

more deeply into our operations by taking cognisance of the opportunities and challenges we face as a bank.

Focus on Triple Bottom Line



PEOPLE



PLANET

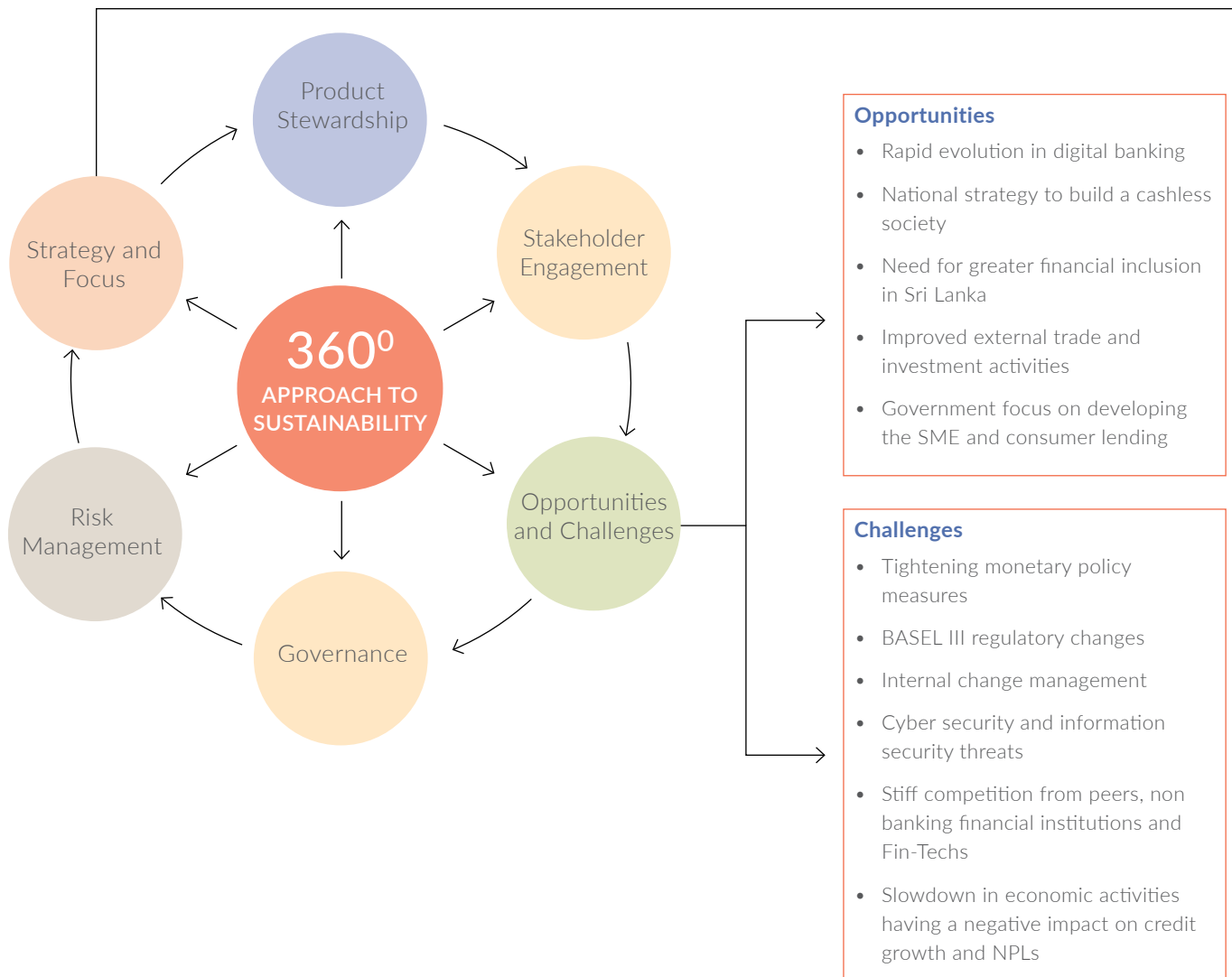


PROFIT

Focus on Sustainable Development Goals (SDGs)



360° Approach towards Sustainability



GRI 102-18,19,20,21,26,29

Sustainability Governance

The Corporate Sustainability Committee is the main body in charge of all sustainability related matters at Sampath Bank. Headed by the Managing Director, the Corporate Sustainability Committee is responsible for policy development, strategy formulation and goal setting to ensure that sustainability efforts are carried out in a holistic manner throughout all business units within the Bank. The Corporate Sustainability Department is also directly responsible for carrying out external projects that reflect the Bank's commitment to the SDGs. Assisted by a highly transparent Project Management Process, the Corporate Sustainability Department is tasked with identifying and implementing projects that benefit the environment and the wider community.

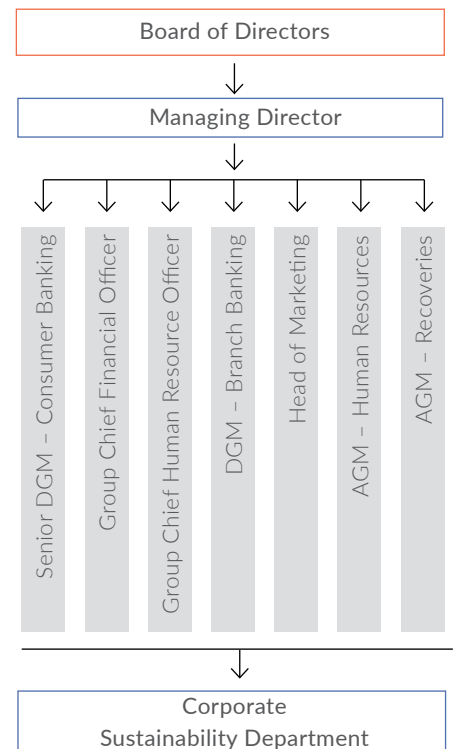


Strategy and Focus

- Competitive lending propositions to promote greater financial inclusion across the country
- Deepen the penetration into the SME and consumer lending segments through customised solutions
- Managing NPLs whilst achieving volume growth
- Contribute towards Sri Lanka's GDP growth by supporting economically-significant sectors
- Penetration in to new markets
- Concentrate on developing digital channels to promote financial inclusion
- Become an employer of choice by offering robust employment opportunities, training and career prospects
- Leverage on technology to enhance customer convenience
- Cost optimisation through integration and automation
- Ensure adequate capital and liquidity buffers in compliance with BASEL III
- Strengthen governance and risk management frameworks in line with CBSL standards
- Align with reporting and disclosure requirements under SLFRS 09
- Digitisation as a strategy to enhance value creation

GRI 103-2

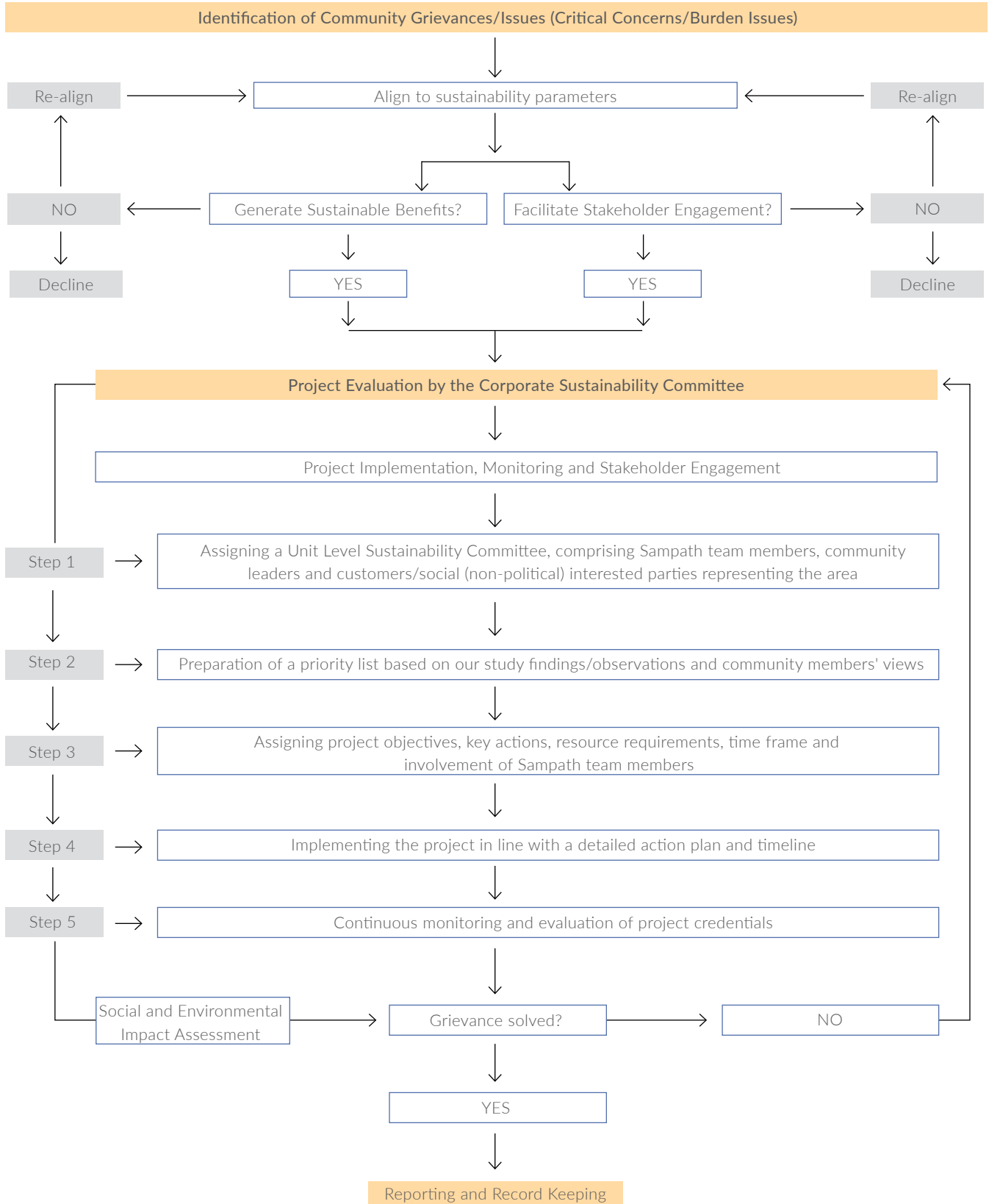
Sustainability Governance Structure



STRATEGIC SUSTAINABILITY FRAMEWORK

Project Management Process (PMP)

GRI 413-1



Ethics and Integrity

GRI 102-16,17,26

Ethics and integrity are an important part of our Strategic Sustainability Framework. Fully committed to conduct its business in an honest and ethical manner, Sampath Bank PLC strictly adheres to best practices including all applicable laws, rules and regulations with respect to anti-corruption behaviour. We also promote a culture of honesty and fair dealing, and encourage employees to observe ethical business practices that reflect the corporate values, corporate culture, business principles, standards and norms of behaviour unique to Sampath Bank. Furthermore, the Bank has zero tolerance for bribery and corruption by any employees or Directors.

A strict ethics and integrity control framework is in place to ensure that the highest level of ethical behaviour is practiced across the business.

The key pillars of the framework are:

- The Code of Conduct for all employees
- The Code of Conduct for Key Management Personnel (KMPs)
- The Code of Conduct and Governance requirements for Board of Directors
- The Whistle-blowing Policy
- Anti-money Laundering Policy
- Anti-fraud Policy
- Policy on Communication
- Policy on Managing Conflicts of Interest
- Procedure on handling Related Party Transactions







To raise awareness and strengthen team commitment to the framework, targeted training activities are conducted from time to time.

Meanwhile, employees who violate any of the aforementioned codes will be dealt with disciplinary action.







Our commitment to the Sustainable Development Goals

To enhance our position as a sustainable organisation, Sampath Bank has aligned itself with the United Nations Sustainable Development Goals, focusing specifically on areas where we are able to make the strongest impact towards improving the country's economic, social and environmental indicators. In carrying out such initiatives, we seek out strategic alliances with numerous organisations and institutions and participate in multiple national efforts, for we believe the only way to deliver sustainable development is by working together.

GRI 413-1

Six Capitals	Relevant Sustainable Development Goals (SDGs)	Our Commitment
Financial Capital 		<ul style="list-style-type: none"> • Improve scalability of the business by creating an enabling environment for the customer to grow • Focus on NPA management to safeguard the Bank's balance sheet • Invest in digital platforms to develop cheaper-better-faster solutions to grow the customer base • Process digitisation to improve operational efficiency and reduce the cost-to-income ratio
Manufactured Capital  Intellectual Capital 	 	<ul style="list-style-type: none"> • Introduced the slipless banking application to reduce the use of paper forms to facilitate transactions (deposits, withdrawals, credit card settlements and bill payments). 2.6 Mn number of transactions were done via the slipless banking app • Launched igit App to facilitate person-to-person gifting through blockchain technology • Introduced the Virtual Teller Machine (VTM) - the VTM's advanced functionality supports customers to perform a range of banking needs (24x7) • JustPay© adoption to make cashless payments below Rs 10,000 securely and in real-time

STRATEGIC SUSTAINABILITY FRAMEWORK

Six Capitals	Relevant Sustainable Development Goals (SDGs)	Our Commitment
Human Capital 		<ul style="list-style-type: none"> 322 new recruits, 127 were female employees 228 staff members were promoted, 71 were female employees 1,613 internships provided, female representation was 75.3% 22% female representation in senior management 21% female representation in corporate management
Social & Relationship Capital 		<ul style="list-style-type: none"> SME development programme – 980 entrepreneurs were trained covering Central, North Central, North Western, Western and Southern Provinces in Sri Lanka Dhanyawa tank restoration – irrigation system benefiting 96 farming families in Divulankadwala, Medirigiriya. Facilitated National Hospital of Sri Lanka and Divisional Hospital, Elayapattuwa – serve more than 21,000 patients 48 scholarships awarded to underprivileged undergraduates of University of Colombo 1,336 school leavers and 277 undergraduates were provided internship opportunities More than 110 undergraduates participated for Effective Career Guidance programme More than 400 students benefited from Inter School Quiz Competition programme
Natural Capital 		<ul style="list-style-type: none"> Disposed 148,654 Kg of waste paper for recycling The Bank offset the carbon emission of its Head Office being equivalent to 4,052 tCO₂e and product carbon footprint of Integrated Annual Report 2018 being equivalent to 19.6 tCO₂e by purchasing Certified Emissions Reductions (CERs) from a hydroelectric project registered under United Nations' CDM registry (PA 2698) Rs 1,605 Mn financed in renewable energy generation projects 95,317 kWh electricity was saved through solar power generation 'Sampath Green Inventor', a national level competition to promote eco friendly inventions - 25 winners were awarded out of 199 contestants (individual and groups) Implementation of waste management habits – more than 5,000 students were benefited at J/Sandilipay Hindu School, Manipay and Bandaranayake Central College, Veyangoda Joined hand with Biodiversity Sri Lanka to restore 10ha of degraded forest in Halgahawala, Opatha to support conservation of biodiversity Landscaping project at National Institute of Mental Health, Mulleriyawa to support healing and recovery of the mental health of over 1,500 patients residing at the hospital

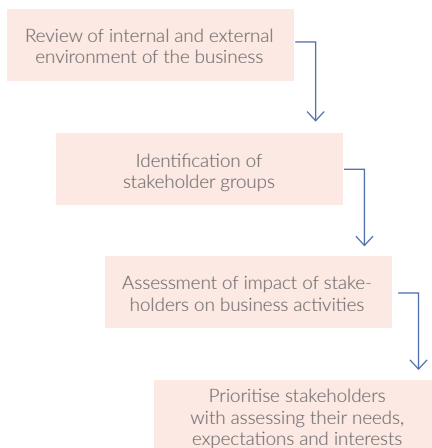
STAKEHOLDER ENGAGEMENT

GRI 102-40,42,43,44

Taking cognisance of both the external and internal environment, we have determined that our stakeholders are those individuals or entities who are connected to Sampath Bank through our products, services, operations or community projects. Based on this premise, we have identified our stakeholders to be; shareholders, customers, employees, suppliers, business partners, regulatory bodies and the broader community.

Given that the actions, decisions and expectations of such stakeholders impact the manner in which we conduct our operations, connecting with our stakeholder is a key priority for Sampath Bank.

Stakeholder Identification Process



Stakeholder Engagement Process

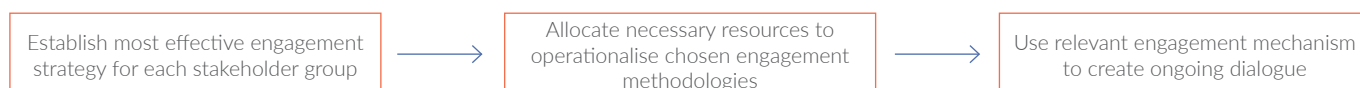
We have in place a robust stakeholder engagement mechanism that serves as a platform to identify stakeholder perceptions, understand their expectations and address their concerns. Aside from ongoing engagement, we believe that regularly reviewing and reporting back on our progress, builds trust, improves stakeholder satisfaction and helps to sustain long term relationships that add value to our competitive strategy.



Managing stakeholders



Respond to stakeholder needs, expectations and interests



Stakeholder Engagement Mechanism

Shareholders and other investors

Management Philosophy: Ensuring long-term shareholder value and upholding the rights of the shareholder and supporting a broader shareholder constituency to ensure their wealth maximisation

Engagement Mechanism	Frequency	Matters Relevant to the Stakeholders	Our Strategic Response
Shareholder relations forums	P	<ul style="list-style-type: none"> Shareholder satisfaction regarding the Bank's financial position 	<ul style="list-style-type: none"> Maintaining a consistent bottom line
General meetings	A/P		
Annual Report	A	<ul style="list-style-type: none"> Shareholder views on key governance and policy matters 	<ul style="list-style-type: none"> Ensuring sustainable return on investment (Rights Issue 2018 was concluded)
Interim Financial Statements	Q		
Disclosures and announcements on CSE	P	<ul style="list-style-type: none"> Development of shareholder communication channels 	<ul style="list-style-type: none"> Engaging in greater transparency according to corporate governance code
Corporate website	24/7		
General correspondence	R	<ul style="list-style-type: none"> Return on equity and interest gains 	<ul style="list-style-type: none"> Maintaining the Bank's reputation and credibility
CSR projects	R		
		<ul style="list-style-type: none"> Strategy and continuity Financial performance 	<ul style="list-style-type: none"> Safeguarding asset quality

A – Annually P – Periodically Q – Quarterly R – Regularly 24/7 – 24 hours 7 days

STAKEHOLDER ENGAGEMENT

Employees			
Management Philosophy: Commitment to create a conducive environment for the employees to develop and reach their potential, both professionally and personally			
Engagement Mechanism	Frequency	Matters Relevant to the Stakeholders	Our Strategic Response
Open-door policy	R	<ul style="list-style-type: none"> Ethical employment practices Career development opportunities Employee communication and feedback Rewards/recognition Employee wellbeing Work-life balance 	<ul style="list-style-type: none"> Competitive rewards and benefits to attract and retain best talent in the market Promote greater diversity and inclusion Develop from within through training and development Encourage greater engagement Performance-based incentives Effective handling of grievances Maintain high standards of occupational health and safety Ensure employees' welfare Foster a sense of belongingness
Employee forums	P		
Employee suggestions schemes	R		
Grievance-handling procedure	R		
Employee social committees	R		
Feedback forms	A		
Business unit level meetings	R		
Intranet	24/7		
Memorandums/Directives	R		
Newsletters	Q		
Training	R		
Get-togethers/Events	R		
Sampath Employee Notification System (SENS)	24/7		
CSR projects	R		
Online groups	R		
A - Annually P - Periodically Q - Quarterly R - Regularly 24/7 - 24 hours 7 days			

Customers			
Management Philosophy: Uphold the customers' right to demand a stable and progressive banking environment which provides a superior service platform and promotes customer choice/convenience			
Engagement Mechanism	Frequency	Matters Relevant to the Stakeholders	Our Strategic Response
One-on-one feedback from customers who visit the Bank	R	<ul style="list-style-type: none"> Customer service Satisfaction on existing products Brand perception and reputation Customer convenience Need for innovations and customised solutions Communication methods Special promotions Timely and relevant information on products and services Customer touch-points Customer benefits and rewards Loyalty recognition 	<ul style="list-style-type: none"> Effective complaint resolution Maintain service excellence Deliver technology-driven banking solutions Continuous introduction of innovative products which promote greater customer convenience Effective marketing and communication Maintaining data security and customer privacy Promoting island-wide customer inclusiveness Better market share
Customer surveys conducted via traditional or non-traditional research techniques	P		
Social media interactions	24/7		
Customer complaint handling mechanism	24/7		
ATL, BTL and digital communications	R		
Correspondence	R		
SMS alerts	24/7		
Corporate Website	24/7		
Sampath Vishwa (internet banking) portal	24/7		
Customer Care Centre	24/7		
CSR projects	R		
Feedback forms - paper based/ electronic mediums	R		
A - Annually P - Periodically Q - Quarterly R - Regularly 24/7 - 24 hours 7 days			

Suppliers and Service Providers			
Management Philosophy: Striking the right balance between cost and quality and promoting ethical and transparent sourcing practices			
Engagement Mechanism	Frequency	Matters Relevant to the Stakeholders	Our Strategic Response
Interactions through the purchasing policy	R	<ul style="list-style-type: none"> Developing strategic partnerships Promoting transparent and ethically responsible business practices 	<ul style="list-style-type: none"> Engaging in fair and equitable procurement Supplier Risk Assessment mechanism
Feedback evaluations	AW		
Meetings	AW	<ul style="list-style-type: none"> Continuous communication with suppliers and service providers Regular reviews on quality of goods and services 	<ul style="list-style-type: none"> Contractual agreements to promote sustainable procurement Local sourcing Registration of multiple suppliers and service providers as a BCP measure Maintenance of a suppliers and service provider register Developing SME Entrepreneurs whilst purchasing goods at lower cost thus enjoying a win-win situation for both Bank and the supplier
Visits to supplier workshops/offices	P		
Written communications (letters and e-mails)	R		
Reviews and assessments	P		
A – Annually P – Periodically Q – Quarterly R – Regularly 24/7 – 24 hours 7 days AW – As and when required			

CBSL, CSE & Other Government Institutions directly related to Banking			
Management Philosophy: Ensure compliance with all legal and regulatory requirements			
Engagement Mechanism	Frequency	Matters Relevant to the Stakeholders	Our Strategic Response
Policy directives/circulars, guidelines and operating instructions	R	<ul style="list-style-type: none"> Policy decisions affecting the financial sector Fiscal consolidation laws 	<ul style="list-style-type: none"> Compliance with regulations Rectification actions on supervisory concerns
Meetings and forums	P		
Press releases	R	<ul style="list-style-type: none"> Submission of returns Taxes paid to the Government 	<ul style="list-style-type: none"> On-time submission of statutory returns and statutory payments Response and contribution at meetings/forums and to initiatives of the regulators Micro, Small and Medium Entrepreneurs lending and Entrepreneurship Development Supporting the Non-Conventional Renewable Energy sector Support to maintain stability in money and foreign exchange markets Help investors to make better investment decisions
Periodic and one-off returns	P/AW		
On-site and off-site supervision	P/AW		
Training programmes	R		
A – Annually P – Periodically Q – Quarterly R – Regularly 24/7 – 24 hours 7 days AW – As and when required			

STAKEHOLDER ENGAGEMENT

Community			
Management Philosophy: Working in tandem with global and local mandates which safeguard the environment and promote community empowerment			
Engagement Mechanism	Frequency	Matters Relevant to the Stakeholders	Our Strategic Response
Ground-level interactions with community leaders by staff	R	<ul style="list-style-type: none"> Community capacity building 	<ul style="list-style-type: none"> Socially-responsive transformative CSR model
Interactions with social groups and volunteer organisations	R	<ul style="list-style-type: none"> Community empowerment 	<ul style="list-style-type: none"> Transparency and governance
Feedback forms/environment grievance handling mechanism	R	<ul style="list-style-type: none"> Social welfare of communities 	<ul style="list-style-type: none"> Community engagement
Discussions with local authorities	R	<ul style="list-style-type: none"> Environmental degradation 	<ul style="list-style-type: none"> Employee volunteerism
Discussion with other organisations, community and opinion leaders on community development efforts	R	<ul style="list-style-type: none"> Preservation of local culture 	<ul style="list-style-type: none"> Become a catalyst for change
Media-based forums	R		
CSR projects	R		
A – Annually P – Periodically Q – Quarterly R – Regularly 24/7 – 24 hours 7 days			

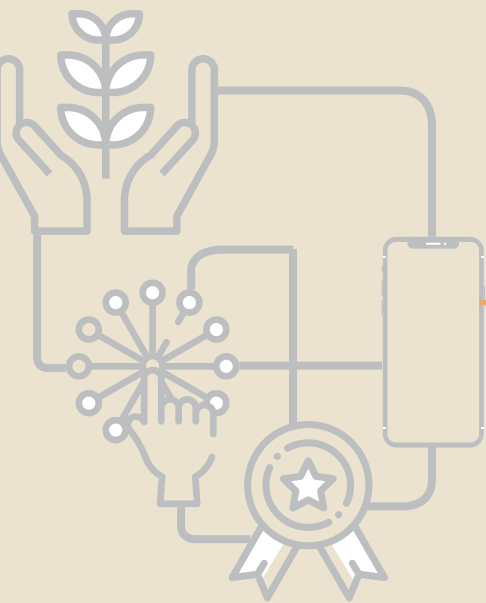
Memberships of Associations GRI 102-13

Sampath Bank PLC held membership of the following industry based associations and national and international advocacy organisations with the motive of maintaining sustainable relationships with stakeholders and contributing to betterment of the industry and nation as a whole.

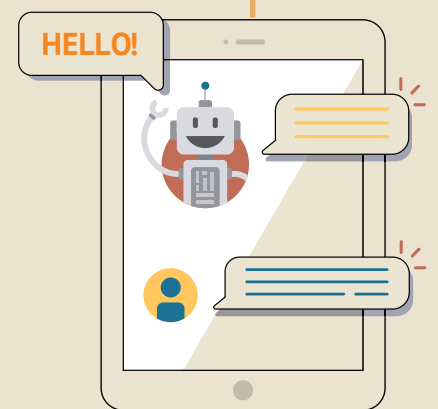
Name of the Association	Membership Status
American Chamber of Commerce in Sri Lanka	Member
Association of Compliance Officers of Banks, Sri Lanka	Member
Association of Primary Dealers (APD)	Member
Clearing Association of Bankers	Member
CSR Lanka (Guarantee) Ltd	Member
International Chamber of Commerce – ICC Sri Lanka	Member
Italian Business Council	Member
Lanka Clear (Pvt.) Ltd	Member
Lanka Financial Services Bureau (LFSB)	Member
Lanka SWIFT User Group (LSUG)	Treasurer & Assistant Treasurer
Leasing Councils of Bankers in Sri Lanka	Member & Secretary
Payment Card Association of Sri Lanka	Member
Society for Worldwide Interbank Financial Telecommunication (SWIFT)	Member
Sri Lanka Association of Software & Service Companies (SLASSCOM)	Member
Sri Lanka Bank's Association (Guarantee) Ltd	Member
Sri Lanka Business & Bio Diversity Platform of Ceylon Chamber of Commerce	Patron Member
Sri Lanka Forex Association (SLFA)	Member
The Employers' Federation of Ceylon	Member
The Association of Banking Sector Risk Professionals – Sri Lanka	Member
The Ceylon Chamber of Commerce	Patron Member
The European Chamber of Commerce of Sri Lanka	Member
The Financial Ombudsman Sri Lanka (Guarantee) Ltd	Member
The National Chamber of Commerce of Sri Lanka	Member
Exporters Association of Sri Lanka	Member
National Chamber of Exporters of Sri Lanka	Member

3 MANAGEMENT DISCUSSION & ANALYSIS

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STAKEHOLDER SATISFACTION SIMPLIFIED



Cognitive Services

SAM is an AI-powered Chatbot that deals with customer inquiries about diverse Sampath Bank services, including information about bank accounts, credit and debit cards, loans, leasing and pawning facilities, interest rates and exchange rates. SAM is available on the Bank's corporate website, Facebook Messenger and other messaging platforms.

OPERATING ENVIRONMENT

"In all, global growth is projected to have reached nothing more than a moderate 3% in 2018, given the broad-based deceleration in growth across both emerging and advanced economies. The only notable exception to this was the US economy, where solid growth was reported for 2018."



Global economic growth moderated in 2018 amidst a softening of industrial activity and a notable trade deceleration

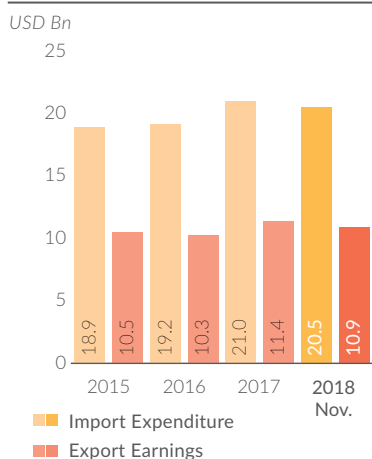
GLOBAL GDP GROWTH

3.0%

3.1% in 2017

▼ 10 bps

Import Expenditure & Export Earnings



Overview of Global Economic Performance

Global economic growth moderated in 2018 amidst a softening of industrial activity and a notable trade deceleration. Following the strong momentum in 2017, growth in global goods trade markedly slowed during the first half of 2018 with no visible signs of recovery even in the second half of the year. Global equity prices also tumbled as ongoing trade tensions among major economies and concerns about softening global growth prospects weighed in on investor sentiment. Energy prices too reflect significant fluctuations throughout the year, while other commodity prices also weakened, increasing the probability of negative headwinds for commodity exporters.

Moreover strengthening of the US dollar led to heightened financial market volatility from mid-2018, with rising risk premiums causing significant capital outflow and severe currency pressures for vulnerable countries, in particular those considered to be emerging economies.

In all, global growth is projected to have reached nothing more than a moderate 3% in 2018, given the broad-based

deceleration in growth across both emerging and advanced economies. The only notable exception to this was the US economy, where solid growth was reported for 2018.

United States

In 2018, the US economy is estimated to have grown by 2.9%, bolstered by stronger-than-expected domestic demand and supported by widespread fiscal stimulus as well as the accommodative monetary policy stance of the US Federal Reserve.

However the US did encounter its share of challenges in 2018 following their decision to raise tariffs on about USD 300 Bn worth of imports, mostly from China; which led to retaliatory action from other countries with counter-tariffs on about USD 150 Bn worth of US exports. In all, new tariffs have been imposed on about 12% of US goods imports resulting in higher prices and elevated policy uncertainty.

Euro Area

Euro Area growth slowed notably in 2018 to an estimated 1.9%, slightly below the projected figure of 2%+. The decline is attributed mainly to a softening of exports

INFLATION

4.3%

6.6% in 2017

▼ 35%

across the region, reflecting the earlier appreciation of the Euro and slowing external demand.

Japan

The Japanese economy hit by bad weather and a wave of natural disasters, is estimated to have grown by only 0.8% in 2018. Regardless, the Bank of Japan continued to maintain its long-term stimulus plan by keeping long-term rates near zero.

China

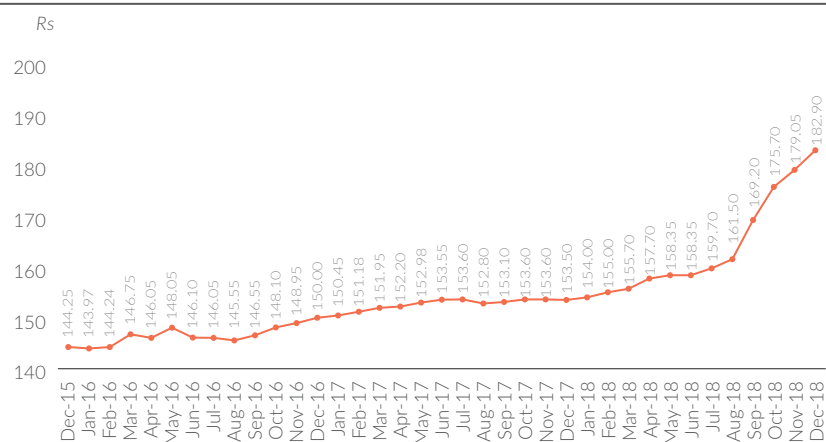
Although showing signs of slowing down on the back of lower industrial production and a deceleration of exports in tandem with the easing of global manufacturing activity, China's economy still managed to grow by a robust 6.5% in 2018 thanks to resilient consumption. Despite this impressive performance, China's stock prices and currency continued to experience downward pressures as authorities began to relax their macroeconomic policy stance to counter the potential economic impact of trade disputes with the United States.

Sri Lankan Economy

2018 was a tough year for the Sri Lankan economy, with GDP growing by an estimated 3.9% as many key sectors came under stress. As persistent bad weather affecting agricultural output, growth in the agricultural sector stayed flat, while the industry and services sector reported modest growth in 2018.

A further widening of the country's trade deficit was observed in 2018 as import expenditure continued to outpace exports

Exchange Rate Movement - US Dollar



growth. The trade deficit during the first eleven months of 2018 widened to USD 9,642 Mn from USD 8,590 Mn during the corresponding period of 2017. Available data suggests that this is the result of a 8.3% growth in import expenditure in the first eleven months of 2018 driven largely by higher expenditure on fuel, base metal and fertiliser as well as a string increase in vehicle imports. Earnings from tourism showed an increase, while workers' remittances declined marginally during 2018. The Rupee hit an all-time low, plunging by 19.2% over the twelve month period ended 31st December 2018.

Inflation maintained a favourable position averaging 4.3% in December 2018. And despite picking up in December due to the surge in food prices, core inflation stayed well within the CBSL's target of 4-6% range.

The political crisis that erupted in October, while causing considerable economic uncertainty also led to the delay of the disbursements planned under the IMF programme. Following their fifth review of Sri Lanka's economic reform programme, the IMF expressed the view that the country should expedite its reform agenda in order to further strengthen resilience to domestic and external shocks.

Meanwhile political uncertainty, coupled with the country's high external debt burden and the sharp decline in the currency, saw investor confidence dip, prompting rating agencies such as Moody's, S&P and Fitch to downgrade Sri Lanka's sovereign credit rating towards the end of the year.

Going Forward

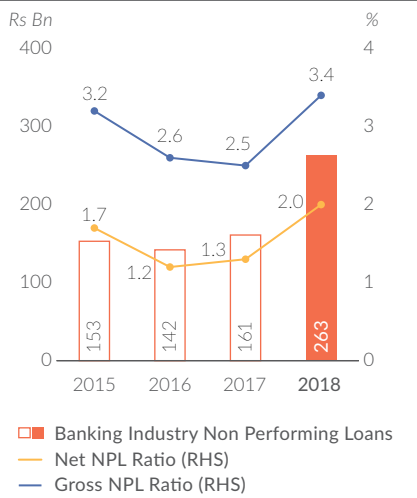
Given the prevailing low growth trajectory, growth promoting policies and structural reforms will be key priorities for the Government in 2019. Efforts in this regard will broadly target improvements to the economic and social infrastructure of the country, enhancing productivity, up-scaling skill levels of the labour force as well as expanding domestic production capacity in order to support accelerated and sustainable level of economic growth, while maintaining a continued low inflation environment.

Banking Sector Update Performance

It was a year of mixed results for Sri Lanka's banking and financial services sector, where after three years of aggressive growth the sector began to feel the impact of low credit demand. While the credit appetite continued to taper downwards in the first nine months of the year, a slight improvement thereafter helped the sector-wide asset base to record marginal year-on-year growth as at 31st December 2018.

OPERATING ENVIRONMENT

NPL - Banking Industry



On the back of weak economic activity, the banking sector NPLs rose sharply compared to the previous year, with the Gross NPA ratio increasing to 3.4% as at 31st December 2018 from the 2.5% reported at end-December 2017. This deterioration of asset quality led Moody's Investors Service to renew its 'Negative' rating outlook on the Sri Lankan banking sector.

For the first time in many years, the sector also reported a year-on-year decline in profits in 2018. Profit after tax reached Rs 126 Bn for the year ended December 2018, a decline of Rs 12 Bn compared to 2017.

Despite this however, the banking sector continued to operate with adequate liquidity buffers over and above the minimum regulatory requirements. The Statutory Liquid Assets Ratio (SLAR) too remained above the required level, while Rupee currency and all currency Liquidity Coverage Ratios were also maintained well above the minimum requirement of 90%.

Regulatory Developments

The key achievement for the CBSL in its role as the regulator for the country's banking sector, was the successful completion of the Basel III Framework implementation in Sri Lanka. At the same time, the CBSL continued to expedite its policy framework with a view to safeguarding stability of the country's financial system and increasing its resilience to withstand global and domestic shocks. Key efforts in this regard included the drafting of a new Banking Act that seeks to strengthen the legal and regulatory framework of the financial institutions.

Another notable development was the introduction of the Foreign Exchange Act No. 12 of 2017 (FEA), where procedures for inward capital flows were further simplified and streamlined for smooth transferring of funds for investment, while limits for outward capital flows were enhanced in selected areas giving local investors access to a wider global market.

In line with their statutory responsibility to develop an efficient and stable national payment and settlement system capable of catering to the country's growing payment needs, the CBSL took several important steps to strengthen the payment and settlement infrastructure. In this regard, a national standard for QR code-based payments was introduced with the aim of promoting digital payment mechanisms in the country.

Strong emphasis was also placed on improving Sri Lanka's global position with regard to the implementation of Anti-

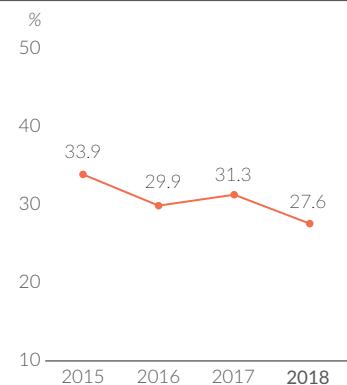
INDUSTRY NPL

3.4%

2.5% in 2017 | ▲ 36%

Money Laundering and Countering the Financing of Terrorism regulations. The CBSL signed new MOUs with several Government bodies and institutions throughout 2018 as part of a focused effort to remove Sri Lanka from the Financial Action Task Force's (FATF) 'grey list' by mid-2019.

Industry SLAR - DBU



STATUTORY RESERVE REQUIREMENT (SRR)

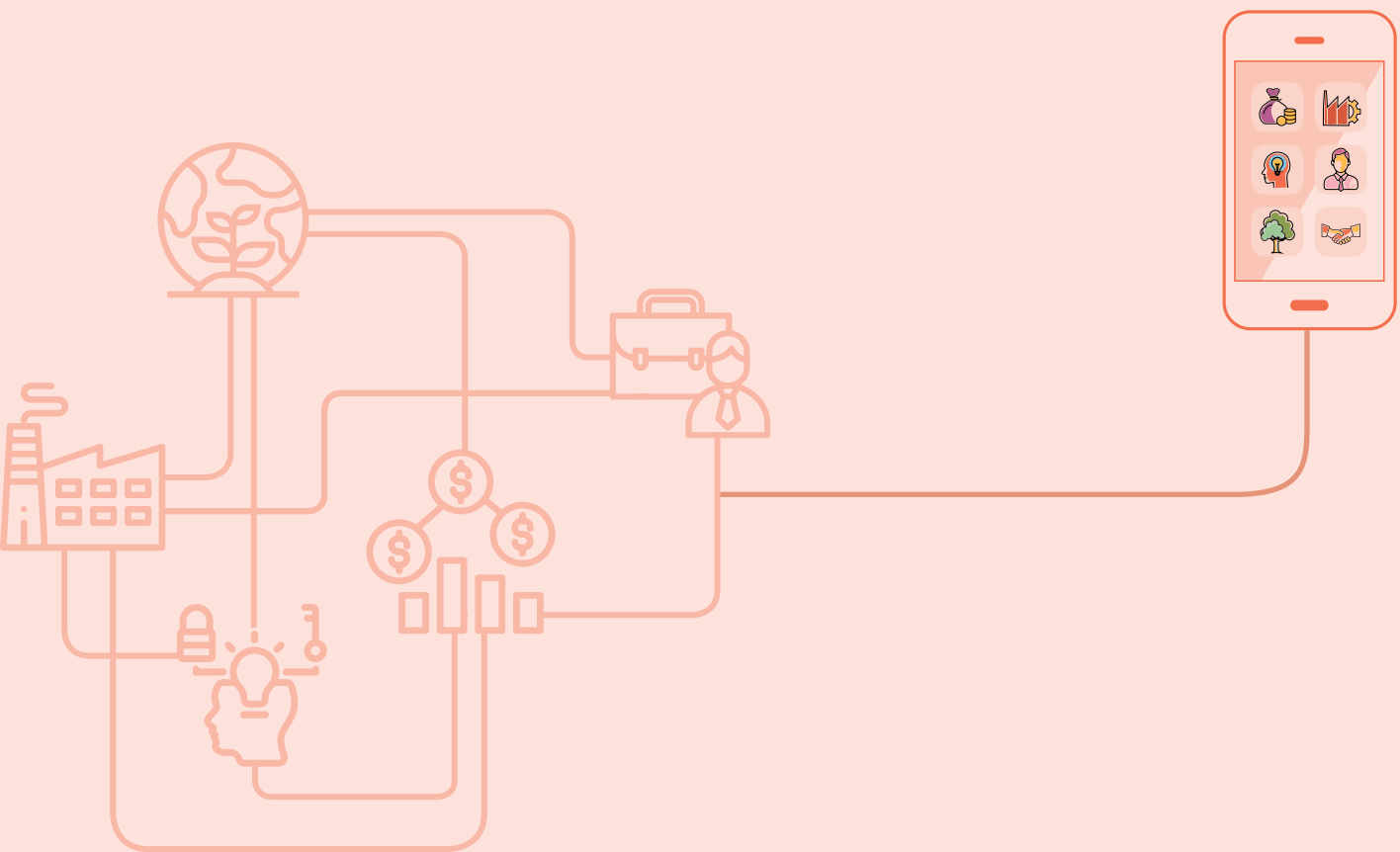
6%

 (w.e.f. November 2018)

7.5% in 2017 | ▼ 20%

Capital Management Reports

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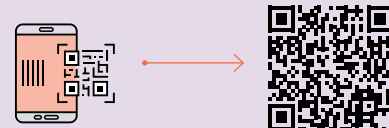


FINANCIAL CAPITAL



"The new Accounting Standard, SLFRS 9 (Financial Instruments) came into effect from 1st January 2018, in place of the previous Accounting Standard LKAS 39 (Financial Instruments: Recognition and Measurement)."

Scan this QR code for a more comprehensive view of our Management Approach on Financial Capital
www.sampath.lk



"The new standard introduces a new classification approach for financial assets and financial liabilities in line with the business model in which they are managed and their cash flow characteristics."

Change in Accounting Standards

The new Accounting Standard, SLFRS 9 (Financial Instruments) came into effect from 1st January 2018, in place of the previous Accounting Standard LKAS 39 (Financial Instruments: Recognition and Measurement).

Replacing the "incurred credit loss" method prescribed by LKAS 39 in calculating the impairment on financial assets, SLFRS 9 uses the forward looking "expected credit loss" method (ECL). The new standard also introduces a new classification approach for financial assets and financial liabilities in line with the business model in which they are managed and their cash flow characteristics.

SLFRS 9 offers two options, i.e. retrospective method or modified retrospective method, for the preparation of financial statements when adopting the standard for the first time. Being the first year of adoption of the SLFRS 9, Sampath Bank chose the modified retrospective method to prepare financial statements for the year ended 31st December 2018 as the SLFRS 9 allows an entity to restate prior periods, if and only if the restatement is possible without the use of hindsight. Under this method the comparative figures are not restated. Instead the standard requires a disclosure of the impact of adopting SLFRS 9 on the Statement of Financial Position and retained earnings and restate the opening balances as at the transition date, 1st January 2018. The disclosure is made under a separate note in the financial statements (Note 6 - Transition Disclosure) and includes the effect of replacing LKAS 39 incurred credit loss calculations with SLFRS 9 expected credit loss (ECL) calculations. Since prior period figures have not been restated to match with the current year's presentation, the figures shown in the Financial Statements for the year 2018 and 2017 are not comparable.

Day 1 Impact

The day 1 impact to the Bank on implementation of SLFRS 9 amounted to Rs 2.1 Bn. Therefore the retained earnings brought forward from

31st December 2017 which amounted to Rs 6.1 Bn was adjusted as at 1st January 2018 by charging Rs 2.1 Bn. As a result, the restated retained earnings brought forward as at 1st January 2018 reduced to Rs 3.9 Bn.

Quarterly Reporting

Although SLFRS 9 was effective from 1st January 2018, the Institute of Chartered Accountants of Sri Lanka issued a Statement of Alternative Treatment (SoAT), granting the option to continue the application of LKAS 39 for the preparation of the interim financial statements. As permitted by the above SoAT, the Bank's quarterly financial statements for the first three quarters have been prepared based on LKAS 39. However quarterly financial statements for the fourth quarter have been prepared applying SLFRS 9 and hence the resultant additional provisions have been charged to the fourth quarter.

Income Statement Analysis

Gross Income

The Gross income of the Bank improved by Rs 22.7 Bn from Rs 92.6 Bn in 2017 to Rs 115.3 Bn in the year under review, bolstered by both Fund Based Income (FBI) and Non-Fund Based Income (NFBI), which recorded year-on-year growth of 23.0% and 34.0% respectively. The net NFBI to Total Operating Income (TOI) ratio, which stood at 29.2% in 2018, reflected a marginal improvement over the previous year's ratio of 29.1%.

Net Interest Income (NII)

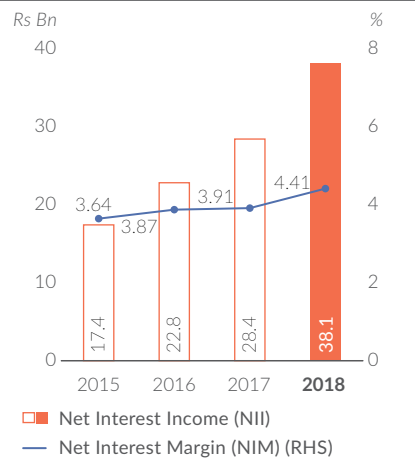
The Bank's NII, which stood at Rs 28.4 Bn in 2017, grew by Rs 9.7 Bn (34.2%) to touch Rs 38.1 Bn in the current year, supported by good growth in loans and advances coupled with timely re-pricing of the asset and the liability portfolios to overcome the pressure on net interest margins. Furthermore the Bank was able to shed certain large high cost deposits during the year thanks to approximately Rs 33 Bn worth of Tier I and Tier II capital raised during the last quarter of 2017 and in 2018, which in turn helped to improve the NII. Reduction of SRR from 7.5% to 6.0% with effect from 16th November 2018 also had a slight positive impact on NII. Meanwhile, despite stiff price competition, the Bank managed to improve its NIM from 3.91% in 2017 to 4.41% in 2018. The CASA ratio however declined from last year's 34.9% to 33.4% in 2018 due to faster growth experienced in term deposits.

Non-Fund Based Income (NFB)

Net fee and commission income, which largely comprises of credit, trade, card, operations and electronic channel-related fees, increased to Rs 9.9 Bn in 2018, from the Rs 8.2 Bn reported in 2017. This notable YoY growth of 21.6% was led by a solid increase in fee-based income generated through credit card operations and innovative value additions, especially electronic channel offerings.

Net gain from financial assets recorded a moderate growth of 10.7%, predominantly due to increase in dividend income earned from financial assets classified as "Fair Value through Other Comprehensive Income" (FVOCI), previously classified as "Available for Sale" (AFS). Other operating income too recorded a YoY increase of 164.8% in 2018, led mainly by an increase in realised exchange income due to the sharp depreciation of the Sri Lankan Rupee against the US Dollar. Consequently, other operating income for 2018 increased to Rs 7.9 Bn, from Rs 3.0 Bn reported for the year before.

NII & NIM



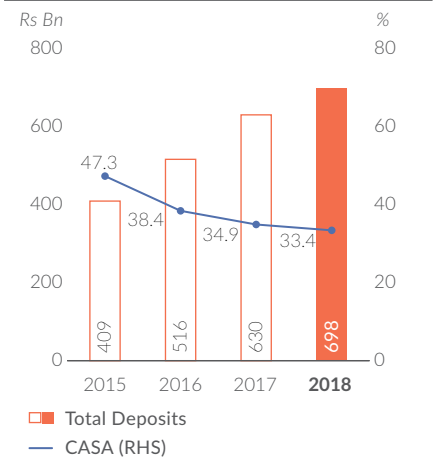
On the other hand, the Bank incurred a net trading loss of Rs 2.3 Bn as a result of mark to market loss suffered by forward exchange contracts following the Sri Lankan Rupee depreciating by Rs 29.40 against the US Dollar. Accordingly, the Bank earned a net income of Rs 5.5 Bn from its foreign exchange transactions.

Impairment Losses

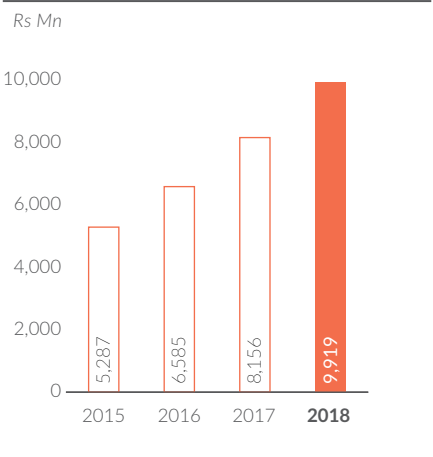
2018 was a challenging year for the Banking sector as many key sectors of the economy came under pressure. With most businesses seeing poor results right from the start of 2018, all banks including Sampath Bank began to experience non-performing advances growing in second and third quarters. Consequently, Sampath Bank's NPA ratio which stood at 1.64% as at 31st December 2017 went up to 4.25% by end of the third quarter in 2018, prompting immediate action to arrest the situation. Thanks to these proactive measures taken in a timely manner, the Bank's NPA ratio improved from 4.25% as at 30th September 2018 to 3.69% by the end of the financial year 2018.

The impairment charge against individually significant customers also went up from Rs 1.4 Bn in 2017 to Rs 6.2 Bn for the year ended 31st December 2018. The increase in the collective impairment from Rs 1.0 Bn to Rs 4.4 Bn is partly due to the

Total Deposits & CASA



Net Fee & Commission Income



aforementioned portfolio deterioration and partly due to the shift in provisioning models from incurred credit loss method to expected credit loss (ECL) method as prescribed by SLFRS 9. The additional provisions booked in 2018 against collective impairment due to migration into the ECL method is estimated to be around Rs 1.9 Bn.

In addition to recognising collective impairment against loans and advances, SLFRS 9 also requires building up provisions against investments in other banks, investments in debentures, investment in government securities issued in foreign currency (Sri Lanka Development Bonds etc.) and financial

"Sampath Bank's total asset base which stood at Rs 795.1 Bn as at 31st December 2017 crossed the Rs 900 Bn mark for the first time in its history and ended up at Rs 914.2 Bn as at the year end. This YoY growth of 15% stood above the industry-wide asset growth of 14.6% for the same period."

NET INTEREST MARGIN

4.41%

3.91% in 2017 | ▲ 13%

liabilities such as guarantees, LCs, acceptance and other undrawn loan balances. Accordingly, impairment provision against above categories attracted an additional provision of Rs 665 Mn for 2018.

Operating Expenses

Total operating expenses recorded a growth of 14.1% in 2018, being the consequence of higher personnel expenses resulting from salary increments, increase in other expenses due to higher taxes and inflation, and increase in IT expenses owing to system upgrades, etc. However, it is noteworthy that growth in expenses remained well below the growth in total operating income (34.4%) for the year. This resulted in the Cost to Income Ratio (CIR) improving to end the year at 35.9% as against a CIR of 42.3% for 2017.

Taxation

Tax expenses continued to rise due to withdrawal of exemptions granted in income tax etc. Further the Bank was required to pay an additional sum of Rs 524 Mn in the last quarter due to the introduction of the "Debt Repayment Levy" (DRL) with effect from 1st October 2018. (The Bank's DRL liability for 2019 would exceed Rs 2 Bn.)

Meanwhile total tax expenses on account of FSVAT, FSNBT, DRL and Income Tax for 2018 amounted to Rs 11.1 Bn. This is 47.7% of the Bank's operating profit. This figure would be around 55% next year.

Profitability

The Bank recorded Rs 18.3 Bn in Profit before Tax (PBT), up by 10.5% against Rs 16.6 Bn earned in 2017. Profit after Tax (PAT) too grew marginally by 0.3% from Rs 12.10 Bn in 2017 to Rs 12.14 Bn in 2018.

ROA & ROE

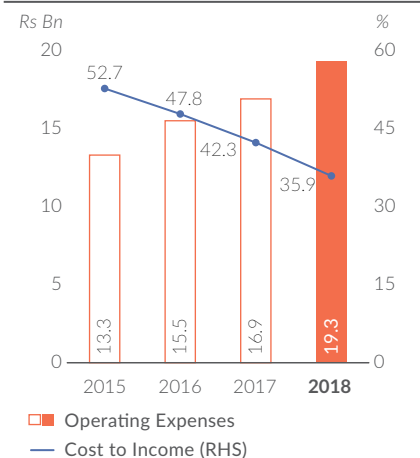
Return on Assets (ROA) before Income Tax for 2018 stood at 2.13%, slightly below 2.29% reported in 2017. The reduction in profitability on account of higher taxes and higher impairment charges discussed above also contributed to the reduction in the ratio. However, despite maintaining the same PAT, Return on Equity (ROE) declined, from 23.35% in 2017 to 16.02% in 2018, mainly due to the infusion of Rs 12.5 Bn to the equity base by way of a Rights Issue in April 2018.

Balance Sheet Analysis

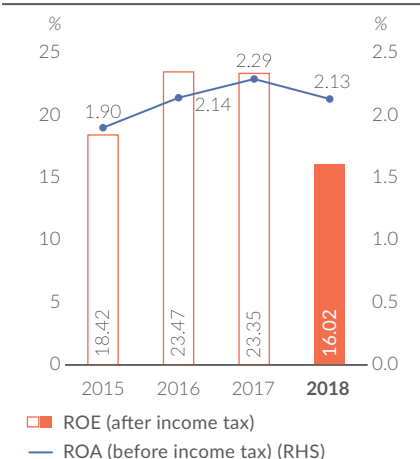
Total Assets

Sampath Bank's total asset base which stood at Rs 795.1 Bn as at 31st December 2017 crossed the Rs 900 Bn mark for the first time in its history and ended up at Rs 914.2 Bn as at the year end. This YoY growth of 15.0% stood above the industry-wide asset growth of 14.6% for the same period. The Bank's market share in terms of total assets improved from 7.73% in 2017 to 7.75% by the year-end. Growth in

Operating Expenses & Cost to Income



ROE & ROA



net loans and receivables amounting to Rs 87.1 Bn, was the main contributor to the aforementioned total asset growth. With the introduction of the new SLFRS 9 standard, financial assets classified under AFS and Held to Maturity (HTM) were reclassified under FVOCI and Amortised Cost categories. Meanwhile balances with CBSL decreased by 11.1% due to reduction in SRR from 7.5% to 6.0% with effect from 16th November 2018. Cash and cash equivalents also recorded a 14.7% reduction as at 31st December 2018 compared to the previous year end due to better cash management efforts adopted in 2018. At the same time placements with banks increased from Rs 3.2 Bn as at 31st December 2017 to Rs 8.7 Bn as at the balance sheet date.

Loan Growth

The Bank slowed down its loan growth during the year predominantly due to low credit demand. Also, with portfolio quality affected as a result of weak economic conditions, the Bank began consolidating its activities and gross loans, which stood at Rs 571.5 Bn as at 31st December 2017, grew by only Rs 99 Bn to reach Rs 670.3 Bn by end 2018. The Corporate loan book grew by 10.8% year-on-year, supported by lending to Manufacturing, Trading, IT and Healthcare sectors, while the SME and retail book grew by 11.6% year-on-year.

Liabilities

Sampath Bank's deposit base expanded by Rs 67.6 Bn during the year to reach Rs 698.1 Bn by 31st December 2018. At 10.7%, deposit growth was below the industry growth of 14.8% mainly due to a conscious effort to slowdown deposit mobilisation activities and also due to shedding certain high cost large deposits in the backdrop of the recent capital infusions. (It is noteworthy to mention that the Bank has the capacity and the required infrastructure to accelerate deposit mobilisation if and when the need arises.)

As a result of aforementioned slowing down in deposit mobilisation, the Advance to Deposit Ratio (ADR) increased from 90.7% in 2017 to 96.0% by the year end. This indicates that the Bank is less dependent on deposits to fund its loan growth in 2018 compared to 2017. Growth in term deposits (13.7%) outpaced the CASA growth of 5.8% in the year under review resulting in a slight reduction in the Bank's CASA ratio, which stood at 33.4% in 2018 as opposed to 34.9% in 2017.

Capital

As discussed in the previous year, the CBSL imposed BASEL III capital adequacy requirements on the Sri Lankan Banking industry with effect from 1st July 2017, with the full implementation taking place in three phases over a period of 18 months and completed on 1st January 2019. Therefore with effect from January 2019, Sampath Bank being a 'Domestic Systemically Important Bank' will be required to maintain its Tier I Capital Adequacy Ratio (CAR) at 10% and its Total CAR at 14%. In order to fall in line with these new regulatory requirements, the Bank raised Rs 7.6 Bn and Rs 12.5 Bn worth of Tier I Capital by way of Rights Issues in November 2017 and April 2018 respectively. A further Rs 6.0 Bn and Rs 7.5 Bn worth of Tier II Capital was raised by way of BASEL III compliant Debenture issues in December 2017 and in March 2018 respectively. Moreover, the Bank has already made an announcement to raise another Rs 5 Bn in early-2019 by way of a BASEL III compliant Debenture issue, with an option to go up to Rs 7 Bn, to strengthen its Tier II Capital further.

entities are not material to the Bank and hence a brief review of their operations are given in the section on Subsidiaries on page 104 of the Annual Report.

Performance of the Share

Sampath Bank's share price as at 31st December 2018 stood at Rs 235.00, which is a reduction of Rs 80.70 or 25.6% compared to the last traded price of Rs 315.70 at the end of 2017. The share price fluctuated between Rs 218.00 at the lowest and Rs 335.50 at the highest during the year. The performance of the share goes in line with the current market behaviour in the Colombo Stock Exchange, where the ASPI declined from 6,369 in 2017 to 6,052 by 31st December 2018. The Market capitalisation of the CSE too recorded a decline of Rs 60 Bn from Rs 2,899 Bn as at 31st December 2017 to Rs 2,839 Bn as at the year end.

Earnings per Share (EPS) for 2018 stood at Rs 45.13, 19.5% lower than the Rs 56.06 recorded in the previous year, mainly as a result of the new shares issued during the year due to Rights and Scrip Issues. Net assets value per share increased by 2.5% to Rs 300.42 per share in 2018 from Rs 293.02 per share in 2017.

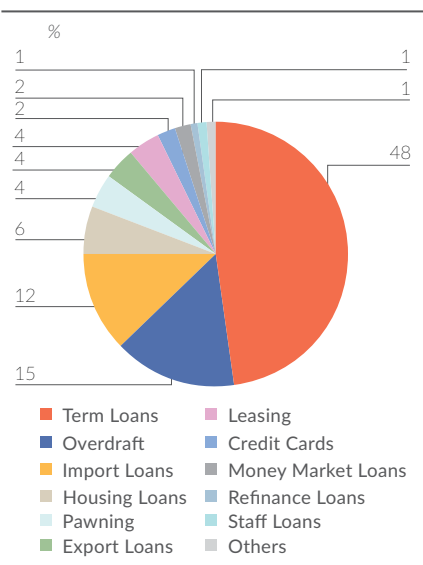
Dividend

Sampath Bank's Board of Directors has recommended a final dividend of Rs 16.25 per share to be paid for the financial year ended 31st December 2018. This will be paid by Rs 11.25 in the form of scrip dividend and the balance Rs 5.00 in the form of cash dividend subject to the approval of the shareholders at the Annual General Meeting to be held on 29th March 2019.

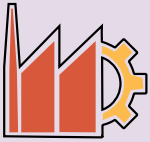
Group Performance

The Sampath Bank group consists of four fully-owned subsidiaries, viz; Siyapatha Finance PLC, SC Securities (Pvt) Ltd, Sampath Centre Ltd and Sampath Information Technology Solutions Ltd. But, given the scale of operations of the core business, the results of these four

Advance Mix



MANUFACTURED CAPITAL



"Having established a solid island-wide footprint, the focus in the past few years has shifted towards consolidating our presence by strengthening our branch banking proposition."

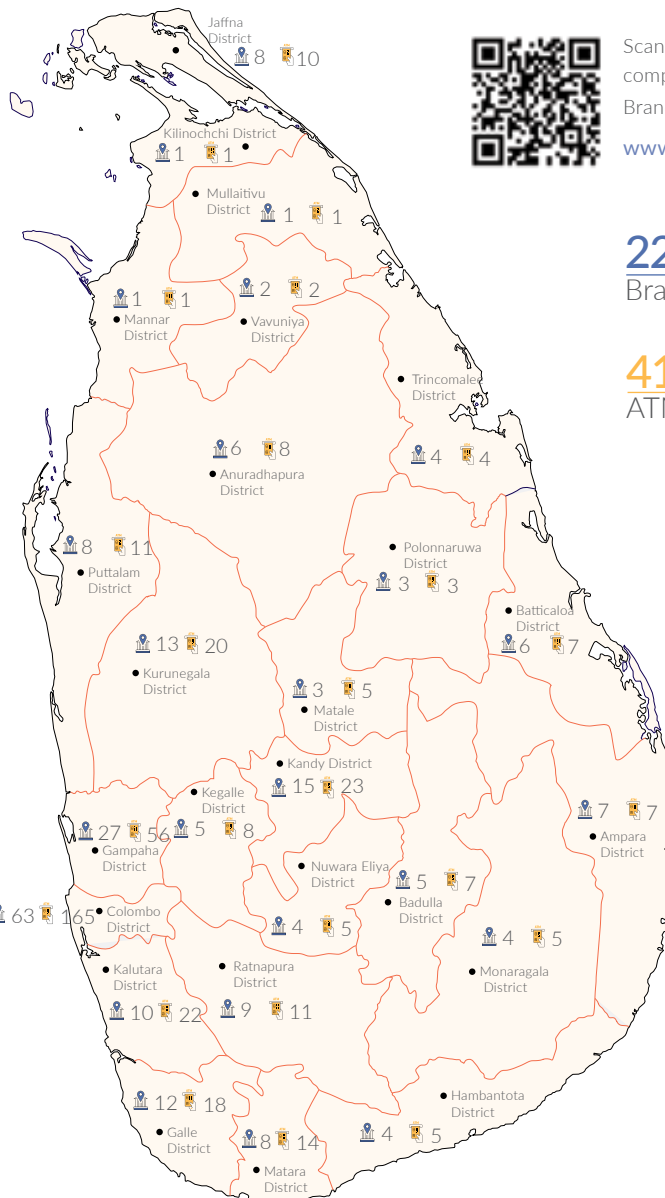
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Branch Network

With large segments of the country's banking still done the traditional way, our network of brick and mortar branches continues to remain a crucial part of our service delivery model. Over the years we have invested in building our network of physical branches, which now consists of 229 branches across the island, including 13 super branches located in high population density areas in the Western, North Western, Central, North Central and Southern Provinces.

All branches, including super branches function as fully-fledged branches equipped to provide the full range of banking products and services. However super branches offer the added advantage



Scan this QR code for a more comprehensive view of our Branch and ATM network
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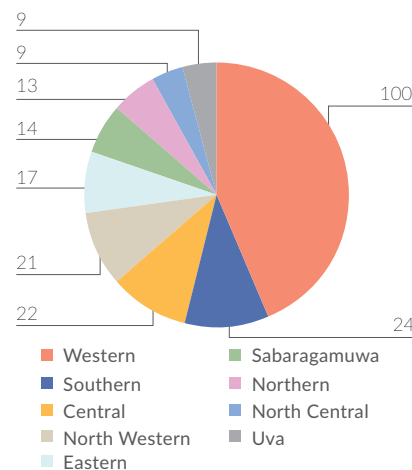
229
Branches



419
ATMs



Geographical Distribution of the Branch Network





Relocation of Negombo Super Branch

of extended banking hours as well as 365-day banking convenience.

Having established a solid island-wide footprint, the focus in the past few years has shifted towards consolidating our presence by strengthening our branch banking proposition. Taking the first steps in this regard, the program to install Deposit Kiosks was kicked off in 2016 and was successfully concluded in the year under review, with all 229 branches including 13 super branches being equipped with at least one Kiosk. Additional measures were taken to ensure that all new Kiosks were installed within the ATM cubicle to give the customer 24/7, 365-day access. As part of a broader initiative to increase the number of customer touchpoints, selected branches showing high transaction volumes were allocated two Kiosks. The physical renovation program that commenced in 2017 also continued throughout the year with 18 branches fully completed by end December 2018. The program was further extended to several departments at the head office as well.

In 2018 we embarked on a branch digitisation program spearheaded by the launch of the ground breaking new slipless-banking app aimed at eliminating the traditional paper-based

deposit/withdrawal slips offered by the branch for basic banking transactions. Following of the launch of the slipless-banking app in January 2018, a new equipment upgrade program was also rolled out to modernise all front-end equipment at branches. The other major development under the branch digitisation strategy was the digitisation of the document transfer system to enable all documents to be scanned and transmitted electronically between branches. Consequently the movement of physical files between locations has been largely eliminated, leading to increased operational efficiency, while the reduction in paper usage has contributed towards lowering costs.

ATM Network

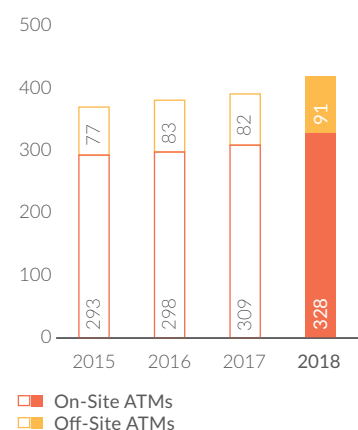
Since the late 1980s when Sampath Bank commissioned its first Automated Teller Machine in 1988 our network of ATMs has expanded across the length and breadth of the country. Despite having an extensive network of on-site and off-site ATMs, over the years we have remained firm in our endeavour to expand our reach, and in 2018 commissioned 22 new on-site ATMs and 6 off-site ATMs, bringing the total network as at 31st December 2018 to 419.

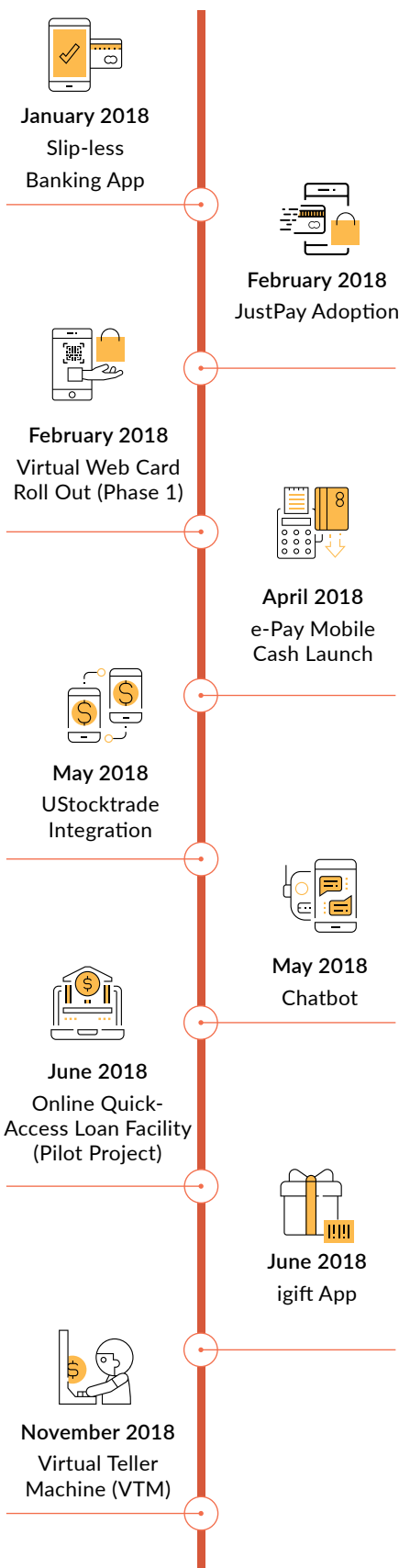
Aside from growing our network, in 2018 we also began focusing on minimising downtime and ensuring 99.99% availability at all times. As part of this strategy, a dedicated in-house team was appointed to carry out 24/7 network monitoring as well as forecast cash requirements for each machine, based on average daily transaction volumes. This information was shared with the service provider engaged by the Bank to manage the cash loading process in order to streamline cash availability at ATMs across the network.

Furthermore, having understood that ATMs are a key part of the customers' banking experience, we have over the years continued investing in next generation ATM technology to make it easier for the customer to handle a host of everyday banking needs. The key developments undertaken in 2018 was securing connectivity to the CAS network to allow Sampath ATMs to accept chip-based debit cards of other banks as well.

In another ground-breaking development, the Video Teller Machine (VTM) was deployed as a pilot project at the Head Quarters branch and Colombo Super branch in November 2018. The VTM platform was designed to link to the Bank's Customer Care Centre where a dedicated video teller assistant was assigned to direct the customer in carrying out a range of tasks including accounts opening, card issuing, etc., in addition to the usual ATM functions.

On-Site & Off-Site ATMs





Digital Channels

In direct correlation to the high levels of internet penetration, a dramatic change in customer behaviour has been observed in recent years, with growing numbers opting for the convenience of attending to their banking needs either online or through their mobile devices, rather than visiting a physical branch.

To capture a larger share of this digital customer segment, we are looking to develop ground breaking new banking solutions that enable customers to transact seamlessly across multiple touch-points. Underpinning our work in this regard is a broad-ranging digital strategy that continues to evolve in tandem with the global banking trends. The strategy leverages on the latest technological developments, and since its launch in 2016 has been responsible for several first-to-market products that have helped position Sampath Bank as the leading digital bank in Sri Lanka. In 2018 the strategy focused on expanding our digital channel architecture in order to increase the number of touchpoints which would help grow our outreach vis-a-vis the following;

January 2018 - Slip-less Banking App

The “slip-less banking” concept serves as an ultra-convenient option for the new-age banking customer unwilling to spend time queuing up at the branch. Through the “slip-less banking” App customers can deposit and withdraw cash without the need for filling out any forms. The “slip-less banking” App, available for download on both iOS and Android platforms is also expected to spearhead our journey towards becoming South Asia’s first paperless bank.

February 2018 - JustPay Adoption

Sampath Bank signed up with Lanka Clear (Pvt) Ltd to adopt the JustPay© network, which allows customers to make payments by debiting any bank account which is connected to the JustPay© network. This facility, which is available to Sampath Bank customers as well as

non-customers, allows users to simply scan the respective merchant’s QR code using their smart phone or device and seamlessly connect to the Sampath PayApp to make cashless payments below Rs 10,000 securely and in realtime.

February 2018 - Virtual Web Card Roll Out (Phase 1)

The Sampath Bank Web Card issuance process was digitalised in 2018 with the aim of improving customer convenience. With this enhancement customers can obtain a virtual Web Card online in realtime through the Sampath Vishwa portal. Once issued, users can access the virtual Web Card through Sampath Vishwa and use it for e-commerce transactions throughout the card validity period.

April 2018 - e-Pay Mobile Cash Launch

Tying up with the Department of Posts Sri Lanka, the Bank unveiled e-pay Mobile Cash, a revolutionary service that leverages the network of over 4,600 post offices, sub-post offices and 419 Sampath Bank ATMs around the island to enable real time money transfers securely and conveniently without the use of physical cash. The initiative is in line with the Government’s efforts to transform conventional services using digital technology that would spearhead the country’s migration to a cash-less society in the years ahead.

May 2018 - UStocktrade Integration

Enabling Sampath Bank’s Personal Foreign Currency (PFC) account holders to link their PFC account to the UStocktrade mobile app and use it to make payments when trading in securities listed on stock exchanges across the USA through the UStocktrade app.

May 2018 - Chatbot

The most recent addition to the Bank’s digital channel infrastructure is SAM, an AI (Artificial Intelligence) powered Chatbot made available on the Bank’s corporate website and on Facebook Messenger and other messaging platforms. Equipped with

"The Bank's investment in VTMs is part of a long term strategy aimed at migrating to a more cost effective virtual branch model."

advanced interactive features enabled by Microsoft Cognitive Services' Application Programme Interfaces (API), SAM is capable of responding to a wide array of customer queries related to their bank accounts, credit and debit cards, loans, leasing and pawning facilities. In addition it is able to provide customers and others with general information on any of the services offered by the Bank. As part of the first phase of the roll out, SAM was made available only in English, with plans underway make it trilingual in the near future.

June 2018 - Online Quick-Access Loan Facility (Pilot Project)

The project aims to provide long standing Sampath Bank customers access to credit quickly and easily by applying for an online loan facility by logging through Sampath Vishwa. The loan will be granted subject to the pre defined parameters. Customers have the liberty to choose the value, the repayment period within the given parameters.

June 2018 - igift App

igift is a revolutionary concept developed in-house using the latest globally accepted block chain technology to create a framework to facilitate person-to-person gifting. Any Sampath Bank account holder can download the igift App on iOS and Android, and use the platform to create a customised gift certificate for any amount between Rs 100 to Rs 10,000 per gift, up to a maximum of Rs 100,000 per day. Meanwhile recipients who have the App installed on their smartphone will receive an in-app notification regarding

their igift, with instructions on how the gift can be retrieved. In the event the recipient does not have the App on their phone, they will receive a SMS notifying the receipt of the gift. Gift can be credited to a bank account (either a Sampath Bank Account or another bank account) at the discretion of the holder.

November 2018 - Virtual Teller Machine (VTM)

Continuing to break barriers in banking technology, Sampath Bank pioneered Sri Lanka's first-ever VTM at the Colombo Super branch. The VTM's advanced functionality supports a range of banking needs, from simple transactions such as cash deposits, withdrawals and cheque deposits to more advanced functions such as fund transfers, issuing of debit cards and opening of accounts. In addition customers can use the VTMs built-in phone receiver to connect directly to the Bank's Customer Care Centre and request for and receive additional information or assistance realtime. Equipped to handle over 70% of the functions of a physical branch, VTMs have the added advantage of 24/7, 365-day availability.

The Bank's investment in VTMs is part of a long-term strategy aimed at migrating to a more cost effective Virtual Branch model.

IT Infrastructure

While our position as an industry legend does provide Sampath Bank with a significant operating advantage, we continue to face a new reality where the country's banking industry landscape today is changing rapidly with new players taking bold steps to get ahead. Adding to this is the threat of Financial Technology (FinTech) companies encroaching into our territory as their various technology-based financial payment platforms, etc. gain traction among digital-savvy customers. Counteracting these growing competitive pressures has become an overarching priority, prompting Sampath Bank to look more and more towards

digitalisation in order to generate cheaper-better-faster solutions that would serve as a key competitive lever. Having embarked on this path a few years ago, we have invested heavily over the past three years to strengthen our IT backbone.

To further expedite our digital transformation, the new digital strategy was rolled out in the early part of 2018, outlining the key thrust areas that the Bank would broadly focus on over the next three years. Within this framework, the emphasis for 2018 was to simplify processes and create a more agile operational structure that would drive productivity and lower costs.

Several important steps were taken in this regard, most notable among them; the digitalisation of the customer on-boarding process for accounts opening, which represents phase 2 of the e-signature initiative rolled out in 2017. To facilitate the digital migration, the relevant module was modified to allow all account opening formalities to be completed by accessing the special quick links given in the corporate website, with customers only required to present themselves at the branch for the KYC verification process.

As part of the same effort, the credit card application process and the LC opening process were both digitised, with all customer information being digitally archived in a secure environment and made accessible internally to relevant staff through the FileNet data sharing platform.

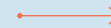
Steps were also taken to digitise the FD receipt issuing mechanism following which no physical documents being issued. Introduction of e-receipts for FDs was launched as an early adoption method for digitising customer transactions.

INTELLECTUAL CAPITAL



"Sampath Bank's Intellectual Capital is largely responsible for upholding our reputation as one of the country's top-tier banks in every aspect."

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"With the new strategy expressly focusing on increasing the concentration on digital marketing, a digital marketing agency was appointed to sharpen the brand coverage in the digital space."

Sampath Bank's Intellectual Capital is largely responsible for upholding our reputation as one of the country's top-tier banks in every aspect.

We have identified four material topics deemed critical in managing our Intellectual Capital and dedicate considerable resources each year to increase the capacity of these intangible assets.

Material Topics	Focus Areas for 2018
Brand Equity	Building Brand Equity
Business Continuity Planning	Broadening the Policy Framework
Ethics and Integrity	Strengthening the Culture
Research and Development	Strengthen Cybersecurity Governance

Highlights for 2018

Building Brand Equity

Primary Objective:

Build a distinct brand identity that would give Sampath Bank a leading edge in Sri Lanka's increasingly competitive Banking Industry.

Improving the alignment with brand guidelines

As a follow up to the launch of the corporate brand guidelines in 2017, a series of training sessions were held for employees along with several workshops to ensure all stakeholders remain aligned with the new brand guidelines.

Launch of a digital marketing strategy

A new digital marketing strategy was rolled out in mid-2018, as part of a broader effort to position Sampath Bank as the leading digital bank in the country by 2020. With the new strategy expressly focusing on increasing the concentration on digital marketing, a

digital marketing agency was appointed to sharpen the brand coverage in the digital space. To further complement this effort, a dedicated social media command centre was set up in-house, to offer 24/7 support for any issues that may have an impact on the brand image.

Broadening the Policy Framework

Primary Objective:

Promote globally accepted best practices in the day-to-day business.

Complying with the new Code of Best Practice on Corporate Governance issued by CA Sri Lanka

All new guidelines issued by the CA Sri Lanka pertaining to the Corporate Governance Code were adopted, with required changes being made accordingly. Stemming from these changes, the scope of several existing policies were also increased, most notable among them

being the amendments made to the Whistle Blowing Policy and the Policy on Communication.

Strengthening the Culture

Primary Objective:

Reinforce the commitment to ethics and integrity by keeping abreast of new developments in the banking industry.

Awareness-building workshops

A series of workshops were held to create board level awareness regarding the anti-money laundering regulations. The workshops, which saw the participation of all Board members, were conducted by the Financial Information Unit of the CBSL.

Strengthen Cybersecurity Governance

Primary Objective:

Safeguard against potential cybersecurity attacks and thereby minimise risk to the Bank's reputation.

Alignment with CBSL baseline standards

Aligning with the new CBSL baseline standards for early 2018, cybersecurity was deemed the major priority for the year. While much of the requirements under the new standard were met through the ISO 27001 (Information Security Management) recertification process, the remaining gaps were addressed accordingly. The most significant new development in this regard was the appointment of a new Information Security Officer. A new reporting line was created to ensure the Information Security Officer reports directly to the Group Chief Risk Officer regarding the Bank's sensitivity and risk appetite towards cyber security threats at any given time. In addition, with effect from 01st May 2018, a new Data



"Punkalasa" (Prosperity Pot) - A sign of good luck and abundance

Governance Unit (DGU) was established, with handling of data security and managing the integrity of existing data being brought under the purview of the DGU.

Cybersecurity Audit

Going beyond the CBSL's baseline standards for cybersecurity, an independent third party was commissioned to conduct a quarterly audit of the Bank's cybersecurity systems. Two such audits were conducted for the quarters ended 30th June and 30th September 2018.

"Going beyond the CBSL's baseline standards for cybersecurity, an independent third party was commissioned to conduct a quarterly audit of the Bank's cybersecurity systems."

HUMAN CAPITAL



"We continue to systematically invest in developing our employees to ensure they stay connected to the Bank's core purpose."

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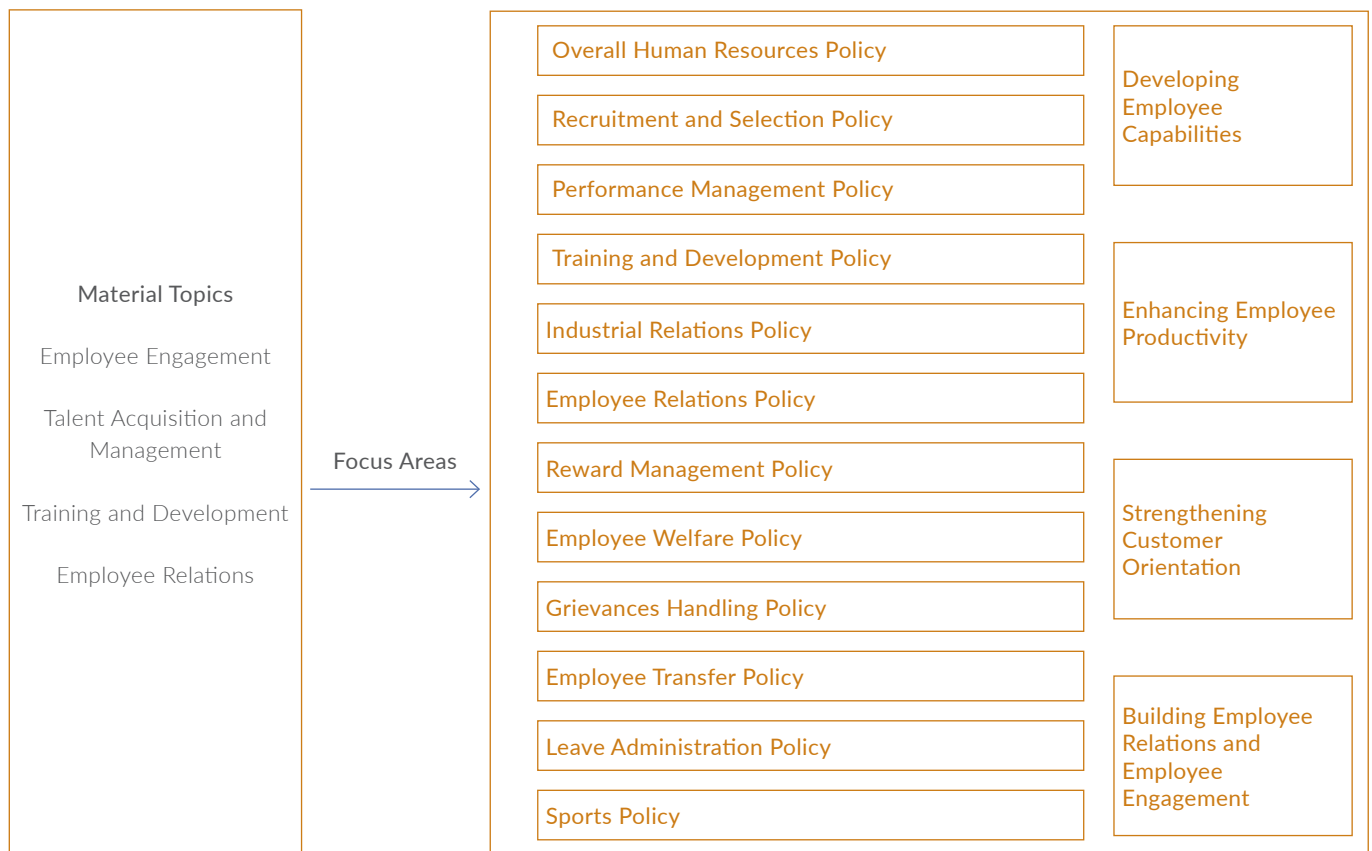


Being a bank, our human capital, Team Sampath, is our most valuable asset, for it is they who are entrusted with delivering the Sampath Value Proposition to the customer and in doing so also tasked with realising the Bank's goals and objectives. Hence we continue to systematically

invest in developing our employees to ensure they stay connected to the Bank's core purpose.

We have identified four material topics deemed critical in managing our human capital and have put in place a

comprehensive policy framework with the aim of developing a reliable, well-trained and highly-capable workforce that the Bank can leverage on, to execute its strategy and continue to stay ahead of peers.





We Foster and Promote the Talents of Our Team

My Bank identified my true potential from the day I became a part of the Sampath family. The support I received from the Bank and the Management gave me the strength and the courage to face challenges as an employee and a sportsman to reach the pinnacle of my career as a cricketer. On my retirement from the National Cricket Team, my Bank welcomed me, accepting not only my achievements, but me as one of its unique members. Today, I am proud to say that I am a member of this great Sampath family.

Rangana Herath
 Manager - Business Promotions

Highlights of 2018

Developing Employee Capabilities

Implementation of the Training Master Plan

The Bank invested Rs 70.4 Mn during 2018 to develop competencies of team members to support them in their present job roles as well as to prepare them for higher responsibilities in future.

In this regard, a total of 131,788 training hours were completed through internal, external, overseas training, e-learning and distance learning.

Rollout of a Training Track

This new initiative was introduced in 2018 in order to enhance the competency level of senior team members of branches including Branch Managers, Assistant Branch Managers, Accounts Opening Officers, Cash Officers and Pawning Officers. The Training Track ensures that the Branch Management Team receives extensive training to enable them to excel in their respective job roles, in turn facilitating greater career mobility within the Bank. Upon completion of the programme, each participant receives a Certificate of Competence confirming the level of training. Following its launch in May 2018, 490 were on-boarded to the Training Track, of whom 58 have already been certified in their respective areas.

Sampath Leadership Academy

Sampath Leadership Academy provides training opportunities for employees in order to groom them to take up leadership roles in the future. In the year under review, a group of 16 team members from the Senior Management were sponsored to attend the Leadership Development Programme conducted by Asian Institute of Technology (AIT), Thailand, while another two team members in Corporate and Senior Management categories were granted scholarships for a Leadership Programme at Harvard Business School, Boston, USA. A further 215 team members ranging from Middle Management to Corporate Management were exposed to Leadership Development Programmes conducted internally and various other external institutions.

Executive Talent Development Programme (ETDP)

In existence for the past four years, the ETDP creates a platform for team members in Senior Executive to Senior Manager grades to sharpen their strategic insights and strengthen their leadership skills. Team members who sign up for the ETDP will also benefit from a personal Career Development Plan, which provides broad career goals over a three-year time frame.

Developing Credit Competency

A series of 12 three-day courses were conducted during the year to develop the credit competency of team members. Covering essential areas of credit, the programme aims to create a pool of team members to be deployed for credit related assignments within the branch network as and when required. A total of 238 team members participated in the programme, of whom 150 have already been certified. Over 90% of Branch Managers/Assistant Branch Managers completed the specially designed online certification programme in credit.

In addition to the above, a series of programmes focusing mainly on SME credit were also conducted for Credit Managers and Officers of the Business Support Centre and other Business Units covering 463 team members.

Enhancing Employee Productivity

Structural Changes

As part of a broader effort to encourage branch staff to focus on business growth, four new Regional Managers were appointed to strengthen the branch network.

"The Bank extends its hands to differently-abled team members, providing them equal opportunity to collaborate with the rest of the team members."

Digitalisation of Business Processes

Digitalisation has enabled the Bank to minimise repetitive tasks carried out by our team members, creating opportunities for them to be deployed for more value adding functions. There were 21 processes considered for digitalisation during 2018.

Multi-Skilling Programme to Drive a Higher Branch Bench Strength (BBS) Score

This broad-based multi-skilling programme was rolled out in order to improve the cross-functional capacity of branch staff. Consequently the Branch Bench Strength (BBS) score moved from 2.58 in 2017 to 2.63 in 2018.

Helping Education

The Bank sponsors for Masters Degrees and other professional qualifications accepted by the Bank. This also includes providing full sponsorships for the Professional Banking Exams conducted by institutes recommended by the Bank. In addition to the Rs 70.4 Mn investment on training, the Bank has invested a total of Rs 18.6 Mn for this purpose.

Strengthening Customer Orientation

Expanding the Scope of the Customer Care Centre (CCC)

Following the strategic transformation of the Call Centre operation into the Customer Care Centre in 2017, efforts for 2018 focused on streamlining the CCC's activities. The CCC was brought

under the purview of the HR Department, with several staff reassignments made to strengthen capacity. A separate team was appointed to handle customer inquiries received through social media and other sources. A new team was also carved out under the CCC and tasked with outbound operations, a strategy that delivered the highest cross selling results across all units within the Bank.

Creating a Sales Focused Team

A specially designed training programme on 'Creating a Selling Culture' was launched in the year 2018. The programme was aimed at reinforcing the customer-centric mindset among front end staff, which would ultimately help meet the Bank's customer satisfaction goals for the year.

In parallel, a new initiative titled 'Lead to Serve for Assistant Branch Managers' was also rolled out.

Both the above initiatives consisted of eight training programmes and covered a total of 379 team members.

In addition to the above, another 164 team members were covered on the areas of customer service and selling skills through different training interventions.

Building Employee Relations and Promoting Employee Engagement

HR Business Partner

The HR Business Partner Programme continued to gather momentum in 2018. Under phase one of the initiative, over 60% of the branch network was covered. The objective of the programme is to strengthen two-way communication and offer HR support to assist Regional Management towards achieving business targets by effective implementation of HR policies and procedures in the branches under their purview.

Sampath Bank Employees' Association (SBEA)

The SBEA, which comprises over 98% of Team Sampath, is a key pillar of our employee relations framework. Although

no formal agreement exists between the two parties, the Bank continues to maintain strong relations with the SBEA.

Health and Wellbeing

Regular programmes as well as special activities to uplift the health and well-being of Team Sampath continued throughout 2018, most notably the Health and You e-magazine on health related topics, e-communications on health and wellbeing and the 'Helping Hands' counselling cell, which provides psychological support for personal, family and work related issues. A special Yoga and first-aid programmes were also conducted.

Improvements were made to the 'My Doc' platform to ensure team members receive weekly consultation schedules of nominated General Physicians, enabling them to reserve online consultation appointments ahead of time using 'My Doc'.

Meanwhile with the view to encourage employees to develop the habit of exercising, two virtual walk challenges were conducted during the year, one as an individual challenge and the other as a team effort.

Furthermore, the following special initiatives were introduced during the year for the benefit of all members of Team Sampath:

Never Give Up; Internal Cancer Fund Raising Project

The Sampath Bank Staff Welfare Society together with the Sampath Bank Employees' Association conducted a joint fund raising project to raise funds for cancer treatments of team members. This

- Critical illness fund to the value of Rs 25 Mn
- Cancer fund to the value of Rs 25 Mn
- Annual health screenings for employees



Sampath Achievers Awards 2018 at Vision 2020 Briefing

"Vision 2020 briefing was a specially designed event to share the Bank's strategic vision with Team Sampath which also included the 'Sampath STARS Achievers Awards - 2018.'"

initiative is independent of the Rs 25 Mn Cancer Fund established by the Bank. The project was kicked off with a 'Cancer Awareness Walk', followed by a carnival on 24th November 2018 held at the Thurstan College Grounds in Colombo.

The event was graced by Sampath Bank Chairman, Mr Channa Palansuriya and Managing Director, Mr Nanda Fernando along with the Corporate and Senior Management, with over 3,000 participants.

Vision 2020 Briefing

A forum chaired by Managing Director, Mr Nanda Fernando, the Vision 2020 briefing, was a specially designed event to share the Bank's strategic vision with Team Sampath. The inaugural event for Executive and higher grades was held on 19th May 2018 at Hilton Colombo with a participation of over 1,000 team members. The ceremonial event also included the 'Sampath STARS Achievers Awards - 2018', which recognised outstanding performance at branch, department and individual level during the year 2017. At the event, a further 43 team members of the Bank were felicitated with a memento and a commemorative gold sovereign in recognition of their 25 years' of service.

The second event was held on 27th October 2018 at Sri Lanka Exhibition and Convention Centre with the presence of the Chairman, Managing Director and the Corporate Management. Over 2,800 members of Team Sampath were present at this awe-inspiring evening.

Tea with MD

Another new initiative to provide branches and departments the opportunity to meet the Managing Director to discuss business matters. The first such session was held with the Legal Department, followed by the Recoveries Department and Business Support Centre.

Yammer

This is a dedicated social media platform for employees through which they can connect with the colleagues and share ideas, personal success stories, etc. Yammer further serves as a platform to host policies and procedures relating to operations and other areas. Employees can also use Yammer as a channel to seek assistance for business related matters that they may face at work and receive prompt solutions and feedback from respective business units.

'Sampath Smile' Campaign

An internal communication campaign was developed in line with the Managing Director's vision to encourage employees to embrace a warm and friendly demeanour as a part of their identity. The campaign was implemented vis-a-vis the 'Sampath Smile Selfie' competition encouraging all staff to use Yammer to share "team selfies" with what they believe represents the 'Sampath Smile'. The best 'Sampath Smiles' were selected based on the highest number of "likes" received for the team selfies posted. Accordingly, first, second and the third places were recognised and rewarded.

Sports and Recreation

National level sportsmen and women of Team Sampath have been provided the opportunity to have a balanced career in both sports and banking.

Further, the Bank extends its hands to differently-abled team members providing them equal opportunity to collaborate with the rest of the team members and one of them represented the Sri Lanka Deaf Cricket Team and emerged as champions at the inaugural Deaf ICC T20 World Cup 2018.

The Bank has a robust activity calendar available for employees. The highlight for the year was the Inter Region/ Department Six-A-Side Cricket Tournament 2018 held on 8th September 2018 at the Thurstan College Grounds amidst a large gathering of Sampath Team Members. A total of 34 cricket teams, including ladies teams participated in the event, displaying sportsmanship and team unity.

The Bank's 28th Inter Branch/Department Quiz Competition was held on 8th April 2018 with the participation of 159 teams which included over 800 team members.

In addition, the Bank organises events to provide members of Team Sampath the opportunity to pursue their interest and showcase their talents.

HUMAN CAPITAL

Sampath Talents Glowing in the Mercantile Arena

Sport	Achievement
Athletics	<ul style="list-style-type: none"> Emerged as overall 3rd at the 35th Mercantile Athletic Championship 2018. Sampath Bank Athletic Team won 19 Gold Medals, 20 Silver Medals, 28 Bronze Medals Sampath Bank Athletes who represented Mercantile Athletic Team won 34 medals at the 38th National Masters Athletic Championship 2018 – India
Football	<ul style="list-style-type: none"> Emerged as 'Runner-up' at the Mercantile Knock-Out Football Tournament 2018 (B Division), organised by The Mercantile Football Association (MFA)
Basketball	<ul style="list-style-type: none"> Emerged as '1st Runner-up' at the 28th Mercantile League Basketball Championship 2018 (C Division)
Netball	<ul style="list-style-type: none"> Emerged as 'Champions' at the Mercantile League Netball Tournament 2018 (Division B) Emerged as 'Champions' (B Division) and '2nd Runner Up' (Mixed Division) at the Mercantile Knockout Netball Tournament 2018
Badminton	<ul style="list-style-type: none"> Emerged as '3rd Place' at the 35th MBA Inter-Firm Team Badminton Championship 2018 (B Division) Emerged as '2nd Runner-up' at the 8th MBA Inter-Firm Doubles Team Championship 2018 (Plate Category)
Swimming	<ul style="list-style-type: none"> Won 4 medals in Novices (Men's Category) at the Mercantile Swimming Championship 2018
Hockey	<ul style="list-style-type: none"> Emerged as 'Champions' at the 42nd Annual Seven-A-Side Hockey Tournament 2018 (B Division)

The Bhakthi Geetha Recital is one such event organised by the Sampath Bank Buddhist Association every year. 'Sampath Bathi Gee Saraniya - 2018' was held at Rangiri Dambulu Uyanwatte Rajamaha Viharaya with a live telecast through media.

The Colours Night and Sampath Night were held on 20th April 2018 and 1st December 2018 respectively.

Benefits Shared Among the Entire Team

Performance Based Bonus Scheme (PBBS)

This team based bonus scheme recognises the efforts of Team Sampath based on assigned team targets, enhancing the performance based work culture. In 2018, the maximum bonus amount was granted to 80% of team members.

Medical Facilities for Team Members and Their Families

A comprehensive Medical Scheme is available for outdoor treatments and hospitalisation for team members and their families.

Work Life Balance

A holiday allowance is granted by the Bank to team members to promote them utilise their annual leave entitlement to ensure work life balance.

Other Benefits Provided by the Bank

Among many other facilities provided by the Bank, housing and vehicle loan facilities are provided to team members on concessionary rates. Further Emergency, Medical and Educational loans are also provided to team members. In addition to the above, team members are protected under 24x365 personal accidental cover.

Team members are also covered under a Pension Scheme and those who are not considered under this scheme are covered under a Pension Insurance Scheme where the Bank provides a portion of the premium.

A 13% salary increase was granted by the Bank for employees in the year 2018.

The Bank provides a special death gratuity in the event of a death of a team member.

Statistics

Profit per Employee

Rs 1.5 Mn

2015

Rs 2.3 Mn

2016

Rs 3.0 Mn

2017

Rs 2.9 Mn

2018

Retention Ratio

97.0%

2015

96.5%

2016

97.7%

2017

98.0%

2018

Key Highlights

- 1:1 Backup Ratio for Key Managerial Positions.
- 228 internal promotions to team members during the year 2018.
- Effective succession planning with over 95% of vacancies in senior grades filled internally.
- Retention ratio at 98.0%.
- Average profit per employee : Rs 2.9 Mn.
- Zero industrial disputes.
- Over 50% of training through distance learning and e-learning enhancing the learning experience and maximising customer convenience.
- Total training hours : 131,788
- Investment on training : Rs 70.4 Mn.

Human Capital

GRI 401-1

New Recruits 2018

New Recruits - Age Group and Gender

Age Group	Male	Female	Grand Total
18-20	25	7	32
21-30	160	117	277
31-40	8	2	10
41-50	1	1	2
Above 50	1	-	1
Grand Total	195	127	322
Percentage [%]	60.6	39.4	100

New Recruits - Region and Gender

Province	Male	Female	Grand Total
Central Province	2	2	4
Eastern Province	12	2	14
North Central Province	7	1	8
North Western Province	5	6	11
Northern Province	6	1	7
Sabaragamuwa Province	6	2	8
Southern Province	7	4	11
Uva Province	-	4	4
Western Province	150	105	255
Grand Total	195	127	322
Percentage [%]	60.6	39.4	100

Turnover 2018

Turnover - Age and Gender

Age Group	Male	Female	Grand Total
Above 55	-	-	-
51-55	2	7	9
41-50	4	8	12
31-40	19	25	44
21-30	45	30	75
18-20	4	-	4
Grand Total	74	70	144
Percentage [%]	51.4	48.6	100

Turnover - Region and Gender

Province	Male	Female	Grand Total
Central Province	6	4	10
Eastern Province	6	-	6
North Central Province	1	-	1
North Western Province	3	3	6
Northern Province	4	1	5
Sabaragamuwa Province	3	-	3
Southern Province	4	5	9
Uva Province	3	-	3
Western Province	44	57	101
Grand Total	74	70	144
Percentage [%]	51.4	48.6	100

HUMAN CAPITAL

Reasons for Turnover vs Gender

Reason for Turnover	Male	Female	Grand Total
To Join other Competitor Organisations	9	5	14
To Join other Organisations	11	8	19
Migrations	23	16	39
Higher Studies	10	3	13
Personal Reasons	12	25	37
Retirements	3	9	12
Other	6	4	10
Grand Total	74	70	144
Percentage [%]	51.4	48.6	100

Employee Relations 2018

GRI 401-3

Return to Work and Retention Rates after Parental (Maternity) Leave

Description	2018	2017
Employees Entitled to Maternity Leave	1,459	1,401
Employees Obtained Maternity Leave	119	112
Employees Returned to Work after Maternity Leave	118	110
Employees Still Employed 12 Months after Taking Maternity Leave	117	108
Return to Work Rate [%]	99.2	98.2
Retention Ratio [%]	98.3	96.4

Lost days and absenteeism due to health and safety issues - None

Competency Area Wise Summary 2018

No.	Competency Area	Number of Participants	Training Hours
[1]	Operations (Cash/Accounts Opening/Pawning/Cheques/Clearing/Credit Cards)	633	5,713.5
[2]	Credit and Recoveries (Credit/Recovery/SME/Micro Finance)	841	12,662.2
[3]	International Operations (Trade/Foreign Currency Operations)	321	1,591.0
[4]	Risk and Compliance (AML)	561	4,243.5
[5]	Finance and Accounting	168	1,425.5
[6]	Marketing (Products/Branding)	8	112.0
[7]	Human Resource Management (HR related)	25	246.0
[8]	Legal and Good Governance	48	545.0
[9]	Other Technical Programmes (Treasury etc.)	186	1,666.5
[10]	Orientation Programmes	1,160	19,748.0
[11]	Customer Service Excellence and Selling Skills	543	3,647.0
[12]	Leadership and Management (Competency Development Programmes/Strategic Management/Change Management)	325	4,163.0
[13]	IT Skills	503	4,018.0
[14]	Communication Skills	354	2,921.0
[15]	Health and Safety	143	1,089.5
[16]	Other Non-Technical Skills	127	1,018.5
[17]	E-learning and Other Online Learning	102,238	66,977.8
	Grand Total	108,184	131,788.0

Average Training Hours per Year, per Employee by Gender and Employee Category

GRI 404-2, 3

No.	Competency Area	Participants		Training Hours		Employee Category (Participants)							Grand Total
		Male	Female	Male	Female	Corporate Management	Senior Management	Executive Management	Middle Management	Junior Management	Operational Staff	Other Grades	
[1]	Operations [Cash/Accounts Opening/Pawning/Cheques/Clearing/Credit Cards]	459	174	3,790.5	1,923.0	1	7	22	46	144	384	29	633
[2]	Credit and Recoveries [Credit/Recovery/SME/Micro Finance]	671	170	10,323.5	2,338.7	15	94	96	131	123	379	3	841
[3]	International Operations [Trade/Foreign Currency Operations]	229	92	1,165.0	426.0	1	1	3	25	76	215	-	321
[4]	Risk and Compliance (AML)	353	208	2,509.5	1,734.0	3	22	67	168	136	164	1	561
[5]	Finance and Accounting	104	64	909.5	516.0	12	24	34	43	29	25	1	168
[6]	Marketing [Products/Branding]	6	2	80.0	32.0	-	1	-	5	1	1	-	8
[7]	Human Resource Management [HR related]	16	9	158.0	88.0	3	5	5	8	3	-	2	25
[8]	Legal and Good Governance	16	32	134.0	411.0	-	2	10	30	2	4	-	48
[9]	Other Technical Programmes [Treasury etc.]	133	53	1,167.0	499.5	6	20	32	43	45	38	2	186
[10]	Orientation Programmes	709	451	12,264.0	7,484.0	-	-	8	45	271	820	16	1160
[11]	Customer Service Excellence and Selling Skills	363	180	2,447.0	1,200.0	-	4	21	184	111	222	1	543
[12]	Leadership and Management [Competency Development Programmes/Strategic Management/Change Management]	220	105	2,757.5	1,405.5	34	55	76	68	58	34	-	325
[13]	IT Skills	346	157	3,098.5	919.5	8	61	98	133	90	89	24	503
[14]	Communication Skills	175	179	1,463.0	1,458.0	-	5	8	31	31	227	51	354
[15]	Health and Safety	111	32	859.5	230.0	1	5	11	21	17	75	13	143
[16]	Other Non-Technical Skills	59	68	657.0	361.5	19	29	19	8	6	8	38	127
[17]	E-learning and other Online Learning	68,499	33,739	45,544.9	21,432.9	-	-	1,022	11,246	20,448	69,522	-	102,238
	Grand Total	72,469	35,715	89,328.4	42,459.6	103	335	1,532	12,235	21,591	72,207	181	108,184

All employees receive regular feedback on performance and career development and their level of performance is assessed on a regular basis.

HUMAN CAPITAL

Average Training Hours

GRI 404-1

Description	2018	2017
Average Training Hours per Employee	31.5	39.0
Average Training Hours per Male	32.7	39.0
Average Training Hours per Female	29.1	39.0

Average Training Hours per Employee - Category Wise

Employee Category	No. of Hours
Corporate Management	39.9
Senior Management	36.5
Executive Management	16.1
Middle Management	16.1
Junior Management	11.7
Operational Staff	15.9
Other Grades	8.1

Sampath Bank Benefit Structure

GRI 401-2

Description	Permanent Employees	Contract Employees	Differently-Abled Employees
Profit Bonus	√	√	√
Salary Increment	√	On renewal of fixed term contract	√
Allowances (as applicable)	√	√	√
Reimbursement of Course Fees/Exam Fees	√	-	√
Medical Facilities	√	-	√
Holiday Bungalow Facilities	√	√	√
Special Non-technical Training	√	√	√
Special Programmes for Children of Employees	√	√	√

Basic Salary and Remuneration Ratio by Gender and Employee Category

GRI 405-2

Employee Category	Male	Female
Corporate Management	1.00	0.80
Senior Management	1.00	1.06
Executive Management	1.00	0.92
Middle Management	1.00	0.98
Junior Management	1.00	0.99
Operational Staff	1.00	0.94

The Bank has given an equal opportunity for all employees and does not tolerate any form of unfair discrimination on the basis of race, gender or disability. The ratio of basic salary at the entry level for male and female is 1:1. However, this ratio may change due to different service period of employees in the Bank and at a particular salary grade.

Composition of Governance Bodies and Breakdown of Employees per Employee Category According to Gender, Age Group, Minority Group Membership and other Indicators of Diversity

GRI 405-1

Range	Corporate Management		Senior Management		Executive Management		Middle Management		Junior Management		Operational Staff		Other		Grand Total	
	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female		
18-20	-	-	-	-	-	-	-	-	-	-	-	23	5	-	2	30
21-30	-	-	-	-	-	-	9	2	19	15	1,217	438	14	37	1,751	
31-40	-	-	-	2	48	3	245	101	455	255	252	291	16	29	1,697	
41-50	7	1	59	18	135	50	108	66	18	34	-	7	19	47	569	
51-55	11	4	37	7	18	15	10	7	1	1	-	-	8	22	141	
Above 55	1	-	-	-	-	-	-	-	-	-	-	-	-	-	1	
Grand Total	19	5	96	27	201	68	372	176	493	305	1,492	741	57	137	4,189	
Percentage [%]	79	21	78	22	75	25	68	32	62	38	67	33	29	71	-	

Type of Employment

GRI 102-8

Type of Employment	2018			2017		
	Male	Female	Grand Total	Male	Female	Grand Total
Fixed Term Contract	27	40	67	11	9	20
Permanent	2,446	1,279	3,725	2,383	1,273	3,656
Probationers	28	31	59	20	33	53
Trainees	229	109	338	197	85	282
Grand Total	2,730	1,459	4,189	2,611	1,400	4,011

All categories as indicated above are on full-time basis.

Province wise Staff Allocation

GRI 102-8

Province	2018				2017			
	No. of Branches/ Units	Male	Female	Grand Total	No. of Branches/ Units	Male	Female	Grand Total
Central Province	23	188	85	273	23	183	85	268
Eastern Province	17	113	24	137	18	124	26	150
North Central Province	9	85	14	99	9	85	17	102
North Western Province	22	181	79	260	22	168	82	250
Northern Province	13	78	28	106	13	70	29	99
Sabaragamuwa Province	16	107	41	148	16	107	40	147
Southern Province	23	189	92	281	23	181	89	270
Uva Province	9	77	12	89	9	78	8	86
Western Province	154	1,711	1,084	2,795	151	1,614	1,024	2,638
Overseas Operations	1	1	-	1	1	1	-	1
Grand Total	287	2,730	1,459	4,189	285	2,611	1,400	4,011

SOCIAL AND RELATIONSHIP CAPITAL



"To further enhance the level of customer convenience, a series of improvements were made to increase the functionality of the app, to enable customers to make credit card and utility bill payments as well, through the slip-less banking app."

Scan this QR code for a more comprehensive view of our Management Approach on Social and Relationship Capital
www.sampath.lk



CUSTOMER

As customer preferences continue to evolve, our aim is to understand and respond to these needs through exceptional customer experiences that will set us apart from peers.

We have identified five material topics that drive all efforts to strengthen our Customer Capital.

Material Topics	Focus Areas for 2018
Complaint Management	Strengthen the complaint management process
Customer Convenience	Enhance customer convenience through the use of breakthrough technology
Customer Health and Safety	Aligning with current market trends
Customer Privacy	Tactical marketing
Marketing and Labelling	

Highlights for 2018

Enhance customer convenience through the use of breakthrough technology

Primary Objective:

Deliver innovative market-leading customer experiences by leveraging on digital innovation

Launch of the Slip-less banking app

The slip-less banking app is a revolutionary new development that provides the customer with a highly-efficient, paperless solution to deposit and withdraw cash. The customer has to only simply download the slip-less banking mobile app available on iOS and Android and begin using the facility by inserting a few details. For deposits, the customer will only need to insert the account number and the amount to be deposited in the slip-less banking app, while withdrawals too can be carried out just as easily with the Sampath Vishwa user credentials. The app has the added benefit of providing customers



The slip-less banking app provides the customer with a highly-efficient, paperless solution to deposit and withdraw cash

with access to their transaction history on their mobile phone. Meanwhile, to further enhance the level of customer convenience, a series of improvements were made to increase the functionality of the app to enable customers to make credit card and utility bill payments as well through the slip-less banking app.

The slip-less banking app is not restricted to Sampath Bank customers only and even non-customers can use the facility to make deposits to Sampath Bank accounts.

Connectivity with the Ustocktrade app

Sampath Bank yet again created history by becoming the first bank in Sri Lanka to



Simplifying Processes through Innovation

It's always a challenge to find the right gift for someone, no matter how well you know them. That's why I like to gift money so that my friends and family can get something they really need and like. That's why I was excited to use Sampath igit – it was such a smooth process despite the complex blockchain technology that powers it. The app is so cool that I can even include personalised messages when I send the gift. I've banked with Sampath since I was a child and as a techie, I am thrilled with how advanced they are.

Samitha Prasad Udalagama

Lead Software Engineer
 N-Able (Pvt) Ltd.

"Developed using the latest block chain technology, Sampath igit is a unique person to person gifting platform that enables all Sampath Bank account holders to gift money to anyone on their smartphone's contact list."

person-to-person gifting platform that enables all Sampath Bank account holders to gift money to anyone on their smartphone's contact list. After downloading the Sampath igit to their smart device from the Google Play Store or the Apple App Store, account holders can gift any amount between Rs 100 to Rs 10,000 per gift, up to a maximum of Rs 100,000 per day. They can also include personalised messages with text, selfies, emoticons, stickers, etc. with the gift. Recipients who have the app installed on their smartphone will receive an in-app notification informing them of their igit, while recipients who do not have the app on their phone will receive a SMS with a link with instruction to download the app and access the gift.

Launch of Chatbot

SAM, an AI (Artificial Intelligence) powered Chatbot, was launched in May 2018, another first in Sri Lanka. Available on the Bank's corporate website, Facebook Messenger and other messaging platforms, SAM is capable of responding to customer queries related to their bank accounts, credit and debit cards, loan, leasing and pawning facilities, interest rates, exchange rates, etc., offered by Sampath Bank. While SAM is currently only available in English, Sinhala and Tamil functionality will be added under phase 2 of the project.

allow account holders to use the funds in their Personal Foreign Currency (PFC) accounts to directly trade in foreign securities through the Ustocktrade app. This was the result of a MoU between Sampath Bank and Ustocktrade LK (Private) Ltd, enabling Sampath Bank account holders to link their PFC account to the Ustocktrade app and use it to

trade securities listed in stock exchanges across the USA. This also eliminates the need for stock brokers and making such investments more accessible and affordable.

Launch of Sampath igit app

Developed using the latest block chain technology, Sampath igit is a unique

SOCIAL AND RELATIONSHIP CAPITAL

Launch of the Virtual Teller Machine (VTM)

Living up to its reputation as the country's leading digital bank, Sampath Bank launched Sri Lanka's first-ever VTM, which was unveiled at INFOTEL 2018, the National ICT Exhibition held in November 2018. Serving as a fully-fledged digital branch, the VTM offers an extensive range of banking services, including cash deposits, withdrawals, and cheque deposits. VTMs give the customer with 24/7, 365-day banking convenience. Furthermore, customers can use the VTM's built-in phone receiver to connect directly to the Bank's Customer Care Centre and request and receive additional information or assistance in realtime.

The first official VTM was commissioned at the Colombo Super branch in November 2018, with more installations scheduled to take place at other branches over the next few months.

Aligning with current market trends

Primary Objective:

Improving product relevance to keep pace with current market trends

Launch of e-Pay Mobile Cash

An alternative to the traditional postal money order system, the e-Pay Mobile Cash mechanism allows users to instantly send and receive anything between Rs 1,000 and Rs 25,000 per transaction.

To send money, the sender simply needs to visit the nearest post office or sub-post office and provide the beneficiary's name, address, National Identity Card (NIC) number and mobile number along with the amount to be sent. The beneficiary will instantaneously receive a text message with the amount and the relevant approval code (PIN), which the beneficiary can then use to withdraw money immediately from one of Sampath Bank's 419 ATMs across the island by selecting the mobile cash option and entering the relevant details.

Offering consumers across the island a convenient and secure means of sending and receiving money round the clock, without any delays, e-Pay Mobile Cash is aligned to the Government's efforts to leverage on technology in order to transform conventional services for the benefit of the public.

Just Pay© adoption

Sampath Bank signed up with Lanka Clear (Pvt) Ltd to adopt the JustPay© network in early March 2018, which allows customers to make payments by debiting any bank account which is connected to the JustPay© network. The facility, which is available to Sampath Bank customers as well as non-customers, allows users to simply scan the respective merchants' QR code using their smart phone and seamlessly connect to the Sampath PayApp to make cashless payments below Rs 10,000 securely and in realtime.

Strengthen the Complaint Management Process

Primary Objective:

Identify and address the root cause of persistent issues raised by customers and take corrective action to prevent recurrence



Launch of e-Pay Mobile Cash



Simplifying Banking through Intelligent Solutions

I've only recently started banking with Sampath Bank and already I'm impressed with how easy it is to engage with the bank digitally. I hate having to queue up because I just don't have the time to waste, so I find this solution perfect because I can use SAM to do my banking at my convenience, at any time from anywhere. And it's so easy to use – SAM the Chatbot can answer many of my questions and give me intelligent solutions. I often access SAM through Facebook Messenger but it's also available on the Bank's website.

Gaveshi Uthpala
 Business Analyst

Streamlining activities at the centralised Customer Care Centre (CCC)

In a bid to create greater uniformity across all complaint receiving channels, the social media complaint/feedback mechanism was centralised and brought under the purview of the CCC. This has enabled all complaints received via social media platforms to be incorporated into the central data base for further review and analysis.

In addition, a series of policy level changes were implemented in 2018 specifically to focus on improving complaint analysis and reporting mechanisms, with a dedicated team carved out within the CCC to analyse complaints received across all channels.

Tactical Marketing

Primary Objective:

Create awareness and increase visibility across target customer segments

Emphasis on Digital Marketing

Given the growing influence of digital media, a focused effort was made to increase the Bank's concentration on digital media advertising. The advertising spread was increased in favour of digital marketing followed by an appointment of a digital media agency to streamline digital content and strengthen the Bank's digital presence. Following the appointment of the agency a series of focused campaigns were conducted targeting the growing number of digital-savvy customers.

Sponsorships Events

- Festival of Cricket 2018 - UK
- South Asian Biotechnology Conference - The National Academy of Sciences of Sri Lanka (NASSL)
- Raigam Tele'es 2017 - Raigam Marketing Services (Pvt) Ltd
- Build Sri Lanka - Housing & Construction International Exhibition 2018 - Chamber of Construction Industry Sri Lanka (CCISL)
- Bauddhaloka Vesak Uthsawaya 2018 - All Ceylon Buddhist Congress
- Awards Ceremony - Women's Chamber of Industry & Commerce
- CSBM evening with a Corporate Leader - Colombo School of Business and Management
- Colombo International Book Fair 2018 - Sri Lanka Book Publishers Association
- COYLE Sampath Bank Leadership Forum 2018 - The Chamber of Young Lankan Entrepreneurs (COYLE)
- CEO Breakfast Forums on ART TV
- Corporate Partnership for SLIM events - The Sri Lanka Institute of Marketing (SLIM)
- People's Awards
- NASCO Awards
- Effie Awards
- Brand Excellence

SOCIAL AND RELATIONSHIP CAPITAL



"Sampath Saviya is the Bank's flagship entrepreneurship development initiative that aims to support the Government's endeavour to develop the MSME sector as a key growth catalyst for the national economy."

Scan this QR code for a more comprehensive view of our Management Approach on Social and Relationship Capital
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COMMUNITY

As a responsible corporate citizen, Sampath Bank is committed to being an active and supportive member of the community. As such, we strive to ensure that our investments are capable of delivering sustainable benefits for the betterment of all members of the community.

To achieve the desired results, we focus on two material topics, namely, Community Development and Promoting Financial Inclusion, where we look to leverage on our position as a leading bank in order to build Community Capital.

Highlights for 2018 Entrepreneurship Development

Primary Objective:

Empower entrepreneurs to facilitate their development through better technical support and financial assistance.

'Sampath Saviya' is the Bank's flagship entrepreneurship development initiative that aims to support the Government's endeavour to develop the MSME sector as a key growth catalyst for the national economy. The 'Sampath Saviya'

programme further underpins the Bank's efforts to promote greater financial inclusion in Sri Lanka.

First launched in 2013, the 'Sampath Saviya' programme has since been responsible for supporting over 2,500 MSME entrepreneurs, thereby transforming the lives of communities across Sri Lanka by providing them with business know-how and access to much-needed finance. Using the platform built through Saviya workshops conducted in the past, the Bank carried out the following key programmes in 2018;

GRI 413-1/203-2

Material Topics	Focus Areas	Entrepreneurship Development				
		Projects	Investment	Beneficiaries	Volunteered Employees	
Community Development	Promoting Financial Inclusion		13	Rs 10.8 Mn	1,700	237
			15	Rs 7.9 Mn	126,803	221
			21	Rs 13.9 Mn	27,818	575

'Sinhalese Business' - SME Business Forum

Part of the flagship 'Sampath Saviya' Entrepreneurship Development initiative, the 'Sinhalese Business' SME Business Forum was a one day programme conducted free of charge. The program focused on providing entrepreneurs with a number of key practical approaches to pursue business success, including sessions on leadership, sales tactics, psychological approaches to branding, etc.

The workshop series attracted over 200 entrepreneurs from a broad spectrum of key industries such as service and manufacturing industries as well as a number of self-made entrepreneurs, winners of the 'Green Inventor' programme, aspiring undergraduates with business concepts, youth, women, senior citizens and differently-abled entrepreneurs.



Youth Empowerment Programme at Galle

In 2018, a special youth empowerment programme was held under the 'Sampath Saviya' banner. The program, which was developed in partnership with the National Chamber of Commerce Sri Lanka and the Galle Regional Chamber, was held in Galle with a participation of more than 450 students who had completed their Ordinary Level and Advanced Level examinations as well as students from the Galle Vocational Training Institute and the

Technical College, Galle. The workshop agenda revolved around developing soft skills required to initiate and manage a startup and was facilitated by an eminent panel of business leaders including Mr Deepal Sooriyaarachchi - Director of Sampath Bank PLC, a Management Consultant, Executive Coach and Author and Mr Chandana Gunawardane - Human Potential Development Trainer and Author.



Empowering Organic Farmers

A workshop series was held in collaboration with the Provincial Department of Agriculture (NWP) to promote organic farming. The initiative was aimed at creating a base of green entrepreneurs who have the capacity to make a sustainable contribution

to national development. Specifically targeting organic farmers in Kurunegala District, the programme was designed to enhance the skills, competencies and technical knowledge of farmers and agriculture instructors. A total of 305 participants attended the two workshops held by the Bank.



Empowering Dairy Farmers

The aim of the programme was to provide proper training and guidance to the dairy farmers of the D10 village in Padaviya who depend largely on dairy farming, especially in the dry season when it serves as their only source of income. Having found that many of these

farmers lack basic farming management knowledge and technical skills, the Bank conducted a three-day workshop for selected farmers to improve their entrepreneurial skills and competencies in collaboration with CEFE NET Sri Lanka, as well as offered required technical advice.



SOCIAL AND RELATIONSHIP CAPITAL

Partnering with 'Ath Pavura - Mission Two'

Reinforcing the commitment to promote entrepreneurship across the island, the Bank signed up as the title sponsor of the second mission of 'Ath Pavura', Sri Lanka's first-ever reality TV show dedicated to cultivate social entrepreneurs across the nation as well as enable existing social entrepreneurs to promulgate their ideas among a wider audience through a national television.

Open to all Sri Lankans aged 14 and above and also foreigners living in Sri Lanka for the past two years, the show was telecasted on ITN and offered as a much needed platform for budding entrepreneurs or existing social businesses to pitch their new social business ideas to a panel of Impact Investors. Based on the presentations made, the panel will determine if contestants are eligible to receive seed funding, which will be awarded to them.



'Ath Pavura' MoU exchange ceremony

Community Capacity Building

GRI 203-1

Primary Objective:

Address grass root level issues by providing basic infrastructure or necessities to enable the community to improve livelihoods and living standards

'Wewata Jeewayak' Tank Restoration Programme

The 'Wewata Jeewayak' programme is an ongoing effort by the Bank to reconstruct the tank network in the dry zone that have become largely unusable after years of neglect. The programme was initiated with the aim of providing an uninterrupted water supply to enable the vast majority of agrarian farmers in rural areas of Sri Lanka who rely on these tanks as the only source of irrigation to cultivate even in the dry season. The tanks rebuilt since then have helped to restore a year-round water supply enabling farmers to cultivate both Yala and Maha seasons, directly resulting in increasing their income. Moreover the tank restoration efforts have enabled farmers to further improve their livelihoods by supplementing their income through intercropping.

In 2018, the Bank joined hands with the Divisional Irrigation Engineer's Office, Minneriya and the Divulankadawala Farmers' Association to rebuild the Dhanyawa tank in Divulankadawala, Medirigiriya at a cost of Rs 3.3 Mn. Spread across 12 acres, the Dhanyawa tank serves as the main irrigation source for 96 families carrying out farming on

over 112 acres of paddy fields. Restoring the Dhanyawa tank has provided a sustainable source of irrigation for these farmers. The tank also serves as a feeder for the water treatment plant which provides drinking water for 225 families in neighbouring villages as well as 2,100

students of the Divulankadawala Central College.

Aside from these direct benefits to the rural economy, the tank restoration programme also provides a range of environmental and social benefits as well. From an environmental perspective, natural eco-systems and forest cover in these areas, which had all but disappeared due to the lack of water have been restored. Furthermore, the newly renovated tanks have helped revive the age-old social custom - the 'Wewa-Dagaba-Gama-Pansala' (Tank-Sthupa-Village-Temple), which has been an intrinsic part of rural village life for thousands of years.



Commencement of restoration work



Ceremonial opening of sluice gates



Renovated Dhanyawa tank

'Hope for a Life' Programme

The 'Hope for a Life' is an ongoing CSR initiative undertaken by the Bank as part of its commitment to improve the standards of national healthcare in Sri Lanka. In 2018, the Bank facilitated for two national scale health infrastructure development projects.

I. As a follow up to the 2013 donation of a fully-fledged Neuro Navigation System worth Rs 49.7 Mn. to the National Hospital of Sri Lanka, in 2018 the Bank handed over a ventilator worth Rs 2.2 Mn to the Neuro Surgery Intensive Care Unit (ICU) of National Hospital of Sri Lanka. This has led to a considerable enhancement in the capacity of the hospital's Neuro Surgery ICU, which was previously limited to five ICU ventilators for all ten beds.

II. The Bank has made several improvements of the infrastructure facilities Elayapattuwa Divisional Hospital, a government hospital located in a remote region of the Anuradhapura District. As part of the project, the Bank undertook to build a covering hut parallel to the Emergency Treatment Unit (ETU) at a cost of Rs 1.0 Mn. While increasing the space of the ETU, the new structure has also greatly reduced the risk of discrepancies in the patient transfer process, especially in poor weather. As part of the same initiative, the Bank also donated a range of essential medical equipment to the hospital.



Endowment of ventilator to National Hospital of Sri Lanka



Newly-built covering hut at Elayapattuwa Divisional Hospital

Education for all

Primary Objective:

Dissemination of knowledge and information at a grass root level in order to reduce social and economic inequalities and bridge the poverty gap

ECG (Effective Career Guidance) 2.0

Given the success of the ECG 1.0 conducted in 2017, ECG 2.0 was conducted in 2018 where the Bank continued with the series of highly-focused career guidance sessions targeting undergraduates from state universities across Sri Lanka. ECG 2.0 was rolled out at the University of Colombo and University of Kelaniya

with the participation of more than 110 undergraduates from both universities. The program content covered a broad range of topics including entrepreneurship skills, opportunities for career development and transitioning to working in a corporate environment.



'Soar Above The Rest, Intern With The Best' - Internship Programme For School Leavers/Undergraduates

Yet another ongoing initiative by the Bank, the 'Soar Above The Rest, Intern With The Best' - Internship Programme continued in 2018 with the motive of providing school leavers and undergraduates with exposure to the corporate environment. Under the 11-month programme, interns are assigned

to Sampath Bank branches/departments and are expected to work in a range of cross-functional areas, thus enabling them to develop their skills and competencies. In 2018 a total of 1,336 school leavers and 277 undergraduates were trained at an investment of Rs 75.5 Mn.



SOCIAL AND RELATIONSHIP CAPITAL

Inter School Quiz Competitions

'Sampath Panasara' is an annual quiz competition conducted by Sampath Bank for school children. In 2018, Sampath Bank Beliatta Branch and Jaffna Branch conducted the competition with the participation of more than 400 students representing 52 schools in the respective educational zones.



'Sampath Panasara' in Beliatta



'Sampath Panasara' in Jaffna

'Pahe Shishyathwa' - Grade 5 Scholarship Support Programme

A long-standing initiative by the Bank, the 'Pahe Shishyathwa' programme seeks to provide a solution to address the persistent knowledge disparity that continues to hinder the progress of low income communities across the country. In this regard the 'Pahe Shishyathwa' programme provides much needed exam support to Grade 5 students to assist them to face their first public examination with confidence. The broader goals of

the programme include, developing a new culture where students and their parents understand the importance of education as a means of achieving their life goals. In 2018, we have invested Rs 10.5 Mn for this programme. Now in its 10th consecutive year, the 'Pahe Shishyathwa' programme is a collaborative effort between Sampath Bank and Neth FM.



Seminar for students



Seminar for parents

Project Summary			
Year	Number of Seminars	Student Participation	Parents Participation
2018	07	9,300	5,900
2017	07	6,458	4,624

Bridging the gap between academia and industry through strategic PPPs (Public-Private Partnership)

In early May 2018, the Bank entered into a Memorandum of Understanding (MOU) with the Faculty of Graduate Studies, University of Sri Jayewardenepura, marking what is seen as the first of a series of PPPs with the country's academia. The MOU between Sampath Bank and the University of Sri Jayewardenepura is a multifaceted knowledge sharing agreement that allows the Bank to access the university's resources to conduct extensive research

on financial theory, financial markets, etc. In return the students at the University of Sri Jayewardenepura will gain access to the Bank's extensive industry knowledge and insight. As part of the agreement, the Bank has also committed to offer periodic placements to students who wish to expand their knowledge on the local financial landscape.



SOCIAL AND RELATIONSHIP CAPITAL



"Building a highly-efficient and reliable network of suppliers who see themselves as partners in our growth journey, remains a critical priority for Sampath Bank."

Scan this QR code for a more comprehensive view of our Management Approach on Social and Relationship Capital
www.sampath.lk



SUPPLIER



Strength in Partnerships, Enabling Growth

I started a small bottled water business back in the year 2000, supplying water bottles in Ratnapura town. At the outset, I began banking with Sampath Bank; the Bank has constantly provided me the funding for my projects since the very inception. In 2004, I even began supplying my water to Sampath Bank. With the immense support the Bank has given me, I was able to expand gradually and am proud to say I distribute my product to the entire country today.

Duminda Padmakumara Rupasinghe
Pearl Marketing
Ratnapura

The customer experience we provide as a Bank is the result of our own internal efficiency as well as the quality of suppliers and service providers who are a key part of our value chain. Hence building a highly-efficient and reliable network of suppliers who see themselves as partners in our growth journey, remains a critical priority for Sampath Bank.

Our efforts in this regard are centred on broadening the scope of our Procurement Practices, which we see as the key material aspect in strengthening our Supplier Capital.

Highlights for 2018 Supplier Development

Primary Objective:

Create a framework that would facilitate sustainable long-term relationships with suppliers and service providers.

Supporting the growth of SME suppliers

Following a policy decision taken in early 2018, all SME suppliers and service

providers were requested to open accounts with the Bank, enabling them to receive settlements directly to their bank accounts. In addition, these new account holders were provided with debit and credit cards as well as access to additional credit facilities based on their recent credit history with the Bank.

Material Topics	Focus Areas for 2018
Procurement Practices	Supplier Development

NATURAL CAPITAL



"We also look beyond our core business to promote broader environmental sustainability among our stakeholders, mainly through environmentally sustainable financial solutions for our customers and clients."

Scan this QR code for a more comprehensive view of our Management Approach on Natural Capital
www.sampath.lk



Although Sampath Bank is a service organisation, we realise that our activities have an impact on the environment directly through the day-to-day use of energy and paper across our branch network and head office as well as indirectly through our lending operations. Hence we appreciate the importance of identifying and measuring the environmental impacts of our activities and understand it is our responsibility to mitigate these direct impacts as much as possible. In this context, we continue to work towards controlling our environmental footprint and in doing so take action to address the areas deemed most material to our business as a bank.

We also look beyond our core business to promote broader environmental sustainability, among our stakeholders mainly through environmentally



sustainable financial solutions for our customers and clients. Furthermore we strive to inculcate an environmentally-conscious mindset among all employees

by encouraging them to imbibe the Sampath Bank 'Environmental Pledge' as part of their work ethic.



Highlights for 2018

Energy Management

Primary Objective:

Optimise energy consumption by investing in energy efficient solutions and alternative energy sources.

As a highly-progressive bank, Sampath Bank is committed to invest in the latest technological infrastructure in order to stay ahead of the curve. As a result, the Bank's demand for electricity has grown exponentially over the past few years, prompting widespread energy management initiatives to improve efficiency and reduce usage where possible and practical.

Renewable Energy Migration Project

Building on the energy management initiatives taken over the past few years, efforts for 2018 focused on improving energy efficiency across the branch network. Continuing with the Renewable Energy Migration project aimed at converting branches to solar powered branches. In 2018, three new solar installations were completed at the Negombo Super branch, Narahenpita branch and Wellawatte Super branch, bringing the total number of solar-powered branches to five by 31st December 2018. Efforts to replace conventional lighting with LED solutions were also expedited under the ongoing branch refurbishment programme, with over 50% of the network operating on LED lighting as at end of December 2018. Meanwhile to prevent high energy consumption due to ageing equipment, a concerted effort was made to replace conventional air conditioning with new energy-efficient inverter units at all branches located on Bank-owned premises.

GHG Emission Management

Primary Objective:

Contribute towards a low-carbon economy by achieving carbon neutral status.

Carbon Footprint Calculation

GRI 305-1,2,3,4,5,7

Assessment Type : Organisational Greenhouse Gas Assessment

Applied Standards : ISO 14064 -1:2006

Fifth assessment report (5AR) of IPCC,2006

Reporting Period : 01.01.2018 – 31.12.2018

Base Year : 2016



Scope	GHG Emissions (tCO ₂ e) in 2018				
	Total Emissions	CO ₂	N ₂ O	CH ₄	HFCs
Direct GHG Emissions (Scope 1)	1,540	1,360	17	10	153
Indirect GHG Emissions (Scope 2)	7,471	7,471	-	-	-
Other Indirect GHG Emissions (Scope 3)	2,250	2,215	16	19	-
Total GHG Emissions	11,261	11,046	33	29	153
GHG Emission per Employee	2.7				
			2018	2017	Reduction
Total GHG emissions (tCO ₂ e)			11,261	12,399	1,138
Emissions offset at Head Office (tCO ₂ e)			4,052	-	
Net emissions (tCO ₂ e)			7,209	-	

GRI 302-1,2,3,4

	Energy Consumption				
	Sources : Renewable & Non Renewable				
	Electricity	Heating	Cooling	Steam	Solar Power
Consumption	3,515,962kWh (Head Office)	No	No	No	No
Sold	No	No	No	No	No
Reductions/Savings	-	-	-	-	95,317 kWh
Using any standards/methodology and assumptions used	: No				
Using any conversion rates	: No				
Energy used outside of the organisation	: No				
					2018
Energy Intensity Ratio (Head Office) - Electricity consumption per employee per annum	3,010 kWh				

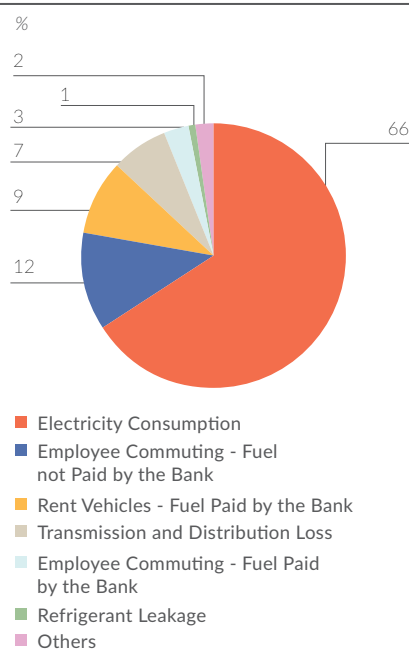
Measuring the outcome of energy consumption, 'Greenhouse Gas (GHG)' emissions that trigger global climate change, is one of the key tools in Sampath Bank's environmental management model. Measuring emissions helps the Bank to gauge the effectiveness of its energy management efforts and is also seen as the key to being certified as a carbon neutral organisation. Having taken the first steps towards achieving this goal, the Bank has since 2013 undertaken to measure and report on its green-house gas emission in compliance with the

international standards. Accordingly the Bank's carbon footprint is calculated annually using the guidelines stipulated under the GHG Protocol, which measures all direct emissions under Scope 1 and indirect emissions from purchased electricity under Scope 2 and other indirect emissions under Scope 3. The Bank further seeks the services of Climate Smart Initiatives (Pvt) Limited to conduct an independent annual verification of the results and methodologies used in accordance with ISO 14064-1:2006 standard.

NATURAL CAPITAL

To neutralise carbon emissions of Sampath Bank PLC's Head Office being equivalent to 4,052 tCO₂e, the Bank invested in a hydroelectric project registered under United Nations' CDM registry (PA 2698) by purchasing Certified Emissions Reductions (CERs). The move forms part of the broader objective to be recognised as a carbon neutral organisation. Further emphasising this commitment, Sampath Bank's Integrated Annual Report 2018 has been declared as a carbon neutral product.

GHG Inventory



Waste Management

GRI 306-1.2

Primary Objective:

Develop sustainable solutions to control the use of internal and external use of paper in the day-to-day operations of the Bank

The Bank's primary waste product is paper. The disposal of paper waste is contracted out through a long term agreement with Neptune Recyclers (Pvt.) Ltd, a Central Environmental Authority (CEA) approved waste disposal contractor. During the year, 148,654 Kg of waste papers were recycled.



However, in order to minimise the paper waste generated each day, the Bank has in recent times begun focusing on paperless solutions that would reduce if not completely eliminate the use of paper. Spearheaded by the Bank's digitalisation agenda, a number of key processes were digitalised in 2018, which include the customer on-boarding process, the FD issuing process, the web card issuance process, the credit

card and LC application process, among others. Phase 1 of the digital archiving system also commenced during the year, with customer information being digitally archived in a secure environment and made accessible internally to relevant staff through the FileNet data sharing platform. Consequently, the need for paper usage in each of these processes has been cut by 90%, in turn contributing to a significant reduction in the Bank's overall paper consumption per month.

Water Discharge

	2018	2017
Water discharged (Head Office)	41,144 m ³	42,860 m ³
Water source	Municipal Water Supply	

Note: Being a service organisation, water is not a material aspect to us. Therefore, water is used only for general purposes.

Another significant milestone in the Bank's paperless journey was the launch of the Sampath Bank slip-less banking app in May 2018, seen as the first step towards permanently eliminating the use of paper slips for routine banking transactions.

Responsible Lending

Primary Objective:

Support the national renewable energy initiative.

The Bank offers a special credit line to promote large-scale investments in projects that focus on energy efficiency, renewable energy and environmental protection. In fact Sampath Bank has remained a leading contributor to the country's renewable energy sector by financing on various clean energy projects.

Power Category	Statistics for 2018		
	No. of Projects	Capacity (MW)	Loan Value Rs Mn
Hydro	04	05	785
Solar	02	02	220
Wind	01	10	600

In addition, a separate green lending scheme is available to encourage retail customers to migrate towards renewable energy solutions.

Environmental CSR

Primary Objective:

1. Create an environmentally-conscious society.
2. Contribute towards national environmental conservation efforts.

During the year 2018, the Bank has invested on several Environmental CSR programmes. Key initiatives are outlined below:

1. 'Sampath Green Inventor'

The 'Sampath Green Inventor' programme is a national level competition initiated by Sampath Bank with the dual aim of promoting a new breed of green entrepreneurs and building an environmentally-conscious social culture among youth. The project targets Sri Lankan undergraduates from state and private universities approved by University Grants Commission of Sri Lanka. The programme was designed to offer participants an opportunity to showcase their eco-friendly innovations, with shortlisted candidates benefiting from the 'Green Inventor' workshop series, which gave them access to professional advice and guidance to fine-tune their submissions in preparation for the final round.

For applicants pursuing patent rights for their products, additional assistance was provided in partnership with Sri Lanka Inventors Commission, while a selected few had the opportunity to present their inventions through 'Ath Pavura' programme giving them access to seed funding to begin commercial production.

Project Outcomes

25 winners were awarded out of 199 contestants (individual and groups) from 17 state and private universities who presented innovations under following themes:

- Household Waste Management and Energy Saving Systems (Technology Systems, Biological Systems, Scientific Applications)
- Agricultural System
- Information Systems (Mobile Applications, Software Platforms)
- Green Designs (Reclaimed Wood, Green Building)
- Disaster Management Systems
- Natural Pharmaceutical Products
- Health Food Products
- Environmental Conservation Concepts



Winners with the panel of judges



Winner of the 'Sampath Green Inventor' competition

2. 'Sampath Green School'

An ongoing grass-root level initiative by the Bank, the 'Sampath Green School' project aims to nurture green ethics among the school community. Rolled out at selected schools across the country, the project scope includes a series of awareness workshops coupled with several additional capacity building initiatives that focus on developing appropriate waste management habits among staff and students and also streamline the waste collection and segregation process within the school system. The main project activities include;

- Conducting awareness programmes for the students including members of the prefects' guild and members of environment society and teachers of the school.

- Comprehensive cleaning programme covering each part of the school with the assistance of cleaning staff.
- Construction/allocation of a suitable location within the school to dispose internally collected and properly segregated waste to facilitate removing waste from the school.

The initial 'Sampath Green School' project for 2018 was carried out at the J/Sandilipay Hindu School, Manipay in the Jaffna District with a student population of 1,750 and academic staff of 40. The second project was conducted at the Bandaranayake Central College, Veyangoda for 3,500 students and 150 academic staff.



'Sampath Green School' - J/Sandilipay Hindu School, Manipay



'Sampath Green School' - Bandaranayake Central College, Veyangoda

3. 'Sampath Green Day'

First initiated in 2013, 'Sampath Green Day' is an annual event organised by the Sampath Bank Nature Protection Club (SNaPC) to mark world environment day on June 5th each year. The 'Sampath Green Day' celebrations for 2018 were organised under the theme "Let's Strive for a Greener Surrounding". The main event, which was held at the Sampath Bank auditorium in June 2018, included several presentations, interactive sessions and a guest lecture and also saw two competitions being launched for Sampath Bank team members and their children. The first, 'Sampath Gewaththa', encourages team members

to get involved in gardening by creating miniature, self-sustaining home gardens, while the second competition, 'Gasai Mamai', aims to inspire children of employees to care for a tree sapling and

maintain a weekly progress report. They are then expected to use this information to demonstrate either through an essay or an illustration what they have learned while caring for the sapling.



Managing Director, Mr Nanda Fernando addressing the gathering



Handing over a sapling to a student

4. Biodiversity Conservation Project

In May 2018, the Bank entered into a MoU with Biodiversity Sri Lanka (BSL) as part of a long-term biodiversity conservation effort. The first phase of this project, which commenced in August 2018 will see the development of the biodiversity baseline along with a management plan to restore the degraded forest patch of 10ha in Halgahawala, Opatha. With the guidance of the Forest Department of Sri Lanka and technical expertise obtained from International Union for Conservation of Nature (IUCN), the project aims to restore this highly degraded rainforest by enhancing its

ecological functions, habitat quality, species diversity and increasing its capacity to provide biodiversity and ecosystem services in close approximation to what prevails at the nearby rainforest.

Parallel to the restoration effort, the project will focus on developing a biodiversity credit accrual system in consultation with national agencies. The ultimate goal here is to support the development of policies and tools to utilise the accrued credits in a sustainable manner.



Field visit to Halgahawala, Opatha

5. Landscaping Project

Sampath Bank partnered with the National Institute of Mental Health, Mulleriyawa New Town to undertake a landscaping project to improve the garden area surrounding the hospital at a cost of Rs 0.7 Mn. The project was undertaken with the intention of creating a calm, clean and beautiful environment that will help to alleviate stress and support healing and recovery of the mental health of over 1,500 patients residing at the hospital.

A similar project was conducted in 2015 at the National Hospital of Sri Lanka where the Bank undertook to landscape the A & K zones of the hospital garden. The Bank continues to support the ongoing maintenance and upkeep of this project.



Environmental CSR - Summary

GRI 413-1

Project	Investment (Rs Mn)	No. of Beneficiaries	Employee Engagement (No. of Volunteered Employees)
'Sampath Green Inventor'	2.3	95 Undergraduates	15
'Parisarayata Winadiyak' Awareness Programme	1.8	Approximately 200,000	6
Biodiversity Conservation Project	1.2	Ongoing project	6
Landscaping Project at National Institute of Mental Hospital	0.7	Approximately 1,500	6
'Sampath Green School'	0.3	Approximately 5,150	29
'Sampath Green Day'	0.1	50	21
Other	1.1	Approximately 9,689	304

TRADE-OFF BETWEEN CAPITALS

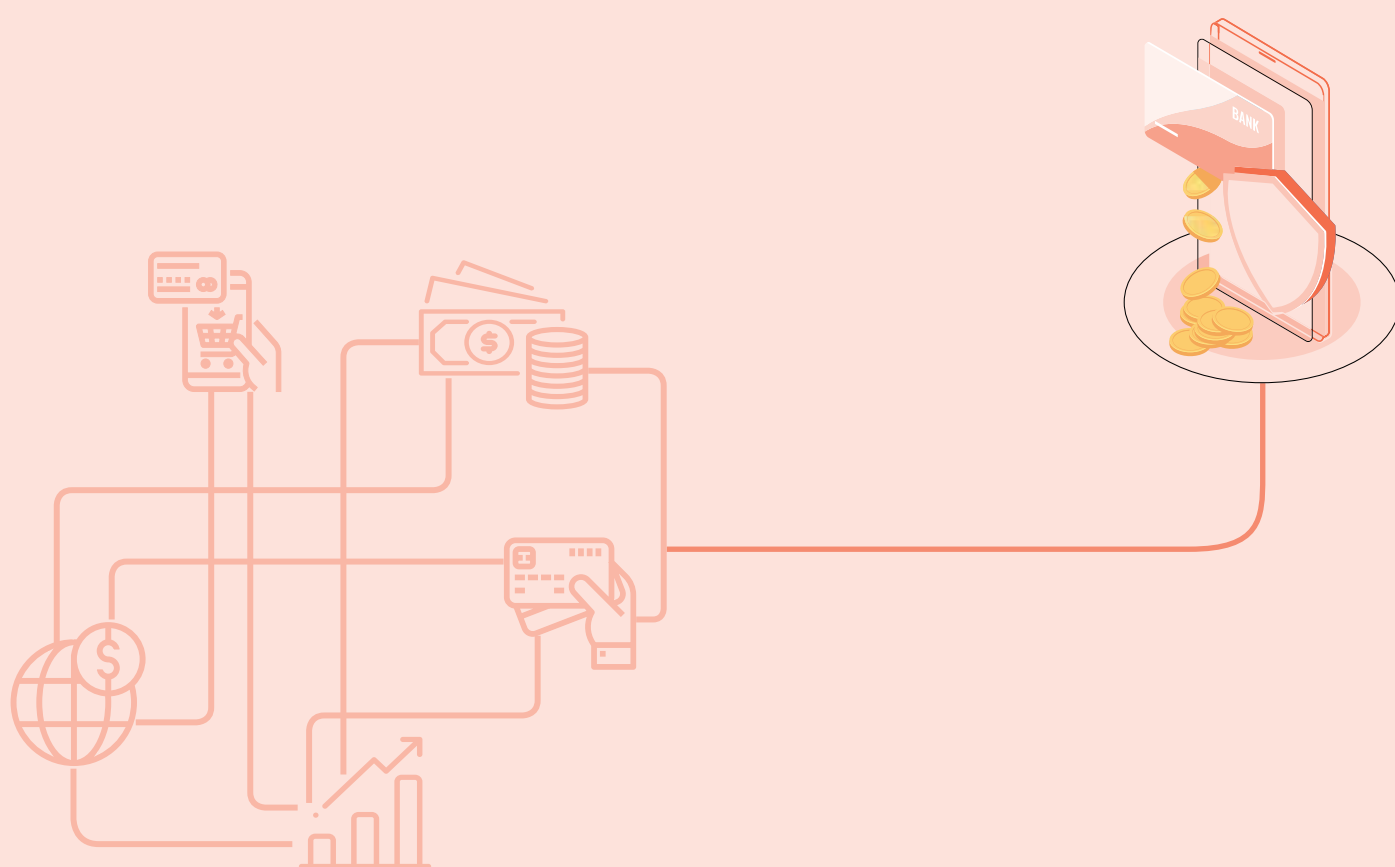
Given that our investments strategy is executed through the six core capitals, we are often required to consider the potential trade-offs between capitals that arise as a result of our decisions.

We remain cautious of the need to minimise the potential trade-off, and therefore ensure our decisions are based on solid fundamentals, as shown in the following examples for 2018.

Area	Trade-off	Capitals Affected
Investment in the slip-less banking app under the branch digitalisation programme	While there was a cost involved in the development and roll out of the slip-less banking app, the benefits outweigh the costs; in particular due to the contribution to customer convenience and the reduction of paper use. The Sampath brand equity also receives a considerable boost as a result of this initiative especially given the fact that it is an industry-first. In the long term, the Bank would also be in a position to achieve cost reduction targets	<ul style="list-style-type: none"> ⊖ Financial Capital ⊕ Social and Relationship Capital (Customer) ⊕ Natural Capital ⊕ Intellectual Capital ⊕ Financial Capital
Compliance with CBSL baseline standards for cyber security governance	The benefits of compliance far outweigh the costs involved	<ul style="list-style-type: none"> ⊖ Financial Capital ⊕ Social and Relationship Capital (Customer) ⊕ Natural Capital ⊕ Intellectual Capital
Compliance with SLFRS 9	Aligning with the standard requires significant changes in the Bank's reporting practices which in turn affected the financial disclosures for 2018. However full compliance with the standard will strengthen the Bank's reputation and reinforce industry leadership	<ul style="list-style-type: none"> ⊖ Financial Capital ⊕ Intellectual Capital

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CONSUMER BANKING

"The foreign currency deposit portfolio also showed a significant improvement. Actual results exceeded targets set for the year thanks to a series of highly-focused strategies aimed at growing the FC customer base."

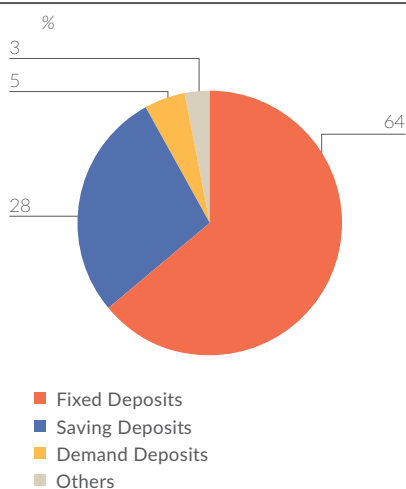
Deposits

Strategy and Focus

Mobilising low-cost deposits remained a priority throughout 2018, prompting aggressive efforts to source savings deposits to help boost the Bank's CASA ratio. Leveraging on the existing product offerings, several market penetration strategies were initiated in order to make inroads into specific customer segments.

Notable among them was the launch of the 'Money Market Saver' account, a savings proposition structured to appeal to the corporates and high net worth individuals. The product has gained considerable traction in the market, leading to strong growth in each successive quarter since its launch in June 2018. Testifying to this, results for Q4 show a 282% growth over the Q3 figure.

Deposit Mix



Sampath Simplified...

The customer on-boarding process was digitalised, enabling customers to complete all necessary documentation online. The deposit acceptance procedure was further streamlined and with effect from 08th October 2018, customers who place a fixed deposit;

- receive an instant SMS confirmation, which includes a unique verification code (no physical receipts are issued and therefore the customer does not face the risk of damaging or losing the receipt)
- if needed can print a receipt via the Sampath Vishwa portal
- receive their FD certificate by email (no physical certificate is issued and therefore the customer does not face the risk of damaging or losing the certificate)
- can withdraw the deposit from any Sampath Bank branch across the island by presenting the unique verification code

While less emphasis was placed on mobilising term deposits, having observed that the existing fixed deposit portfolio was more skewed towards shorter term (three and six month) FDs, a concerted effort was made to increase the concentration of longer-term tenures. Steps taken in this regard included the launch of the ODFD, a new value addition where depositors with FDs over Rs 100,000 and with tenures over six months have access to an overdraft facility of up to 90% of their deposit. This was coupled with a special promotion aimed at attracting five-year FDs.

Several promotional campaigns were rolled out during the year to promote existing products. Key among them was a savings deposit drive targeting the masses-the extended Avurudu promotion to coincide with the Sinhala and Tamil New Year in April.

Summary of Results

The Deposit unit tabled a satisfactory performance for 2018, with the portfolio registering a year-on-year growth of 10.7%.

Strong growth was observed in the flagship Double S Saver, the Sanhinda Senior Citizens savings product, the Ladies First savings product and the newly launched Money Market saver. The extended Avurudu promotion too proved to be highly successful, bringing in record savings during the two-month long campaign. With all major products showing improved results, the Bank's CASA growth exceeded the industry average.

Meanwhile the strategies deployed to increase the share of longer tenure FDs also delivered good results, further contributing towards lowering the Bank's AWDR below the industry average.

The foreign currency (FC) deposit portfolio also showed a significant improvement. Actual results exceeded targets set for the year thanks to a series of highly-focused strategies aimed at growing the FC customer base.

No major change was observed in the deposit mix compared to the previous year.

Future Focus

Plans for the future will largely focus on strengthening the Bank's CASA ratio, which would mean strategically enhancing the savings suite to increase the captive market share in existing customer segments.

Tapping into new and emerging customer segments, in particular the youth segment, will also be a key priority that would require innovative, technology-driven solutions equipped to provide greater flexibility and increased customer convenience.

Loans and Advances Strategy and Focus

The main strategic thrust for the consumer lending model in 2018 was to operationalise the broad-based lending approach introduced under the paradigm shift program rolled out in 2017. In this context, the Business Support Centre (BSC) and the Central Credit Processing Unit (CCPU), the two units that were carved out following the Paradigm Shift, remained focused on executing their mandates-the CCPU aiming to expand the retail lending base through smaller ticket retail lending, while the BSC looks to deepen the penetration into the SME segment vis-a-vis a unique and highly-personalised door-step banking proposition.

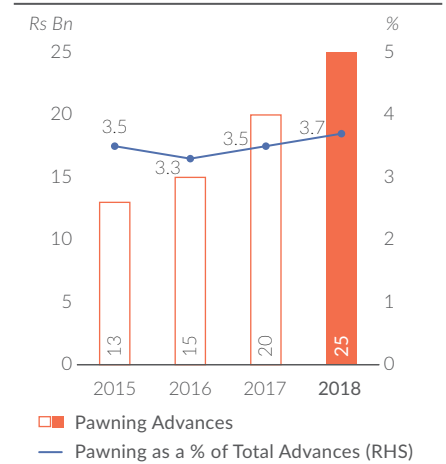
The branch network, assigned to promote all core retail lending products; leasing, pawning and housing loans, stepped up targeted promotional campaigns to stimulate demand across all customer segments amidst a decidedly weak credit appetite in the market.

Being a core lending product of the Bank, growing the leasing portfolio was a top priority. Spearheading efforts in this highly-segmented leasing market was the 'Leasing Wasi Thun Mase' mega leasing drive that kicked off in

June 2018. Rolled out as a limited time offer of competitive rates and extended settlement periods, the promotion targeted salaried public and private sector employees and owners of small and medium sized businesses. Complementing the effort, several leasing fairs were held across the country in partnership with leading automobile dealers in key towns, including Chilaw, Matara, Galle, Jaffna and Ratnapura. Furthermore, pivoted on the Government's February 2018 decision to relax the LTV rules for hybrid and electric vehicles, the Bank strengthened its ties with a number of major automobile agents in order to position Sampath Bank as the foremost specialist in providing flexible tailor-made leasing solutions for the mass market. In the first half of the year a strong push to pursue vehicle imports on standard issue Government permits saw the launch of a special leasing package for permit holders. This was coupled with an aggressive BTL campaign to reach out to high-ranking state sector employees and medical professionals who were eligible for permits.

More emphasis was also placed on expanding the pawning business, which has proven to be a key contributor to the consumer banking franchise over the past three years. Several localised

Pawning Advances



campaigns were conducted at branch level parallel to a widespread four month mass media campaign from April to July 2018. Moreover in a well-timed effort to take advantage of the higher gold prices resulting from the Government imposed tax on gold imports, the 'Polee Wasi' special promotion was launched in August 2018, with the aim of capturing a larger chunk of the second-tier pawning market.

In the housing loan segment, all efforts were directed towards capitalising on the country's urbanisation program, with special emphasis on managing the exposure to the condominium market. Steps taken in this regard included the launch of a new home loan product targeting working professionals, where a five-year grace period was offered for the capital servicing. Meanwhile, in keeping with its prudent approach towards the condominium market, the Bank tied up with a few selected developers to secure appointments as the preferred banking partner for potential buyers for 62 condominium projects in the Western Province and another one in the Central Province. Alongside this, a structured lending scheme was also unveiled specifically targeting the large Sri Lankan community residing overseas (PR visa holders or dual citizens) to give them the opportunity to invest in the country.



Leasing Fair at Chilaw

"Efforts to grow both the card base as well as transaction volumes were facilitated by aggressive promotional activities carried out throughout the year under the ongoing theme to promote SampathCards as the 'Responsible Choice.'"

Summary of Results

The aforementioned growth strategies culminated in boosting lending activities for the year, leading to a 17.2% increase in new volumes compared to the previous year. The Bank's gross lending portfolio reached Rs 670 Bn as at 31st December 2018, up by 17.3% from a year ago, the result of robust growth reported across the board. Retail lending grew by 10.6% year-on-year, while leasing, pawning and housing loans also performed equally well, growing by 13.7%, 26.8% and 17.7% respectively over the previous year.

Future Focus

Going forward, the focus would be to develop a more responsible credit culture among retail customers as well as SMEs. For the Bank, this means moving away from the conventional standalone lending practices in favour of an integrated lending model encompassing leasing, housing and personal loan facilities that has the capacity to support customers in achieving their personal life goals.

However, given the current economic conditions, the Bank will remain cautious in lending to the retail sector and will likely follow a selective lending strategy for the foreseeable future.

Cards Strategy and Focus

In an increasingly unpredictable operating environment made more competitive by a growing number of new entrants and lately the arrival of Fin-Techs, the key focus for SampathCards was two-pronged; to secure captive markets and grow market share, while managing costs in order to achieve profit expectations for 2018.

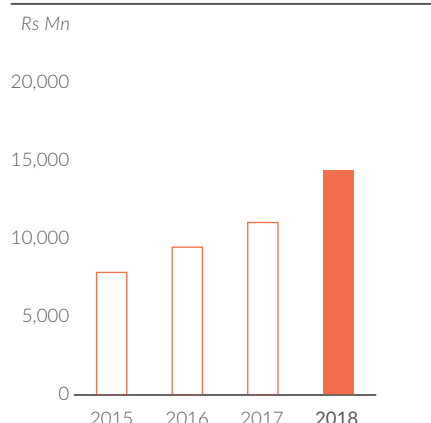
Efforts to grow both the card base as well as transaction volumes were facilitated by aggressive promotional activities carried out throughout the year under the ongoing theme to promote SampathCards as the 'Responsible Choice'. Key activations in this regard included the AMEX everyday card, the seasonal promotions in April and December, the iconic town-on-sale campaign and the 30M +1 free installment promotion for high value consumer goods, as well as the year-round offers in partnership with leading supermarkets and hotel chains.

Another initiative to boost usage volumes was the SABS (Sampath Automated Bill Settlement) rollout, offering a hassle-free solution for monthly utility bill settlements where customers can instruct their utility service providers to dispatch their monthly bills direct to the Sampath Card Centre to be charged to their respective card.

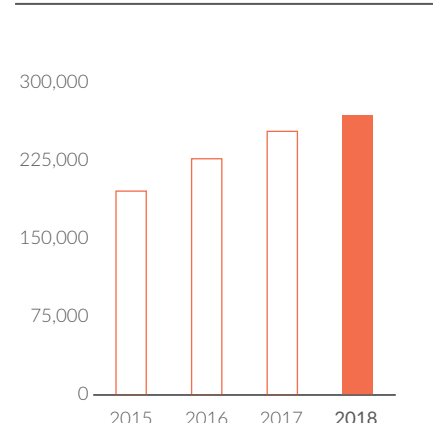
Moves were also made to revive dormant cards through a highly-focused BTL campaign. As a follow-up to this strategy, the card validity period was increased from two years to four years, while the existing loyalty program was revamped and a new service provider recruited to popularize the program among customers. The main aim here was to ensure that the card proposition remains attractive and relevant in order to minimise the numbers in the dormant category.

Meanwhile cost control strategies were also accelerated to focus on containing NPAs within acceptable limits, which saw part of the recovery process was outsourced in order to tighten follow-up protocols especially for past dues.

Credit Card Advance Portfolio



No. of Credit Cards



Sampath Simplified...

The following value additions were introduced in 2018 to give cardholders a new and improved customer experience;

- Instant SMS confirmation of the available balance after every transaction on the card.
- Missed call banking to check the available account balances instantly.
- The launch of a Virtual Web Card (to be used exclusively for e-commerce transactions) which can be obtained instantly through the Sampath Vishwa online banking portal.
- Digitalisation of the on-boarding process, enabling customers to complete their application online.

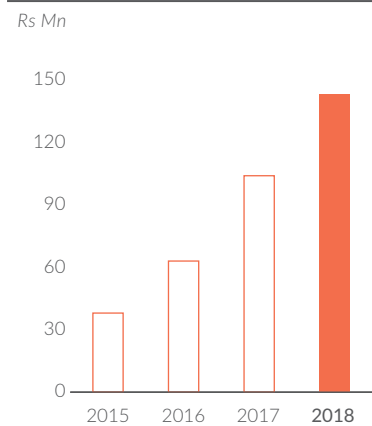


Town on Sale Matarra

Future Focus

While the focus going forward would largely remain the same, a stronger emphasis would be placed on increasing the functionality of the Bancassurance model. Programmes to raise awareness among staff and increase the cross-selling capacity of field staff were held in a bid to help them promote the Bancassurance concept to a wider island-wide customer base.

Bancassurance Income



Summary of Results

The customer base grew by 17.4% during the year, with a total of 59,044 new cards added to the base in 2018. Card usage volumes also hit record numbers, increasing by 15.0% in 2018, compared to the corresponding period in the previous year. Consequently, the card portfolio as at 31st December 2018 reached Rs 14.4 Bn, up 30.3% from Rs 11.0 Bn recorded at end-December 2017.

NPAs too remained well contained and below the threshold limit, thanks to stringent monitoring and recovery actions.

Future Focus

The priority for the future would be to build customer loyalty in order to stay ahead of peers and gain market share. This would mean systematically broadening the scope of each card proposition to ensure it remains relevant to the customers changing lifestyles and spending patterns.

Bancassurance Strategy and Focus

The main priority for the Bancassurance business in 2018 was to increase referral fee income. In working towards achieving this key objective, aggressive campaigns were launched throughout the year 2018 to tap into new vehicle leasing customers and encourage them to obtain their insurance through the Bank rather than through outside agents (OSA).

Summary of Results

The Bancassurance income registered growth of 38.3% year-on-year, exceeding the target for 2018. Moreover the Bank's decision to offer leaseback facilities had a mixed impact on the volumes generated through the Bancassurance business.

CORPORATE BANKING

"Meanwhile, in order to minimise risks amidst tough economic conditions, Corporate Finance further expanded its structured debt financing model with a view to assist clients to improve their liquidity."



Bank Funded Bio-Mass Project in Embillipitiya (Commissioned in Year 2018)

Corporate Finance Strategy and Focus

Despite volatile local economic conditions, the Corporate Finance Department remained firmly committed to pursue its proven on-shore lending model, where priority was to expedite local lending activities to economically significant sectors such as financial services and renewable energy. The department's focus on developing customised digital solutions for payments, collections, payroll, payment servicing, etc. for its corporate customers contributed towards boosting the Bank's CASA growth. The move is also part of a broader strategy to build long-term relationships that would pave the way for increased scalability for the future.

Meanwhile in order to minimise risks amidst tough economic conditions, Corporate Finance further expanded its structured debt financing model with a view to assisting clients to improve their liquidity.

With limited lending opportunities in the local market, increased weightage was given to the offshore lending segment. The selective lending strategy adopted in the past was broadened albeit within the Bank's conservative risk appetite followed by a deliberate push to position

Sampath Bank as the leading financier for local companies seeking to establish an overseas presence. This was coupled with targeted efforts to tap into offshore loan syndication opportunities. Both strategies were aimed at increasing the Bank's footprint within the region as well as boosting fee-based income.

The custodian services segment was maintained despite depressed conditions in the local equity market, while the Bank continued offering escrow services to the real estate segment.

Summary of Results

Concluding what is seen as a successful year amidst tough operating conditions, the on-shore loan book grew by a moderate 30% year-on-year, led by robust demand from the financial services and renewable energy sectors.

The offshore lending portfolio on the other hand registered a significantly improved performance, thanks to proactive efforts by the Corporate Finance Department to tap into new lending opportunities including the Bank's appointment as the lead arranger to a large off-shore project in the region.

The fee-based income segment also achieved satisfactory results in 2018.

Future Focus

With economic uncertainty expected to overshadow the growth prospects of the country in the immediate future, the priority for the on-shore lending model would be to safeguard existing strongholds, while cautiously exploring opportunities in special projects. The main focus however would be to grow the off-shore lending line through strategic partnerships that would expand the Bank's reach beyond the South Asian region and towards hyper-growth economies in East Asia and emerging economies in the African region.

Corporate Credit Strategy and Focus

Challenged by the visible economic downturn in 2018 and the subsequent lack of credit demand, the Corporate Credit Department was compelled to adopt a conservative approach towards achieving growth targets. Accordingly the emphasis was on deepening the penetration into captive markets rather than the aggressive volume-based strategy followed in the recent past. Leveraging on the sector specialisation model promulgated by the 2017 Paradigm Shift, a deliberate push was made to increase the exposure to existing clients in potentially high-growth sectors such as trading, manufacturing, IT and healthcare.

At the same time, with sectors such as Agriculture, Construction and Tourism facing difficulties, the focus moved towards consolidating lending activities to these sectors. In this regard, additional investments were made to build capacity among RMs (Relationship Managers) and enable them to use their sector specialisation expertise as a risk mitigation tool to manage the exposure to these ailing sectors and thereby help to safeguard the credit quality of the portfolio.

Sampath Simplified...

The LC opening process was digitalised to allow;

- Customers to complete the LC documentation through the Sampath Vishwa Corporate Portal.
- All customer documents to be scanned and uploaded along with the application.
- Managers to work with delegated authority limits ensuring a speedier service to the customer.

Summary of Results

Despite its cautious lending approach, the Corporate Credit Department succeeded

in achieving a moderate growth target, with the portfolio reporting a 10.8% growth compared to the previous year. The sector-wise lending mix for 2018 indicates increased exposure to the manufacturing and trading sectors, further testifying to the success of the aforementioned strategies in particular the sector specialisation model.

Although Corporate Credit NPA levels of trading, manufacturing and IT sectors remained within acceptable limits, a notable increase was observed in the Construction, Tourism and Agriculture sectors, all of which were severely hit by a series of macro-economic variables.

Future Focus

Given the uncertain economic climate, the focus for the immediate future would be to consolidate the portfolio in order to achieve the optimum sector mix that would safeguard the credit quality while continuing to generate consistent above-average returns for the Bank.

Foreign Currency Banking Unit (FCBU) Strategy and Focus

Operating amidst increasingly competitive conditions, the FCBU's on-shore lending strategy for 2018 remained focused on deepening the penetration into certain

key industries that have consistently demonstrated above-average results. In this regard a series of campaigns were rolled out specifically to capture a larger share of the Apparel sector and rubber-related Agriculture exports, BPO and KPO industries.

In addition, to counteract the apparent lack of growth opportunities in the largely saturated local market, the FCBU began to look more keenly at increasing its offshore lending exposure. Spearheading this effort was an aggressive market development strategy aimed at reaching out to existing corporate customers who have an overseas presence.

The focus on Myanmar was another key part of the FCBU's offshore lending strategy. Action taken in 2017 to pursue direct lending opportunities in Myanmar via the Bank's representative office in that country, gathered further momentum in 2018, with the FCBU hosting a special program to create awareness among local investors regarding potential investment opportunities in Myanmar.

Summary of Results

With the strategies outlined above yielding favourable results, the FCBU succeeded in achieving all performance objectives for the year. The advances portfolio reported growth of 36% over the previous year, bolstered by a 80% increase in off-shore lending exposure.

Future Focus

While maximising the prospects in the local market, the main thrust for the future would be to increase the share of off-shore lending in the FCBU advances portfolio. Doing so would call for more precise tactical strategies to sharpen the off-shore lending model to match the evolving needs of the global marketplace in the years ahead.



Business Forum 'Familiarising Business with Myanmar'

SME BANKING

"Working towards an ambitious growth target in market share in the SME segment by the year 2020, the BSC would focus on specific strategies to reach out to rural markets, especially through the release of first-to-market digital products that would give the Bank a definite competitive advantage in the years ahead."

Strategy and Focus

The main thrust for the SME Banking model in 2018 was to focus on promoting Development Financing and SME Lending and support Government-led SME development programmes. The 'BSC' (Business Support Centre) set up in 2017 continued to be the key driver in this regard. The role of the BSC was expanded beyond that of direct SME lending, to focus on catering to the broader spectrum of SME needs. Accordingly, the BSC's highly-skilled team of credit evaluators were assigned to provide business advisory services, assistance in financial planning, import export services and forex advisory, etc.

Following this structured approach, BSC teams leveraged on the Bank's extensive retail network to pursue

potential lending opportunities across the country, with a stronger emphasis on promoting import and export trade financing as well as extending direct credit to SMEs in identified sectors. This was operationalised by tapping into several SME credit lines, including the Government sponsored 'Enterprise Sri Lanka' initiative and the ADB line.

Summary of Results

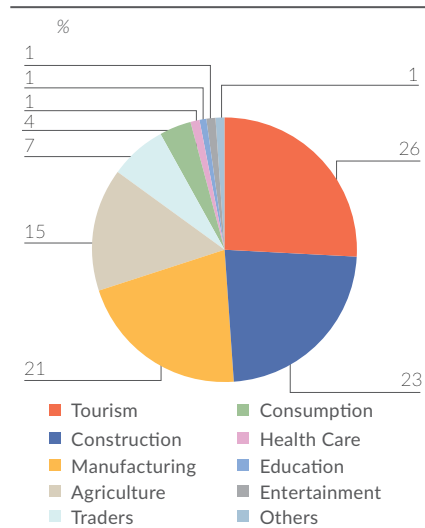
Risk Category	Achievement against Budget (%)
SMEs	117.6
Others	138.4
Total Advances	124.9

Despite being a relatively new concept, preliminary results suggest that the BSC's door-step banking model is well received in the target market enabling all KPIs for the year to be achieved successfully.

Future Focus

Moving forward the focus would be to further expand the BSC's capacity beyond its role as a centralised unit, with BSC officers being deployed to capture

Sector-wise SME Loan Portfolio



available opportunities at a regional level. Working towards an ambitious growth target in market share in the SME segment by the year 2020, the BSC would focus on specific strategies to reach out to rural markets, especially through the release of first-to-market digital products that would give the Bank a definite competitive advantage in the years ahead.



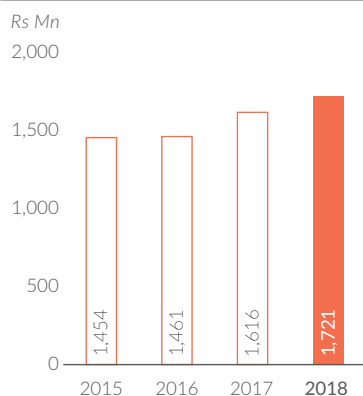
'Sampath Saviya' – Entrepreneur Development Programme

"Digitalising the Telegraphic Transfer (TT) process was another initiative aimed at enhancing operational efficiencies whilst creating customer convenience."

International Trade Strategy and Focus

Relying on a multipronged strategy to drive import/export trade volumes, the International Trade Services units accelerated their focus on the country's fast-developing SME market. The main effort for the year was led by a series of SME clinics held across key cities of Kandy, Negombo, Galle and Kurunegala. Targeting existing and potential customers, these SME clinics were organised as a platform to enable small business owners to reach out to representatives of almost all regulatory bodies and receive guidance and advice that would help to enhance the effectiveness of their business operations. Hand-in-hand with this, the Export Bonanza scheme was reintroduced as

Fee & Commission Income - Trade Related Services



SME Clinic held in Kurunegala

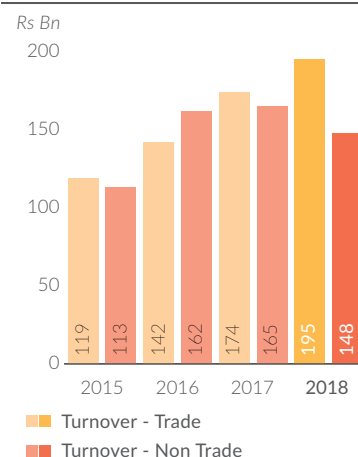
a limited time offer between June and August 2018 accompanied by a two-tier rate structure to appeal to existing customers as well as attract new customers.

Meanwhile, with recurring challenges in the form of regulatory restrictions on import LC margins, the upward revision in vehicle import duties and the sharp depreciation of the Rupee adding to the uncertainty in operating environment, digitalisation of trade support services was seen as a means of producing a competitive edge in the market. In this regard, several new initiatives were rolled out during the year, most significant being the digitisation of the LC opening process to enable customers to complete their LC opening process online. Digitalising the Telegraphic Transfer (TT) process was another initiative aimed at enhancing operational efficiencies whilst creating customer convenience.

Future Focus

Going forward the priority would be to tap into all market segments across the country. It is expected that this effort would be driven by the dedicated trade services units set up at selected branches. Accordingly, the program to set up dedicated trade services units, which

Trade & Non-Trade Related TT Volumes



commenced in 2017 would be expedited in the coming year. Higher investment in digital platforms is also planned in order to increase the reach and also further enhance the customer convenience factor.

Bank Notes Operations Strategy and Focus

Despite a strong leadership position in the market and being the only bank to handle a total of 26 global currencies, Sampath Bank's BNO unit continues to face stiff competition mainly on account of the growing number of informal channels. With all efforts for the 2018

focused on staying ahead of peers, the Bank tied up with a second repatriation partner during the year. Having previously operated with only one repatriation agent based in Singapore, this new agreement with a ground partner in the middle east will allow the Bank to expedite the currency handling process within that region.

Meanwhile, as part of the overall efficiency improvement strategy, the BNO operating system was also upgraded to enable speedier service to the customer.

Summary of Results

Although results for the year indicate a decrease in repatriation volumes compared to the previous year, the BNO's bottom line grew by a commendable 22.2% year-on-year. This was mainly attributed to the 8.2% increase in exchange income as at 31st December 2018 coupled with the strict cost control measures implemented during the year that ensured the cost structures to remain on par with the previous year.

Future Focus

With the BNO's currency repatriation volumes pegged to the price of gold in the local market, it is expected that should the Government imposed 15% Gold Tax remain in effect, repatriation

volumes for the forthcoming year would most likely see a decline. The main strategic thrust in the year ahead would therefore be to generate a reasonable increase in volumes that would enable the BNO to maintain its leadership position in the market.

Remittances Strategy and Focus

In the year under review, the key priority for the inward remittances business was to increase the concentration within the GCC region which accounts for a significant chunk of the Bank's inward remittance volumes. In parallel, targeted efforts to deepen the penetration in the EU region were further stepped up. Meanwhile, given the business sensitivity to global geopolitical events and the lessons learnt in the past, expanding the global footprint was seen as crucial. Accordingly to reduce the dependency on a few key markets, several new partners were onboarded during 2018, including new tie-ups in UK and Australia, while efforts to strengthen the outreach in existing markets led to two new signups in Japan where the Bank had up to now been operating through only one ground partner. The Bank's new partnership with Western Union Money Transfer System which came into effect on 15th September 2018 also adds a considerable

boost to the Bank's global coverage by providing access to 500,000+ agents in 200 countries around the world.

The Bank has a special arrangement with the Bureau of Foreign Employment in Sri Lanka to conduct training programmes for migrant workers before leaving the country.

The Bank's appointment as the Exclusive Banking Partner for the newly launched Qatar Visa Centre where all Qatar migrant workers' visas are processed is also seen as a significant breakthrough in reaching out to an estimated 56,000+ migrant workers travelling to Qatar each year.

Sampath Simplified...
<p>The following measures were taken with the aim of enhancing the customer experience;</p> <ul style="list-style-type: none"> To cut down on transaction time, most existing partners were integrated with the Bank's web solution, enabling them to send remittances instantly in realtime.

Summary of Results

With all market penetration strategies working out as expected, inward remittance volumes registered a strong 22.3% growth compared to the previous year. The number of transactions too were significantly higher than what was reported in the previous year.

These are seen as a significant achievements, particularly in light of the fact that overall inward remittances to the country in 2018 declined by 2.1% from the figure reported in 2017.

Future Focus

The focus for the future will be mainly twofold; firstly, to strategically increase the Bank's global presence in order to grow market share in all markets, and secondly, to expedite the digital migration strategy to produce digital solutions that would secure a distinct competitive advantage over peers.



Bank's appointment as the Exclusive Banking Partner for the newly launched Qatar Visa Centre

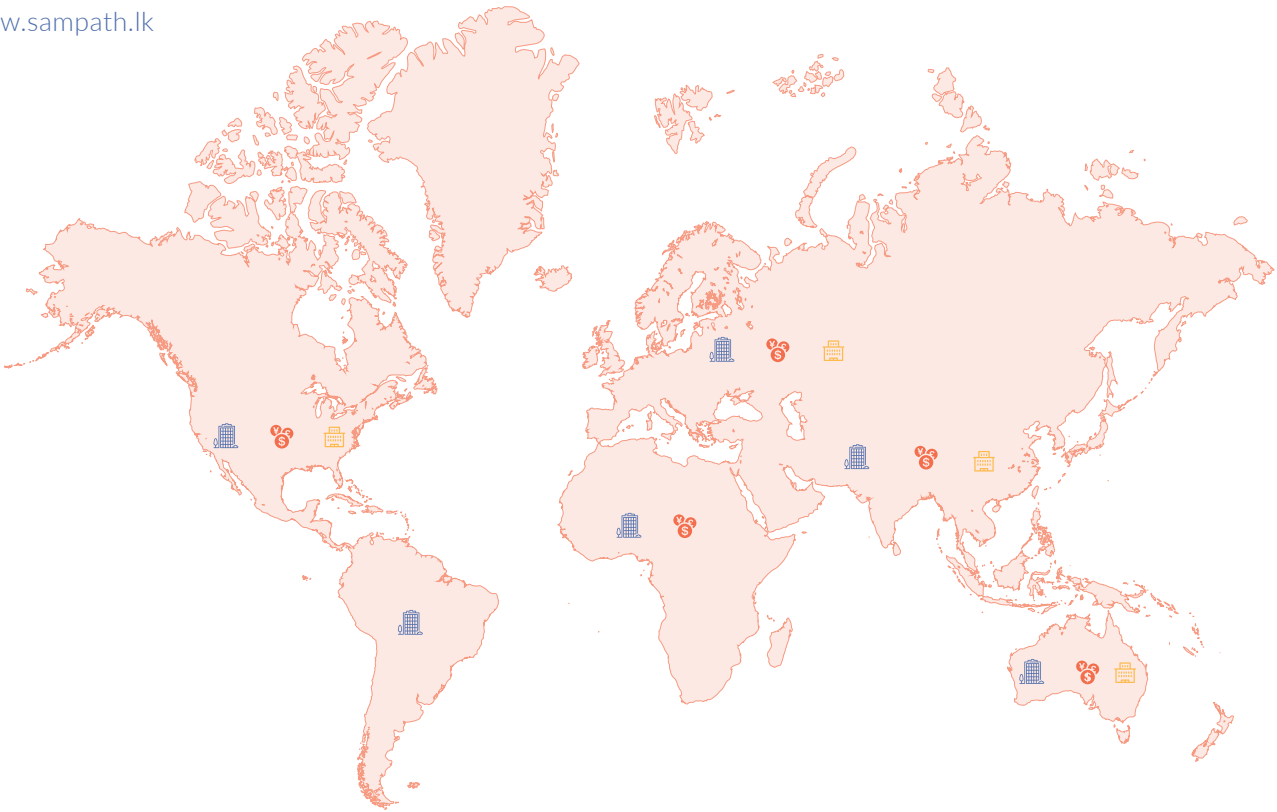
NOSTRO ACCOUNTS, CORRESPONDENT BANKS AND EXCHANGE COMPANIES

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Exchange
Companies

TREASURY

"With the top-line and bottom line growing by 17.8% and 31.0% respectively over the previous year, the Treasury retained its position as the top contributor to the Bank's results in 2018."

Strategy and Focus

With several key areas under its purview, the Treasury adopted a combination of its customary strategies and a few bold new approaches to ensure growth targets for 2018 were met. This is especially evident in the Treasury business as predicted in the previous year, global markets remained volatile in 2018, with the US-China trade tensions, the anticipated rate hike by the US Federal Reserve and the macroeconomic bullishness in the EU region, all having a negative bearing on the flow of investment into emerging markets in Asia and Sri Lanka. To overcome the challenge, the Treasury capitalised on the CBSL's decision to maintain greater stability in both the SDFR and the SLFR in the last quarter of the year, and focused on increasing the share of other interest yielding assets such as SLDBs in the Bank's fixed income portfolio. Diversifying into Sri Lanka Sovereign Bonds was another strategy that was actively pursued in the year under review.

Moreover, faced with considerable policy uncertainty after the directives issued by the regulator as part of the revised Foreign Exchange Act, as well as the sharp depreciation of the Rupee in mid-September 2018, the Treasury prudently leveraged on market trends in order to drive foreign exchange income especially in the last quarter of the year. Developing a new structured derivative instrument was also undertaken in a bid

to encourage greater participation in the market by high-net worth individuals and thereby grow the derivatives book of the Bank.

Activity in the Treasury Bill portfolio was marked by stable rates for three-month, six-month and one-year bills, prompting the Treasury to continue with its proven strategies to boost NIMs. A concerted effort was also made to maximise capital gains, amidst tough economic conditions that saw the market hovering at short position for most of the year.

Several operational improvements were made in 2018, most notable among them being the continuous improvements to the Treasury system. The move is part of the Treasury's overall strategy to its streamline customer service model and thereby sharpen its competitive position in the market. To further complement the effort, the investment on staff training was increased, with members of the Treasury team participating in both local and overseas training programmes.

Meanwhile, in carrying out its mandate to manage the Bank's liquidity position, the Treasury focused on maintaining consistent liquidity levels throughout the year, well above the required statutory limit.

The BNO business, which comes under the purview of the Treasury, performed well and succeeded in making a significant contribution to the Bank's bottom line.

Summary of Results

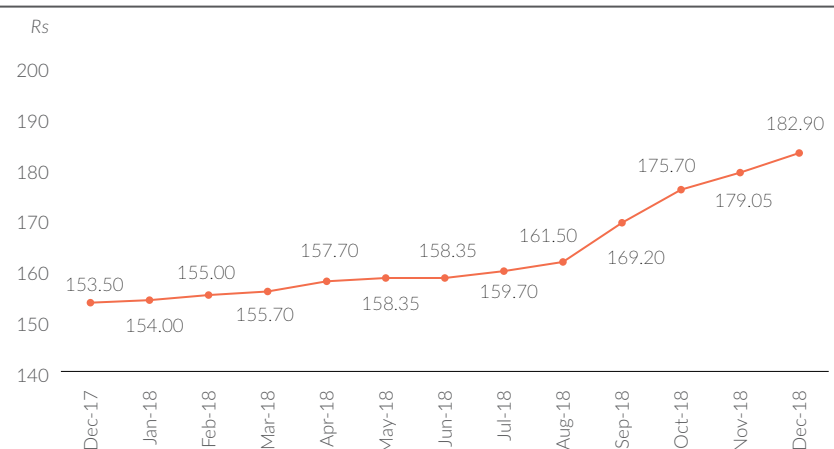
On all fronts, the performance of the Treasury exceeded expectations for the year. With the top-line and bottom line growing by 17.8% and 31.0% respectively over the previous year, the Treasury retained its position as the top contributor to the Bank's results in 2018.

Future Focus

Operating in a highly market-sensitive environment, the main priority for the Treasury would be to proactively respond to market sentiments in order to complement each of its business activities, while strengthening the Bank's overall balance sheet and contributing positively to the bottom line in the coming year.

The political, economic, social and technological environments are likely to remain challenging for the foreseeable future and the Treasury would look to leverage on the strength of existing customer relationships as the main growth catalyst in the years ahead.

USD/LKR Movement in 2018



"With no clear indication that operating conditions are likely to improve in the near future, the Recoveries Department will continue to direct its attention towards controlling new entrants to the NPA bucket. The strategies initiated in 2018 are expected to take the lead in achieving this objective."



BSC's (Business Support Centre) doorstep banking teams conducting regular field inspections of customers

Network Services Centre (NSC)

Continuing its mandate to offer critical back office support for the Bank's core operations, the main focus for NSC was to complete phase 2 of the process digitisation agenda that commenced in 2017. Most notably, the digitisation of the document archiving process, which began in the previous year, was successfully implemented.

Central Cash Department (CCD)

Assigned with the responsibility of managing all cash requirements, the CCD took steps to further rationalise the cash management operation in 2018. Most notable among them was the investment in a predictive cash management tool equipped with advanced forecasting techniques to support the Bank's minimum cash requirements at any given time.

Recoveries

Strategy and Focus

The main challenge for the Recoveries Department in 2018 was to contain the volume of new entrants to the NPA bucket and maintain NPL ratio within acceptable limits, particularly as uncertain

economic conditions and adverse weather that prevailed last year continued to bring pressure on the tourism and agriculture sectors, both areas where the Bank has a considerable exposure.

Overall monitoring mechanisms were strengthened with several new early warning tools introduced in order to prompt the Recoveries Department towards taking necessary preemptive action. As part of this same strategy, the BSC's (Business Support Centre) doorstep banking teams were tasked with conducting regular field inspections to identify customers facing difficulties and escalate such cases to the Recoveries Department for immediate action.

This was accompanied by a series of internal staff reassignments to increase oversight for the branch recovery effort, together with the recruitment of senior level officers to boost resources at the Central Recoveries Department. To further strengthen the recovery management model, the Recoveries Department was brought directly under the purview of the Managing Director with effect from 25th August 2018. Following this change, extensive training was carried out to sharpen the skills of the central recovery team as well as field recovery personnel.

Meanwhile, efforts to further streamline the recovery process saw certain parts of the recovery model being outsourced, with the Bank tying up with ten outsource partners to contract out the recoveries below a specified limit. The move forms part of a broader effort to consolidate internal resources and increase the focus on recovery of high value loans.

Summary of Results

Through these widespread efforts the Bank was largely successful in containing the volume of new entrants to the NPA bucket. The Bank's NPL ratio as at 31st December 2018 was 3.69% which, despite being higher than the 2017 figure, was only slightly above the 2018 industry average of 3.4%.

Future Focus

With no clear indication that operating conditions are likely to improve in the near future, the Recoveries Department will continue to direct its attention towards controlling new entrants to the NPA bucket. The strategies initiated in 2018 are expected to take the lead in achieving this objective.

PERFORMANCE OF SUBSIDIARIES

GRI 102-45

SIYAPATHA FINANCE PLC

Siyapatha Finance PLC (Siyapatha) is a fully-owned subsidiary of Sampath Bank PLC. First established in March 2005 as Sampath Leasing & Factoring Limited, the Company was rebranded in September 2013 to its current name after being issued a finance company license under the Finance Business Act No. 42 of 2011 by the Central Bank of Sri Lanka.

During the year 2018, banking and finance sector performance was affected due to low credit demand. Due to the prevailing economic conditions, the asset quality deteriorated and financial institutions had to book higher impairment charges. The country adopted SLFRS 9 with effect from 1st January 2018 which required the calculation of impairment based on an expected credit loss model, resulting in the impairment provisions increasing substantially in comparison to the previous year.

Nevertheless Siyapatha recorded a pre-tax and post-tax profit of Rs 833.8 Mn and Rs 516.5 Mn respectively. Net interest income and net fee & commission income registered a year-on-year growth of 48.0% and 14.6% respectively. The Company's lending portfolio grew by 20.9% to reach Rs 33.0 Bn as at the year end. However, due to the reasons mentioned above, the impairment charge on the financial instruments increased by Rs 593.0 Mn (250.5%) compared to the previous year.

The Company raised Rs 650 Mn worth of share capital by way of two Rights Issues in January 2018 (Rs 250 Mn) and in November 2018 (Rs 400 Mn).

SC SECURITIES (PRIVATE) LIMITED

SC Securities (Private) Limited is the stock broking arm of the Sampath Bank Group and is a fully-owned subsidiary of the Bank. The Company is a licensed member of the Colombo Stock Exchange and operating in Sri Lanka's capital market since 1992.

Challenged by low economic activity and political uncertainty, total market turnover of the Colombo Stock Exchange recorded a decrease of 8.7% from Rs 224.2 Bn in 2017 to Rs 204.6 Bn in 2018. Consequently the All Share Price Index (ASPI) and the S&P Index too declined to 6,052 and 3,135 respectively by end 2018, reflecting a YoY decrease of 5.0% and 14.6% respectively.

Despite these conditions, the Company managed to increase its turnover by Rs 3.9 Mn during the year from Rs 30.6 Mn in 2017 to Rs 34.5 Mn in 2018, a growth of 12.8%. S C Securities however continued to incur losses in 2018 as well. Post tax loss for the year was at Rs 6.0 Mn. The Bank also had to invest an additional Rs 100 Mn in this company last year to fall in line with the Colombo Stock Exchange's minimum capital requirements.

SAMPATH CENTRE LIMITED

Sampath Centre Limited was established in 1996 as the first subsidiary of the Bank. The Company owns and manages the building at No. 110, Sir James Peiris Mawatha, Colombo 02, which houses the Bank's head office and the headquarters branch. Rental income earned by leasing out the building space is the main source of income of the Company. At present Sampath Bank occupies all eight floors of the building.

The Company made a pre-tax profit of Rs 688.0 Mn for the year 2018 compared to Rs 601.2 Mn in 2017, a YoY growth of 14.4%. This growth is mainly attributable to the 22.2% growth in fair value gain on investment property and the revision of rental rates.

Reflecting a complete turnaround from the previous year, the Company registered a post-tax profit of Rs 554.7 Mn in 2018. In contrast the Company recorded a loss of Rs 171.1 Mn in the previous year due to the deferred tax adjustment made on the cumulative

revaluation surplus accounted up to 31st December 2017. This deferred tax adjustment was required last year due to the Capital Gain Tax introduced by the new Inland Revenue Act No. 24 of 2017.

Total assets base of the Company increased by 18.0% from Rs 5.0 Bn as at end 2017 to Rs 5.9 Bn by the reporting date. The main asset of the Company is the building situated in Colombo 2.

The building expansion project initiated in 2017 remains on track. The main structural work for the additional six floors was completed by December 2018, while the finishes, electrical, plumbing and fire protection and detection system installation work remains in progress.

SAMPATH INFORMATION TECHNOLOGY SOLUTIONS LIMITED

Sampath Information Technology Solutions Limited (SITS) is another fully-owned subsidiary of Sampath Bank. Having first started off as a hardware equipment supplier to the Group and to other financial and non-financial companies, SITS has now evolved into a fully-integrated IT solutions provider for all industries.

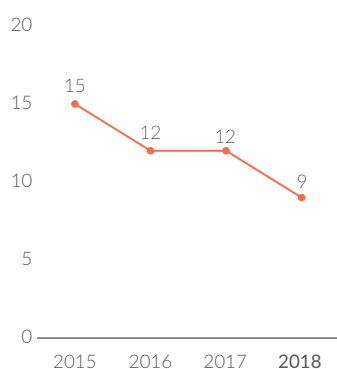
In 2018 the Company recorded a post-tax loss of Rs 69.1 Mn compared to the post-tax loss of Rs 7.7 Mn reported in 2017. This is mainly due to impairment provisions of Rs 93.3 Mn made during the year. However, discounting the impairment provisions and other non-recurrent items, the Company made an operating profit before tax of Rs 12.4 Mn for 2018.

Sampath Bank made a capital infusion of Rs 250 Mn to the Company in January 2018 to support working capital requirements. In 2018 the Company also focused on developing strategic partnerships to strengthen its capacity to provide Enterprise Solutions for all major industries.

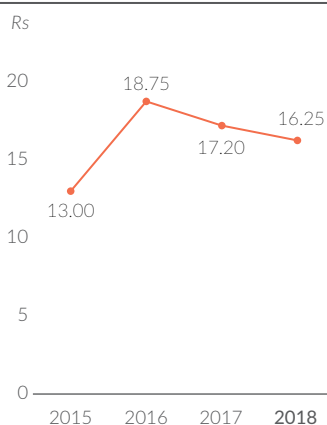
VALUE CREATION FOR SHAREHOLDERS

	2018	2017	Change %
Net asset value per share (Rs)	300.42	293.02	2.53
Group earnings per share - Basic (Rs)	46.85	58.74	(20.24)
Dividend per share (Rs)	16.25	17.20	(5.52)
Market price per share as at 31st December (Rs)	235.00	315.70	(25.56)

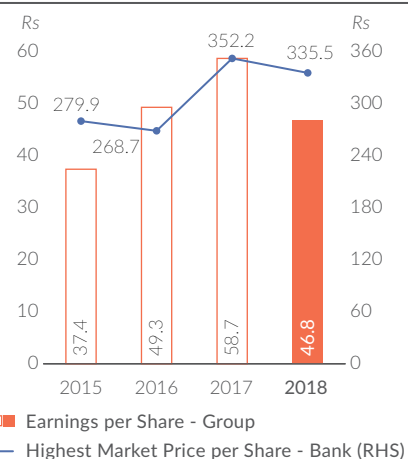
Bank's Market Capitalisation Rank



Dividend per Share



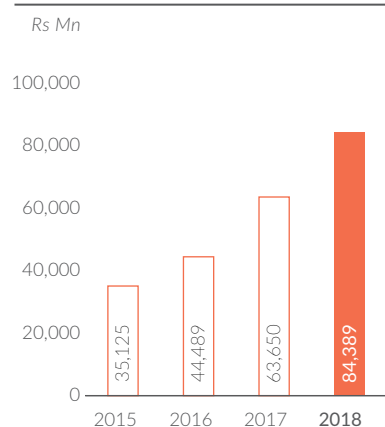
Earnings & Highest Market Price per Share



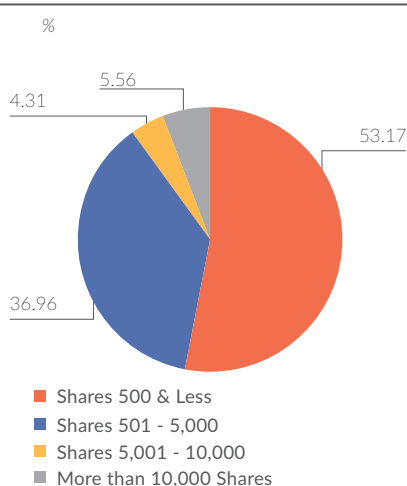
BANK'S MARKET CAPITALISATION IN COMPARISON TO CSE - AS AT 31ST DECEMBER

	2018	2017	2016	2015	2014	2013
Sampath Bank's market capitalisation (Rs Mn)	66,012	68,577	46,086	42,734	39,677	28,843
Increase/(decrease) % in market capitalisation	(4%)	49%	8%	8%	38%	(12%)
CSE market capitalisation (Rs Mn)	2,839,445	2,899,291	2,745,410	2,938,000	3,104,860	2,459,900
As a % of CSE market capitalisation	2.32%	2.37%	1.68%	1.45%	1.28%	1.17%
Market capitalisation rank	9	12	12	15	17	16

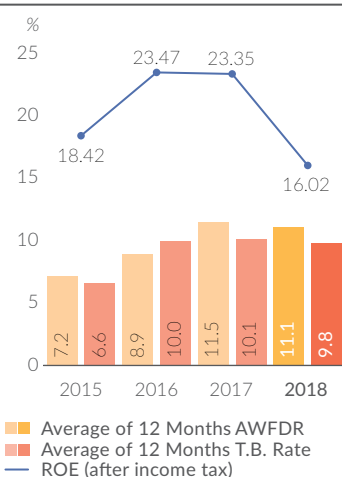
Shareholders' Fund



Composition of Share Ownership - 2018 (No. of Shareholders)



Bank's ROE & Market Interest Rates



INVESTOR INFORMATION

ANALYSIS OF SHAREHOLDERS

Resident/Non-Resident

	31st December 2018			31st December 2017		
	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%
Resident shareholders	18,843	216,548,422	77.09	17,099	171,726,298	79.06
Non-resident shareholders	359	64,353,826	22.91	341	45,495,938	20.94
Total	19,202	280,902,248	100.00	17,440	217,222,236	100.00

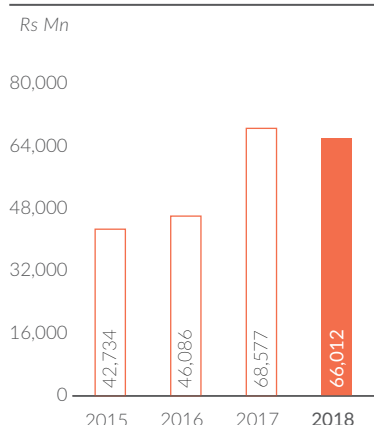
Individuals/Institutions

	31st December 2018			31st December 2017		
	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%
Individuals	18,556	87,607,303	31.19	16,871	74,564,057	34.33
Institutions	646	193,294,945	68.81	569	142,658,179	65.67
Total	19,202	280,902,248	100.00	17,440	217,222,236	100.00

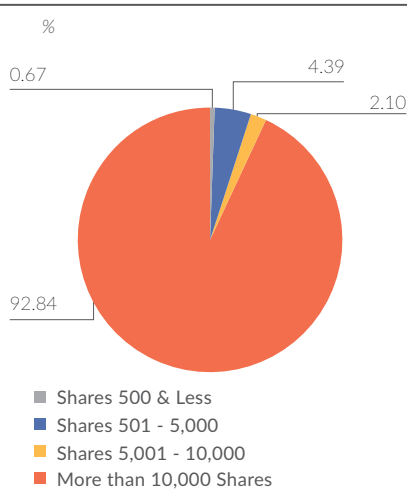
Composition of Share Ownership

	31st December 2018				31st December 2017			
	No. of Shareholders	%	No. of Shares	%	No. of Shareholders	%	No. of Shares	%
Shares 500 & less	10,210	53.17	1,878,336	0.67	9,301	53.33	1,731,815	0.80
Shares 501-5,000	7,098	36.96	12,330,940	4.39	6,530	37.44	10,577,445	4.87
Shares 5,001-10,000	828	4.31	5,907,519	2.10	770	4.42	5,428,554	2.50
More than 10,000 shares	1,066	5.56	260,785,453	92.84	839	4.81	199,484,422	91.83
Total	19,202	100.00	280,902,248	100.00	17,440	100.00	217,222,236	100.00

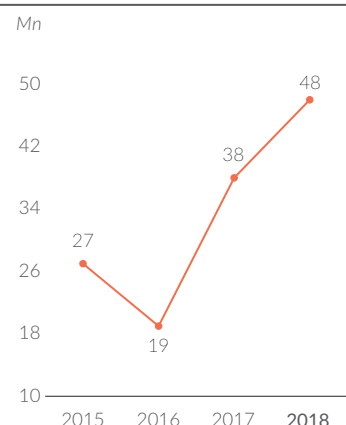
Bank's Market Capitalisation



Composition of Share Ownership - 2018 (No. of Shares)



Share Trading - Sampath Bank PLC (No. of Shares Traded)



SHARE TRADING

Market

	2018	2017	2016	2015	2014
No. of transactions	885,657	981,977	1,056,849	1,506,790	1,982,709
No. of shares traded	6,000,737,306	8,468,273,611	7,195,805,445	9,414,661,048	16,721,524,209
Value of shares traded (Rs Mn)	200,068	220,591	176,935	253,251	340,917

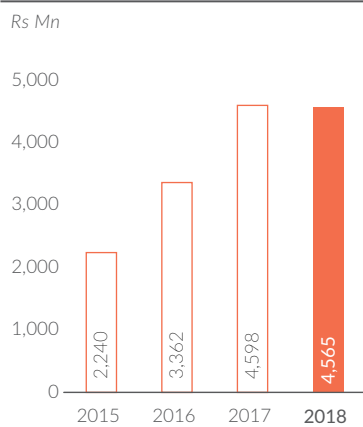
Bank

	2018	2017	2016	2015	2014
No. of transactions	29,623	17,547	10,698	14,460	18,403
No. of shares traded	48,444,177	37,726,071	18,830,195	26,898,512	27,712,319
As a % of total shares in issue	17.25	17.37	10.64	15.61	16.50
Average daily turnover (Rs Mn)	56.75	48.94	18.77	29.22	24.34
Value of shares traded (Rs Mn)	13,621.11	11,793.39	4,484.95	6,982.39	5,866.37

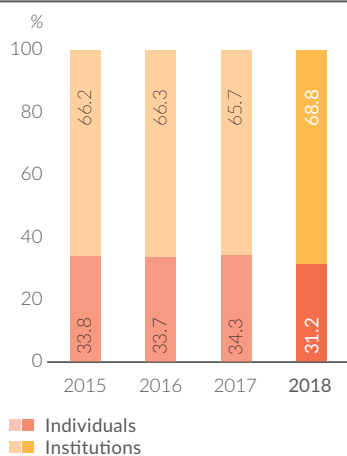
Sampath Bank's Share Price Fluctuation

	2018	2017	2016	2015	2014
Lowest market price (Rs)	218.00	253.50	210.00	235.20	164.20
Highest market price (Rs)	335.50	352.20	268.70	279.90	252.00
Closing price as at 31st December (Rs)	235.00	315.70	260.40	248.00	236.30

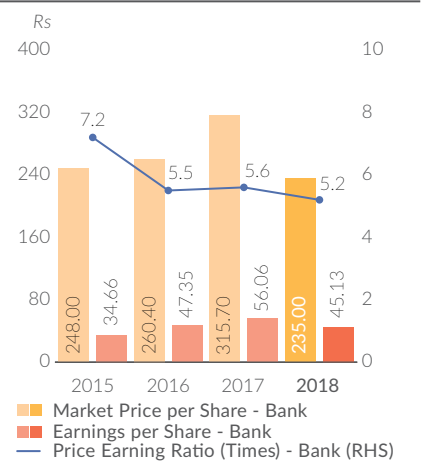
Gross Dividend



Shareholding of Individuals & Institutions

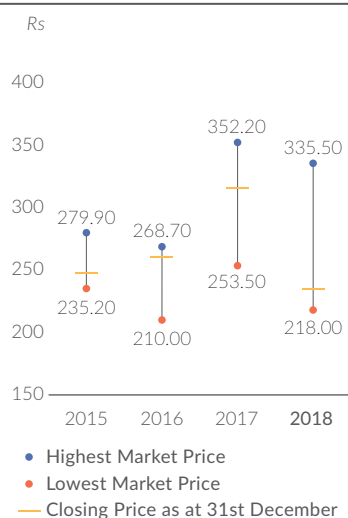


Price Earning Ratio as at 31st December

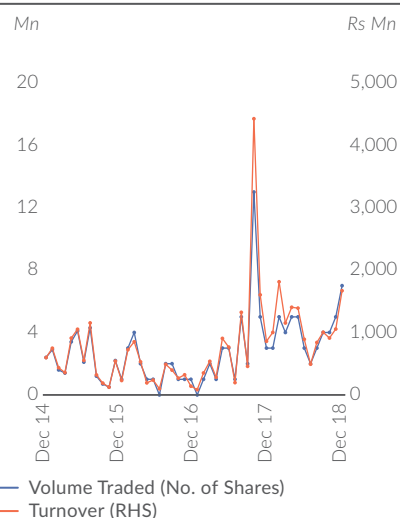


INVESTOR INFORMATION

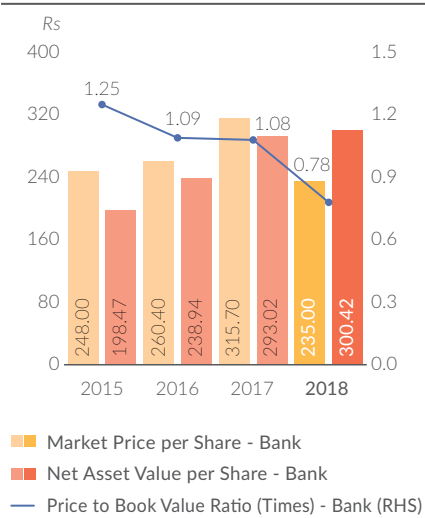
Bank's Share Price Fluctuation



Share Trading - Sampath Bank PLC



Price to Book Value as at 31st December



SAMPATH BANK PLC - ORDINARY SHARES

Frequency Distribution of Shareholders as at 31st December 2018

Share Range	Resident				Non Resident				Total			
	No. of Shareholders	%	No. of Shares	%	No. of Shareholders	%	No. of Shares	%	No. of Shareholders	%	No. of Shares	%
1-250	6,018	31.34	413,279	0.15	80	0.42	7,617	0.00	6,098	31.76	420,896	0.15
251-500	4,065	21.17	1,440,847	0.51	47	0.24	16,593	0.01	4,112	21.41	1,457,440	0.52
501-1,000	2,716	14.14	1,999,864	0.71	50	0.26	37,551	0.01	2,766	14.40	2,037,415	0.73
1,001-2,000	1,961	10.21	2,862,419	1.02	32	0.17	46,460	0.02	1,993	10.38	2,908,879	1.04
2,001-5,000	2,294	11.95	7,239,577	2.58	45	0.23	145,069	0.05	2,339	12.18	7,384,646	2.63
5,001-10,000	801	4.17	5,721,086	2.04	27	0.14	186,433	0.07	828	4.31	5,907,519	2.10
10,001-20,000	479	2.49	6,628,341	2.36	22	0.11	314,799	0.11	501	2.61	6,943,140	2.47
20,001-30,000	182	0.95	4,320,825	1.54	7	0.04	173,710	0.06	189	0.98	4,494,535	1.60
30,001-40,000	81	0.42	2,782,986	0.99	4	0.02	143,659	0.05	85	0.44	2,926,645	1.04
40,001-50,000	55	0.29	2,436,992	0.87	2	0.01	93,642	0.03	57	0.30	2,530,634	0.90
50,001-100,000	79	0.41	5,466,822	1.95	5	0.03	411,583	0.15	84	0.44	5,878,405	2.09
100,001-1,000,000	92	0.48	24,979,668	8.89	24	0.12	8,577,434	3.05	116	0.60	33,557,102	11.95
1,000,001-Over	20	0.10	150,255,716	53.49	14	0.07	54,199,276	19.29	34	0.18	204,454,992	72.79
Total	18,843	98.13	216,548,422	77.09	359	1.87	64,353,826	22.91	19,202	100.00	280,902,248	100.00

SAMPATH BANK PLC (ORDINARY SHARES)

Top 20 Shareholders

No.	Shareholder name	31st December 2018		31st December 2017*	
		No. of Shares	Ratio (%)	No. of Shares	Ratio (%)
1	VALLIBEL ONE PLC	42,003,031	14.95	32,481,024	14.95
2	MR Y S H I SILVA	28,038,662	9.98	21,680,576	9.98
3	EMPLOYEES PROVIDENT FUND	28,013,244	9.97	21,662,695	9.97
4	BBH-MATTHEWS INTERNATIONAL FUNDS - MATTHEWS ASIA GROWTH FUND	16,126,387	5.74	9,955,478	4.58
5	ROSEWOOD (PVT) LIMITED - ACCOUNT NO.1	11,827,658	4.21	10,774,317	4.96
6	BBH-MATTHEWS EMERGING ASIA FUND	8,406,406	2.99	5,289,790	2.44
7	CITIBANK NEWYORK S/A NORGES BANK ACCOUNT 2	8,343,884	2.97	3,280,532	1.51
8	PHOENIX VENTURES PRIVATE LIMITED	5,632,542	2.01	2,183,435	1.01
9	AKBAR BROTHERS PVT LTD A/C NO 1	5,593,255	1.99	4,043,928	1.86
10	MR S E CAPTAIN	4,169,988	1.48	2,873,808	1.32
11	SAMPATH BANK PLC ACCOUNT NO. 04 (SAMPATH BANK PENSION FUND)	3,502,867	1.25	3,032,917	1.40
12	SEYLAN BANK PLC/W D N H PERERA	3,031,000	1.08	-	-
13	PERSHING LLC S/A AVERBACH GRAUSON & CO.	2,924,609	1.04	-	-
14	PEMBERTON ASIAN OPPORTUNITIES FUND	2,899,998	1.03	-	-
15	EMPLOYEES TRUST FUND BOARD	2,681,249	0.95	-	-
16	JINADASA BROTHERS (PVT) LTD	2,535,653	0.90	1,733,871	0.80
17	UNION ASSURANCE PLC/NO-01A/C	2,413,533	0.86	1,866,391	0.86
18	BNYMSANV RE-MAGNA UMBRELLA FUND PLC	2,378,973	0.85	2,264,203	1.04
19	MELLON BANK N.A.-UPS GROUP TRUST	2,274,927	0.81	1,759,207	0.81
20	BNYM RE-BUTTERFIELD TRUST (BERMUDA) LIMITED	2,157,354	0.77	1,871,413	0.86
		184,955,220	65.84	126,753,585	58.35
	Total No. of shares registered	280,902,248	100.00	217,222,236	100.00
	Total No. of shares unregistered	-	-	-	-
	Total No. of shares issued	280,902,248	100.00	217,222,236	100.00
	Shares held by Directors	35,046	0.01	23,066	0.01
	Shares held by Institutions	193,294,945	68.81	142,658,179	65.67
	Balance held by Others	87,572,257	31.18	74,540,991	34.32
	Total No. of shares issued	280,902,248	100.00	217,222,236	100.00
	No. of Public shareholders	19,191		17,430	
	% Shares held by Public		88.74		88.59
	% Shares held by Directors and Related Parties		11.26		11.41

* Shareholding as at 31st December 2017 of the top twenty shareholders as at 31st December 2018.

INVESTOR INFORMATION

DIVIDEND PAYMENT DETAILS

Year	Total Dividend Paid (Rs Mn)	Dividend per Share (Rs)	Cash Dividend per Share (Rs)	Scrip Dividend per Share (Rs)	Profit for the Year (Rs Mn)	Dividend Payout Ratio
2000	58.70	1.75	1.75	n/a	402	14.60%
2001	52.14	1.75	1.75	n/a	322	16.19%
2002	88.57	2.00	2.00	n/a	441	20.08%
2003 (Interim)	59.78	2.00	2.00	n/a	561	14.58%
2003 (Final)	21.99					
2004 (Interim)	65.98	2.00	2.00	n/a	621	16.15%
2004 (Final)	34.30					
2005 (Interim)	87.14	2.00	2.00	n/a	821	14.54%
2005 (Final)	32.21					
2006	155.47	2.50	2.50	n/a	1,028	15.12%
2007	206.66	3.00	3.00	n/a	1,052	19.64%
2008	256.65	4.00	4.00	n/a	1,414	18.15%
2009	436.19	6.25	6.25	n/a	2,098	20.79%
2010	1,235.86	8.09	n/a	8.09	3,303	37.42%
2011	1,426.98	9.00	4.50	4.50	3,819	37.37%
2012	1,954.10	12.00	6.00	6.00	5,230	37.36%
2013	1,342.63	8.00	8.00	n/a	3,430	39.13%
2014	1,847.01	11.00	5.00	6.00	4,914	37.59%
2015	2,240.06	13.00	6.00	7.00	6,134	36.52%
2016 (Interim)	2,477.73	18.75	n/a	14.00	9,125	36.85%
2016 (Final)	884.41		4.75	n/a		
2017 (Final)	4,598.43	17.20	n/a	17.20	12,104	38.00%
2018 (Proposed)	4,564.66	16.25	5.00	11.25	12,143	37.59%

n/a - not applicable

RECORD OF SCRIP ISSUES

Year	Issue	Basis/Proportion	No. of Shares Issued	Consideration per Share (Rs)	Contribution to Stated Capital (Rs Mn)	Reason for Issue
2010	Interim Scrip Dividend for 2010	1 for 120.74	627,596	326.00	204.6	Increase stated capital
2011	Final Scrip Dividend for 2010	1 for 43.39	3,521,294	260.00	915.5	Increase stated capital
2012	Final Scrip Dividend for 2011	1 for 43.06	3,682,039	175.00	644.4	Increase stated capital
2013	Final Scrip Dividend for 2012	1 for 33.12	4,916,007	180.10	885.4	Increase stated capital
2015	Final Scrip Dividend for 2014	1 for 38.14	4,402,402	206.99	911.3	Increase stated capital
2016	Final Scrip Dividend for 2015	1 for 36.91	4,668,414	233.44	1,089.8	Increase stated capital
2017	Interim Scrip Dividend for 2016	1 for 19.22	9,209,419	242.55	2,233.7	Increase stated capital
2018	Final Scrip Dividend for 2017	1 for 19.72	13,551,804	291.93	3,956.1	Increase stated capital

RECORD OF BONUS ISSUES AND SUBDIVISIONS

Year	Issue	Basis/Proportion	No. of Shares Issued	Reason for Issue
2004	Bonus Issue	1 for 6	7,380,817	Benefit to shareholders
2010	Consolidation and Subdivision	11 for 10	6,888,762	Benefit to shareholders
2010	Subdivision	1 for 1	76,403,986	Benefit to shareholders

RECORD OF RIGHTS ISSUES

Year	Issue	Basis/Proportion	No. of Shares Issued	Price per Share (Rs)	Contribution to Stated Capital (Rs Mn)
2005	Rights Issue 2005	1 for 3 held	17,221,907	60.00	n/a
2017	Rights Issue 2017	1 for 6 held	31,031,748	245.00	7,602.8
2018	Rights Issue 2018	3 for 13 held	50,128,208	250.00	12,532.1

n/a - not applicable

EMPLOYEE SHARE OPTION PLAN

Capitalised Year	Issue	No. of Shares Issued	Price per Share (Rs)	Contribution to Stated Capital (Rs Mn)	Reason for Issue
2011	ESOP 2010	524,924	80.00	42.0	Benefit for staff members
2012	ESOP 2010	2,200,436	80.00	176.0	Benefit for staff members
2013	ESOP 2010	134,933	80.00	10.8	Benefit for staff members
2014	ESOP 2010	122,648	80.00	9.8	Benefit for staff members

RELATED PARTY TRANSACTIONS EXCEEDING 10% OF THE EQUITY OR 5% OF THE TOTAL ASSETS OF THE BANK (DISCLOSURE AS PER SECTION 9 OF THE CSE LISTING RULES)

None of the transactions carried out by the Bank with the Related Parties have exceeded the aggregate monetary value of 10% of the shareholders' equity of the Bank or 5% of the total assets of the Bank as at 31st December 2018.

DEBENTURE INFORMATION

(A) MARKET VALUES

Debentures - 2013/2018	Highest (Rs)		Lowest (Rs)		Year End (Rs)	
	2018	2017	2018	2017	2018	2017
Fixed - 13.40%	100.22	100.50	100.22	100.50	n/a	100.50
Fixed - 13.00%	100.00	98.50	100.00	96.00	n/a	n/t

n/a - not applicable n/t - not traded

Debentures - 2013/2018 were redeemed on 4th December 2018.

Debentures - 2014/2019	Highest (Rs)		Lowest (Rs)		Year End (Rs)	
	2018	2017	2018	2017	2018	2017
Fixed - 8.25%	90.28	87.00	90.00	87.00	90.28	87.00
Fixed - 8.10%	n/t	n/t	n/t	n/t	n/t	n/t

n/t - not traded

Debentures - 2015/2020	Highest (Rs)		Lowest (Rs)		Year End (Rs)	
	2018	2017	2018	2017	2018	2017
Fixed - 9.90%	100.00	n/t	100.00	n/t	100.00	n/t
Floating	n/t	n/t	n/t	n/t	n/t	n/t

n/t - not traded

Debentures - 2016/2021	Highest (Rs)		Lowest (Rs)		Year End (Rs)	
	2018	2017	2018	2017	2018	2017
Fixed - 12.75%	100.50	101.50	99.00	99.86	100.00	99.86
Floating	98.50	n/t	98.50	n/t	98.50	n/t

n/t - not traded

INVESTOR INFORMATION

Debentures - 2017/2022	Highest (Rs)		Lowest (Rs)		Year End (Rs)	
	2018	2017	2018	2017	2018	2017
Fixed - 12.50%	n/t	n/t	n/t	n/t	n/t	n/t

n/t - not traded

Debentures - 2018/2023	Highest (Rs)		Lowest (Rs)		Year End (Rs)	
	2018	2017	2018	2017	2018	2017
Fixed - 12.50%	101.64	n/a	101.64	n/a	101.64	n/a

n/a - not applicable

(B) INTEREST RATES

Debentures - 2013/2018	2018		2017	
	Coupon Rate	Effective Rate	Coupon Rate	Effective Rate
Fixed - 13.40%	13.40%	13.40%	13.40%	13.40%
Fixed - 13.00%	13.00%	13.42%	13.00%	13.42%

Debentures - 2013/2018 were redeemed on 4th December 2018.

Debentures - 2014/2019	2018		2017	
	Coupon Rate	Effective Rate	Coupon Rate	Effective Rate
Fixed - 8.25%	8.25%	8.25%	8.25%	8.25%
Fixed - 8.10%	8.10%	8.26%	8.10%	8.26%

Debentures - 2015/2020	2018		2017	
	Coupon Rate	Effective Rate	Coupon Rate	Effective Rate
Fixed - 9.90%	9.90%	10.15%	9.90%	10.15%
Floating	*	*	*	*

*Floating rate is equivalent to the six month treasury bill rate (net) plus 1.25% p.a. payable semi annually.

Debentures - 2016/2021	2018		2017	
	Coupon Rate	Effective Rate	Coupon Rate	Effective Rate
Fixed -12.75%	12.75%	12.75%	12.75%	12.75%
Floating	*	*	*	*

*Floating rate is equivalent to the six month treasury bill rate (gross) plus 1.0% p.a. payable semi annually.

Debentures - 2017/2022	2018		2017	
	Coupon Rate	Effective Rate	Coupon Rate	Effective Rate
Fixed - 12.50%	12.50%	12.89%	12.50%	12.89%

Debentures - 2018/2023	2018		2017	
	Coupon Rate	Effective Rate	Coupon Rate	Effective Rate
Fixed - 12.50%	12.50%	12.89%	n/a	n/a

n/a - not applicable

(C) INTEREST RATE OF COMPARABLE GOVERNMENT SECURITIES - GROSS RATES

As at 31st December	2018	2017
3 Months Treasury Bill	9.69%	8.54%
6 Months Treasury Bill	10.02%	9.22%
5 Years Treasury Bond	11.56%	9.97%

(D) CURRENT YIELD AND YIELD TO MATURITY

Debentures - 2013/2018	Fixed 13.40%		Fixed 13.00%	
	2018	2017	2018	2017
Current yield	13.37%	13.33%	13.42%	n/t
Yield to maturity of last trade	12.18%	12.80%	13.47%	n/t

n/t - not traded

Debentures - 2013/2018 were redeemed on 4th December 2018.

Debentures - 2014/2019	Fixed 8.25%		Fixed 8.10%	
	2018	2017	2018	2017
Current yield	9.14%	9.48%	n/t	n/t
Yield to maturity of last trade	15.96%	15.04%	n/t	n/t

n/t - not traded

Debentures - 2015/2020	Fixed 9.90%		Floating	
	2018	2017	2018	2017
Current yield	10.15%	n/t	n/t	n/t
Yield to maturity of last trade	9.89%	n/t	n/t	n/t

n/t - not traded

Debentures - 2016/2021	Fixed 12.75%		Floating	
	2018	2017	2018	2017
Current yield	12.75%	12.56%	11.19%	n/t
Yield to maturity of last trade	12.66%	12.25%	11.27%	n/t

n/t - not traded

Debentures - 2017/2022	Fixed 12.50%	
	2018	2017
Current yield	n/t	n/t
Yield to maturity of last trade	n/t	n/t

n/t - not traded

INVESTOR INFORMATION

Debentures - 2018/2023	Fixed	
	12.50%	
	2018	2017
Current yield	12.68%	n/a
Yield to maturity of last trade	12.03%	n/a

n/a - not applicable

(E) RATIOS - BANK

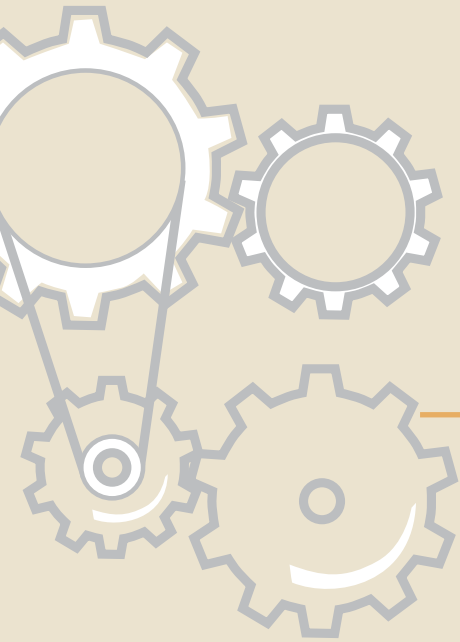
	2018	2017
Debt to equity ratio (%)	71.2	78.7
Interest cover (Times)	5.5	6.9
Quick asset ratio (%)	75.6	78.3

UTILISATION OF FUNDS RAISED VIA CAPITAL MARKETS

The funds raised through debentures and rights issue were fully utilised for the objectives mentioned in the prospectuses.

4 RISK & GOVERNANCE

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POLICIES AND PROCEDURES SIMPLIFIED

Cloud Technologies

Cloud technologies have delivered unmatched agility, security and productivity to Sampath Bank. We use these services for many purposes, including data analytics, batch processing and data storage. Intelligent and creative use of these services also helps the Bank improve risk management and reduce costs.

RISK MANAGEMENT REPORT

GRI 102-15,30

Overview

The Bank works with the understanding that identifying and effectively managing the risks associated with the business will ensure key deliverables are met even under adverse stress conditions. Today, risk considerations form a pivotal input in all business, strategic and operational decisions of the Bank. Proactive Risk Management is therefore at the heart of Sampath Bank PLC's operations.

The Bank's overall approach to risk management is supported by a well-defined, comprehensive policy framework, effective governance structures together with appropriate tools and techniques to identify, measure and manage risk within the established risk appetite.

Most notably, the Bank remains strongly focused on strengthening its risk management framework and culture in order to facilitate growth amidst ever changing regulatory requirements.

Risk Management Framework

The Bank has adopted an Integrated Risk Management Framework ('IRMF') to ensure business strategies, profitability and financial stability are consistent with the Bank's strategies and risk appetite.

The IRMF is a robust mechanism designed to support the Bank's growth plans through the provision of appropriate risk infrastructure to identify, monitor and control risk taking activities at all levels across the Bank.

The IRMF is based on the three lines of defence model, which promotes transparency, accountability and consistency through the clear identification and segregation of roles.

Risk Culture

The Bank believes that for risk management to be truly effective, it is critical to develop the right values and behaviours that will shape the way employees carry out their day-to-day duties and responsibilities. Moreover a proactive Risk Culture paves the way for better reporting and disclosure of Risk. In developing a suitable risk culture, the Bank conducts regular training that focuses on promoting the required behaviours among employees. Consequently, significant resources are devoted for training employees in risk awareness in general and ensuring those in specialised roles have the required skills and experience to accept and manage risks related to their roles.

Risk Governance

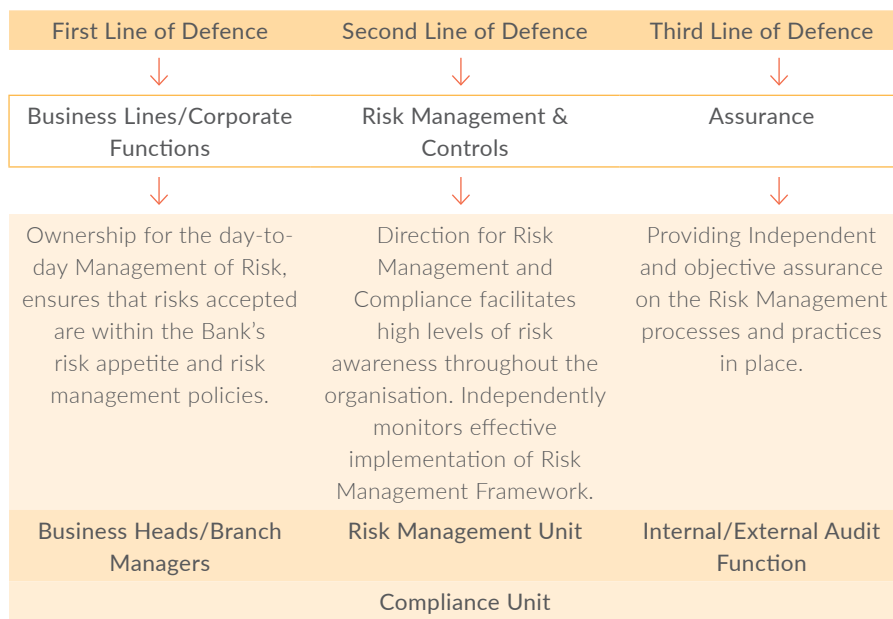
The ultimate responsibility for establishing the Risk Management policies of the Bank and monitoring their application is vested with its Board of Directors. The Board of Directors is collectively responsible for establishing an effective Bank-wide Risk Management framework taking cognisance of the Bank's size, scale and scope of operations as well as long-term strategic objectives. As stated above, Business Lines/Corporate Functions take ownership for the day-to-day management of risk. Among the key Board priorities is the review of the Bank's risk appetite and tolerance levels to keep pace with current macroeconomic developments.

The Board mandate also includes conducting regular reviews to identify potential risks that the Bank may be exposed to during the course of its operations. This may require the formulation of new policies or call for the amendment of existing procedures in response to prevailing circumstances or as required by internationally accepted best practices.

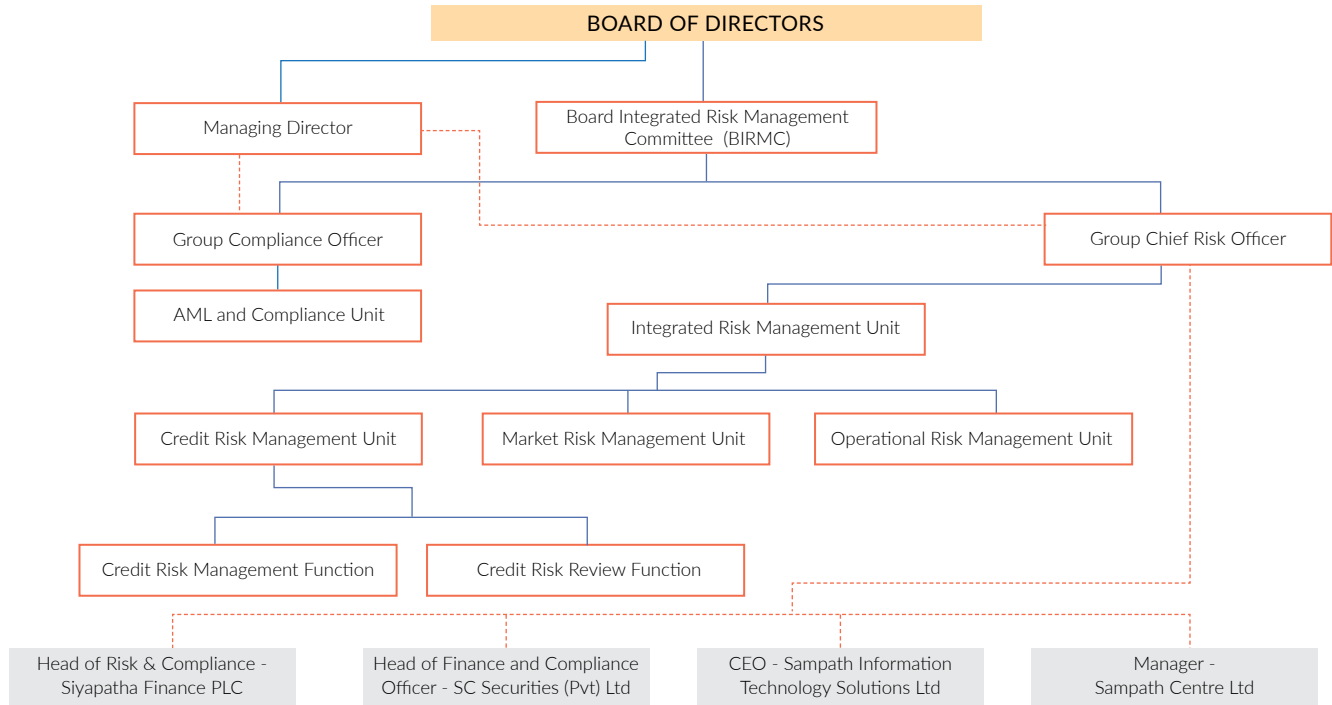
In carrying out their Risk Management duties, the Board is assisted by the Board Integrated Risk Management Committee, the Board Credit Committee, the Board Audit Committee, the Board Treasury Committee, and the Board IT Committee as Board Sub-Committees with each sub-committee focusing on different aspects of Risk Management.

The Board Sub-Committees are supported with Senior Management Committees, namely, Credit Policy, Risk and Portfolio Review Committee, Risk and Compliance Committee and IT Steering Committee.

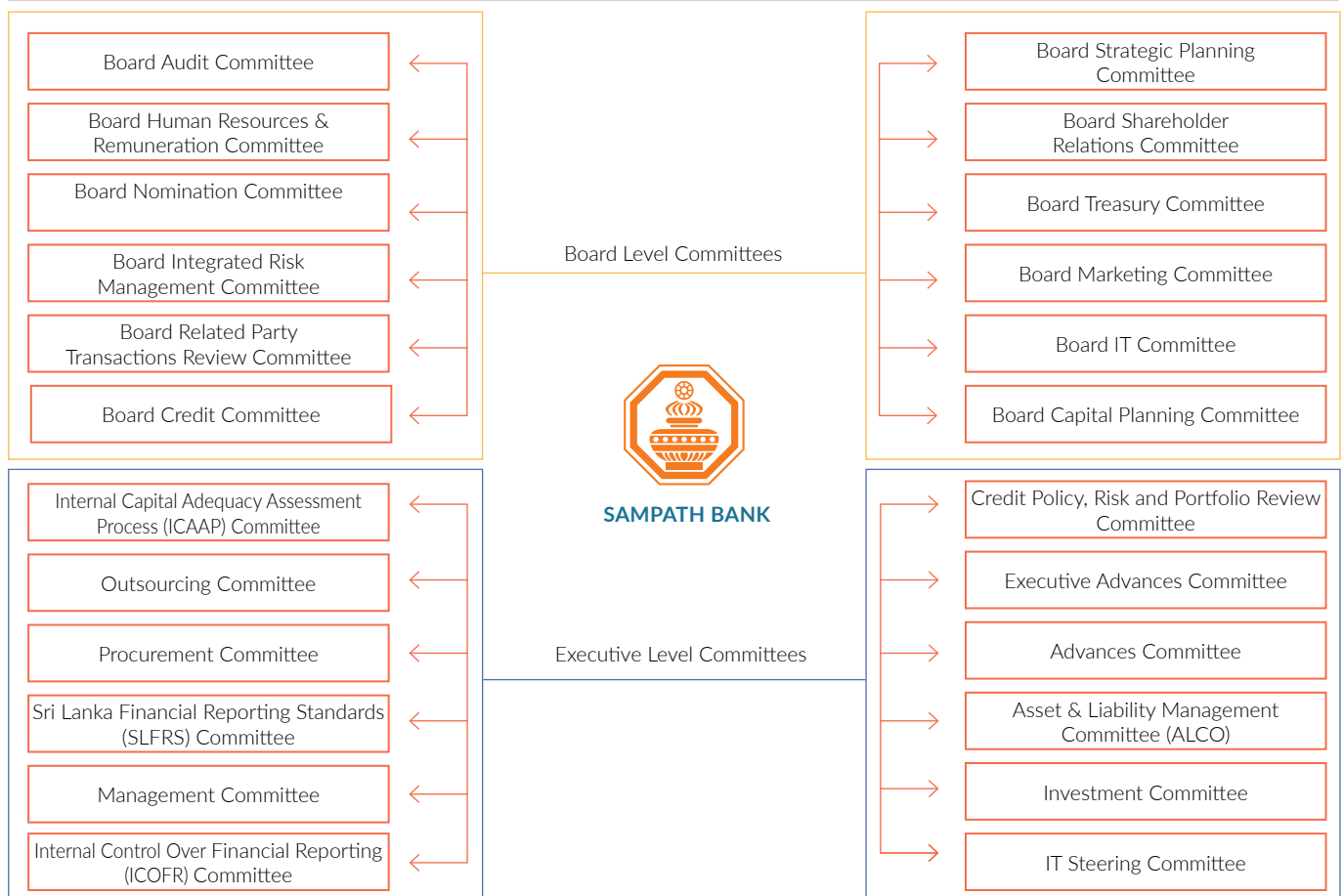
The Risk Management Unit (RMU), the Compliance Unit and the Internal Audit functions are the other key components of the Bank's Risk Governance Structure.



FUNCTIONAL STRUCTURE OF THE INTEGRATED RISK MANAGEMENT FRAMEWORK OF THE BANK/GROUP



RISK GOVERNANCE COMMITTEES



RISK MANAGEMENT REPORT

Risk Appetite

An integral component of the overall strategy formulation process, the Bank's Risk Appetite provides measurable targets and tolerance thresholds across all material risk categories. This creates a framework where optimal growth options can be evaluated alongside the risks involved in order to drive sustainable performance.

The main aim of setting a Risk Appetite is to ensure that risks are proactively managed as per the Board approved tolerance limits for each material risk category. Risk Appetite tolerance levels are set at different trigger levels with clearly defined escalation requirements, which enable appropriate actions to be defined and implemented as required. In cases where the tolerance levels are breached, it is the responsibility of the Group Chief Risk Officer to bring them to the attention of the management and respective Board Sub Committees and the Board for necessary action.

The Board is tasked with reviewing and approving the Risk Appetite annually, to ensure alignment with the Group strategy, business environment and stakeholder requirements. Any amendments to Risk Appetite are arrived at through discussions between Business Line Heads, the relevant Board Sub Committees and Group Chief Risk Officer and are thereafter recommended for approval by the Board.

Risk Profile

The Bank's overall Risk Profile further improved in 2018, as Fitch Ratings Lanka Ltd (Fitch) re-affirmed the long-term National rating of A+(lka) and revised the Outlook to 'Stable' from 'Negative'. Risk profiles for major categories were also within acceptable limits, despite some deterioration in asset quality which impacted the Bank's credit risk. However this was well managed with maximum

Emerging Risks

Emerging risks are those that have the potential to materialise within one year and could significantly affect the business activities of Sampath Bank PLC. In addition to the growing and ever present Cyber Security Threats, the key emerging risks identified for 2019 are:

Market Uncertainty

Heightened market uncertainty remains a key concern, especially given the current macroeconomic climate. In this context, the impact on business activities and related financial results, would affect margins and revenues and impairment charges.

The Bank will continue to conduct its ongoing horizon scan to identify probable disturbances which could occur under varying market conditions, with pre-emptive action being taken to realign strategic objectives in order to mitigate the negative impact on the business.

Growing Presence of Fin Techs

With more and more Fin Techs encroaching into financial services territory, the Bank is subject to additional competition as the traditional banking norms come under pressure. With the advent of cheap and fast connectivity, smart devices and the popularity of social media, forever changing conventional banking, the Bank's digital strategy would focus on reshaping the future of banking in Sri Lanka by leveraging on digital innovation and the intelligent use of data, while systematically expanding digital channels to capture and maintain market leadership.

The Bank will thus need to renew its commitment towards developing cheaper-better-faster products for the mass market, to produce first-to-market products and services that would offer a significant competitive advantage.

Regulatory and Compliance Challenges

As the regulatory landscape becomes more dynamic and demanding, with regulators looking to improve the resilience of banks and strengthen the country's financial system, Sampath Bank would have to plan ahead to factor in new compliance requirements.

The Compliance function of the Bank will continue to pro-actively engage in building a corporate culture based on ethical values, professional conduct and the highest standards of integrity, in turn ensuring that these principles are applied to the Bank's activities at all times.

thresholds in place to limit the exposure to the identified Risk elevated industries. The Agriculture sector lending identified as a risk elevated industry, mainly due to adverse weather conditions and macro-economic conditions, remained well diversified at all times.

Meanwhile, given the uncertain economic conditions, the Bank developed an overall risk rating for the Bank, a combination of both qualitative and quantitative measurements of main risk factors coupled with early warning signals foreseen in all risk vulnerable areas as a monitoring dashboard.

A series of quarterly stress tests are performed on all material risk categories to evaluate the Bank's resilience to certain unlikely but plausible stress scenarios. While the results of these

tests confirm that the Bank is well equipped to handle potential stress scenarios should they materialise. Some additional improvements were made to

further strengthen risk management protocols across several risk categories. Existing process controls and additional improvements made are detailed below;

Risk Category	Risk Management	Process Controls/Mitigation Action
Credit Risk	Pre-Credit Risk Management	Board Approved Policies Training and knowledge sharing to build capacity and enhance knowledge among staff engaged in credit functions. Independent review of credit proposals by Credit Risk Management Unit above a pre-approved threshold. Robust credit rating models to capture different business models. Well-defined delegated authority levels.
	Post-Credit Risk Management	Board Approved Policies Effective watch listing process supported with periodic Loan Review Mechanism. Comprehensive analysis of Advances Portfolio and Top 30 Borrowers of the Bank. Independent review of impairment process for significantly important borrowers. Risk appetite limit monitoring. Analysis of risk elevated industries and sharing the findings with all governance bodies and business units.
	Policy Frameworks and Appetite Limits	Board Approved Policies Downsizing of few risk appetite limits to manage associated Risk Initiation of diagnostics study to assess the readiness of the Bank's credit rating model to adopt SLFRS 9 and FIRB approaches through an External Consultant – Ernst & Young LLP India. Internal Credit Rating Models validation through an External Consultant – Ernst & Young LLP India. Implementation of new Risk Based Pricing mechanism.
Liquidity Risk	Strengthening Monitoring Mechanisms	Board Approved Policies Sharpening the alignment with the BASEL III requirements through the introduction of new parameters for several ratios including Liquidity Coverage Ratios.
Interest Rate Risk	Broadening Stress-Testing Parameters	Board Approved Limit Structure/Policies Introduction of prudential loss limits for the Present-Value-Basis-Points (PVBP) calculations relating to the trading portfolio and duration Gap analysis.
Foreign Exchange Rate Risk	Strengthening Treasury Governance Framework	Board Approved Policies Introduction of new Board approved Treasury limits for foreign exchange operations. Revaluation of Open positions on a daily basis and analysis of the gains/losses. Strengthening and segregation of duties between Front Office, Middle Office and Back Office functions. Improvements done through automation of monitoring processors relating to Board approved limits to mitigate the Foreign Exchange Risk especially for Dealer Limit monitoring area. Sovereign Risk Rating.

RISK MANAGEMENT REPORT

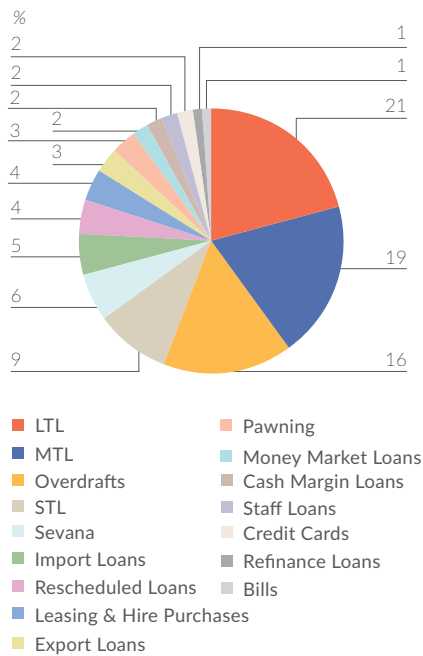
Risk Category	Risk Management	Process Controls/Mitigation Action
Country Risk	Close monitoring mechanisms on risk associated with offshore lending.	Board Approved Limit Structure Monitoring of specific sanctions on countries and Assessment of political and economic situations, Limitations on Lending/Caps on lending. Regular monitoring of country-wise exposure.
Capital Risk	Meeting regulatory compliance	Quarterly computation of Capital Adequacy Ratios. Stress testing under various adverse scenarios. Capital augmentation measures.
Operational Risk	Strengthen the Internal processes, systems and controls	Board Approved Policies Risk Reviews on new products processes and external suppliers/outsourced service providers. Analysis of material losses Monitoring and reporting of Operational Risk Appetite Limits and Key Risk Indicator Limits (KRIs).
Information Technology Risk	IT Planning process improvements and closely monitored IT Governance	Board approved Policies Validation through System Audits prior to Live implementation.
Cyber Security Risk	Robust cyber security strategy	Board Approved Policies Investing in latest developments in the global cyber security ecosystems Raising awareness among staff on social engineering and phishing techniques Strengthening the governance framework with appropriate proactive and reactive measures
Legal Risk	Compliance with statutory and/or Regulatory provisions to ensure that the business activities with legal impact are properly assessed and executed	Board Approved Policies Adequacy and effectiveness of the controls reviewed by the Legal Department. Specialist legal advice obtained from external consultants on a need basis.
Strategic Risk	Well-defined Strategic Plan to manage Medium/ Long-term Strategic Goals of the business.	Board Approved Policies Board approved three-year strategic plan covering all business units. Regular monitoring by Business Line Heads/Planning Division. Independent review of Strategic Plan by the Risk Management Unit.
Reputational Risk	Adequate measures for Governance of Reputational Risk	Board Approved Policies Code of Conduct for the Board and all staff members.

Capital Adequacy

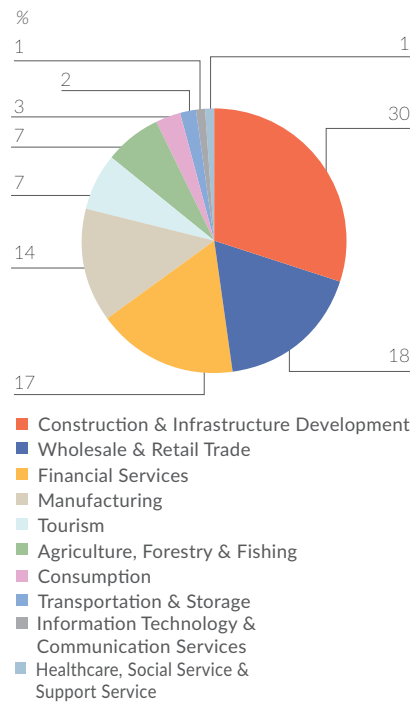
The Bank continuously works towards maintaining a strong capital adequacy position measured by regulatory capital adequacy ratios. The Bank has adopted the internal Capital Adequacy Assessment methodology as per the requirements of

the Internal Capital Adequacy Assessment Process (ICAAP). Accordingly the Bank ensures the managing of capital adequately in order to support business growth, maintain customer confidence, create value for shareholders and ensure regulatory compliance.

Product-wise Distribution of the Advance Portfolio

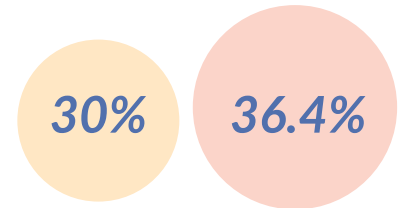


Sector-wise Distribution of Post Credit Evaluations in 2018 (Value-wise)



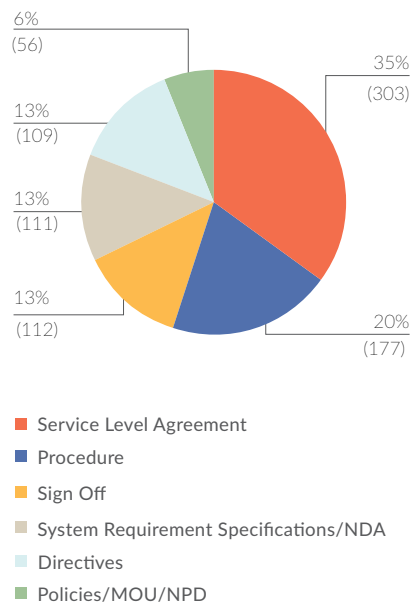
CBSL Minimum Requirement

Achievement



Post Credit Evaluations

Operational Risk Review in 2018



COMPLIANCE

The dedicated Compliance Function of Sampath Bank PLC provides oversight for the effective management of the Bank's compliance risk that may damage the Bank's reputation and/or result in financial loss in the event of failure to comply with applicable laws, regulations and codes of conduct, etc. Accordingly, the Compliance function is tasked with providing guidance to ensure compliance with all statutory and regulatory requirements applicable to Licensed Commercial Banks in Sri Lanka as well as additional codes of conduct relevant to the banking industry externally and internally.

The Bank's zero tolerance strategy for non-compliance is executed vis-a-vis an eight pillar compliance model introduced in year 2017, which aims to operationalise appropriate compliance objectives at all levels of the business.

Focus for 2018

Policies, Procedures and Related Controls

Under the supervision of the Compliance function all policies, procedures and controls are continuously improved and updated in line with current laws, regulations and ethical standards, which also further reflects the commitment to

strengthen the bank-wide Governance, Risk and Compliance Culture. Among the most notable efforts for the year was the action taken by the Compliance function to provide oversight for implementing the newly revised Rules and Regulations in Anti Money Laundering and Foreign Exchange, etc.

Compliance Monitoring and Testing

The Compliance function performs monitoring on a continuous basis to ensure conformance with the board-approved compliance strategies. In 2018 the focus was mainly on strengthening the monitoring mechanisms specifically in line with the new developments in the Anti-Money Laundering regulations.

Compliance Training

All compliance training activities specified in the Bank's strategic compliance plan are spearheaded by the Compliance function. Steps taken in 2018 by the Compliance function to raise awareness among team Sampath included a series of in-house training workshops along with the rolling out of the newly developed knowledge sharing communication tool titled Beyond Compliance.

Giving employees access to a reference database of reconstructed case studies, regulations and current trends, the Beyond Compliance programme is also aimed at strengthening the compliance culture at a micro-level, specifically within Departments and Branches.

While the Board of Sampath Bank PLC is constantly kept abreast of the changes in relevant laws and regulations applicable to the Banking sector, additional training was arranged in year 2018 to build further awareness among the Board members with regard to Anti-Money Laundering regulations, through a programme conducted by the Financial Intelligence Unit of Sri Lanka.

Risk Assessment Program (RAP)

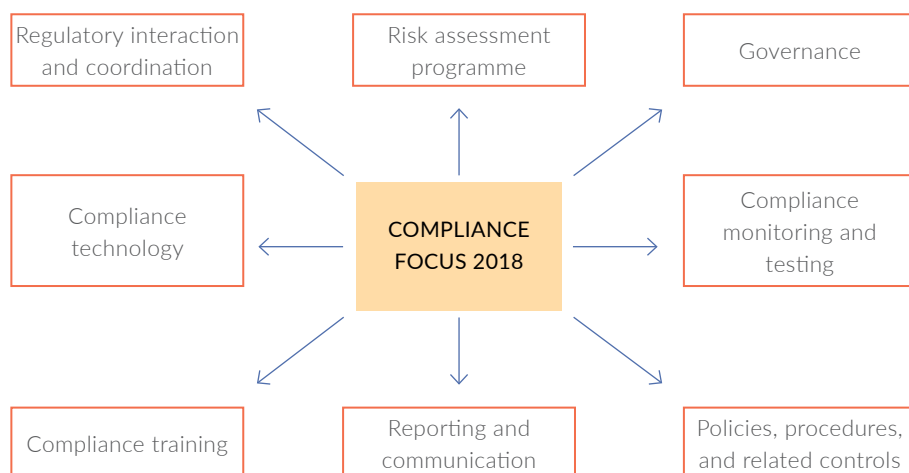
In the year under review, the Compliance Department further expanded the Bank's RAP through the Risk Based Approach aimed at determining the level of risk posed by individual Branches/ Departments, etc.

Governance

Ongoing efforts to strengthen oversight, led to the establishment of a new dedicated Management Committee in 2018. The committee is tasked with identifying, analysing and disseminating regulatory information to relevant members of Team Sampath, who are expected to take the ownership for implementing the regulatory changes. As part of its duties, the Committee also initiated a program to take necessary follow up action and thereby strengthen the compliance culture within the respective business units.

Future Focus

Moving forward the focus for the forthcoming year would be to automate all major operational control areas of the Compliance Department in order to further streamline the regulatory reporting process.



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GOVERNANCE FRAMEWORK

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COMPLIANCE WITH CODE OF BEST PRACTICE ON CORPORATE GOVERNANCE 2017 ISSUED BY CA SRI LANKA

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COMPLIANCE WITH BANKING ACT DIRECTION NO. 11 OF 2007 ISSUED BY THE CENTRAL BANK OF SRI LANKA

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BOARD SUB-COMMITTEE REPORTS

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Dear Stakeholder

On behalf of the Board of Directors ("the Board") of Sampath Bank PLC ("the Bank"), I am pleased to present the Corporate Governance report for 2018, which details our governance structure and framework along with information indicating compliance with the Code of Best Practice on Corporate Governance 2017 issued by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and the Banking Act Direction No. 11 of 2007 issued by the Central Bank of Sri Lanka (CBSL). This section also contains the reports of the five statutory Sub-Committees of the Board which summarise their respective activities for the year.

As Chairman of the Board, I cannot under-emphasise the need for a strong corporate governance model that is both responsive and relevant towards facilitating the Bank's long-term value creation goals. This is especially true, given the ever-dynamic and increasingly competitive environment within which we operate. With this in mind, the Board proactively reviews the governance framework to determine the effectiveness of the processes implemented. These efforts help to initiate continuous and ongoing improvements to ensure that our governance model reflects the complexities of our growing business and is able to keep adding value as the business expands.

On behalf of the Board I take this opportunity to provide a brief update on the work we have done during the year under review in this regard.

Board Priorities for 2018

During 2018, the Bank's governance model continued to evolve with our new digital transformation strategy. As such, strong emphasis was placed on strengthening the IT governance framework, with several important steps have been taken to capture the shift in our strategic priorities and structural

alignment as well as to manage the risks associated with the increased adoption of digital architecture.

The other key focus area for the year was the establishment of a social and environmental governance mechanism, a timely move prompted by our new sustainability approach to "look beyond the triple-bottom-line" to integrate sustainability to the core of our operations.

Aside from these efforts, we continued to enhance other governance aspects too, in particular the Communication Policy and the Whistle Blowing Policy both of which were updated in year 2018, aligning with the Bank's areas of focus.

Compliance

The Bank remains fully compliant with all statutory requirements imposed by all regulatory bodies concerning matters relevant to the business.

Declaration by the Board

I wish to confirm that the Board of Directors of Sampath Bank PLC is firmly committed to observing highest standards of Corporate Governance, integrity and professionalism throughout all operations across the Bank. Accordingly, I declare that all the members of the Board of Directors and all Bank personnel have acted in compliance with the applicable regulatory and statutory requirements and have discharged their duties in accordance with the policies, procedures and standards covered by the Bank's internal Codes of Conduct relevant to the Board of Directors and the Key Management Personnel and the other Personnel.

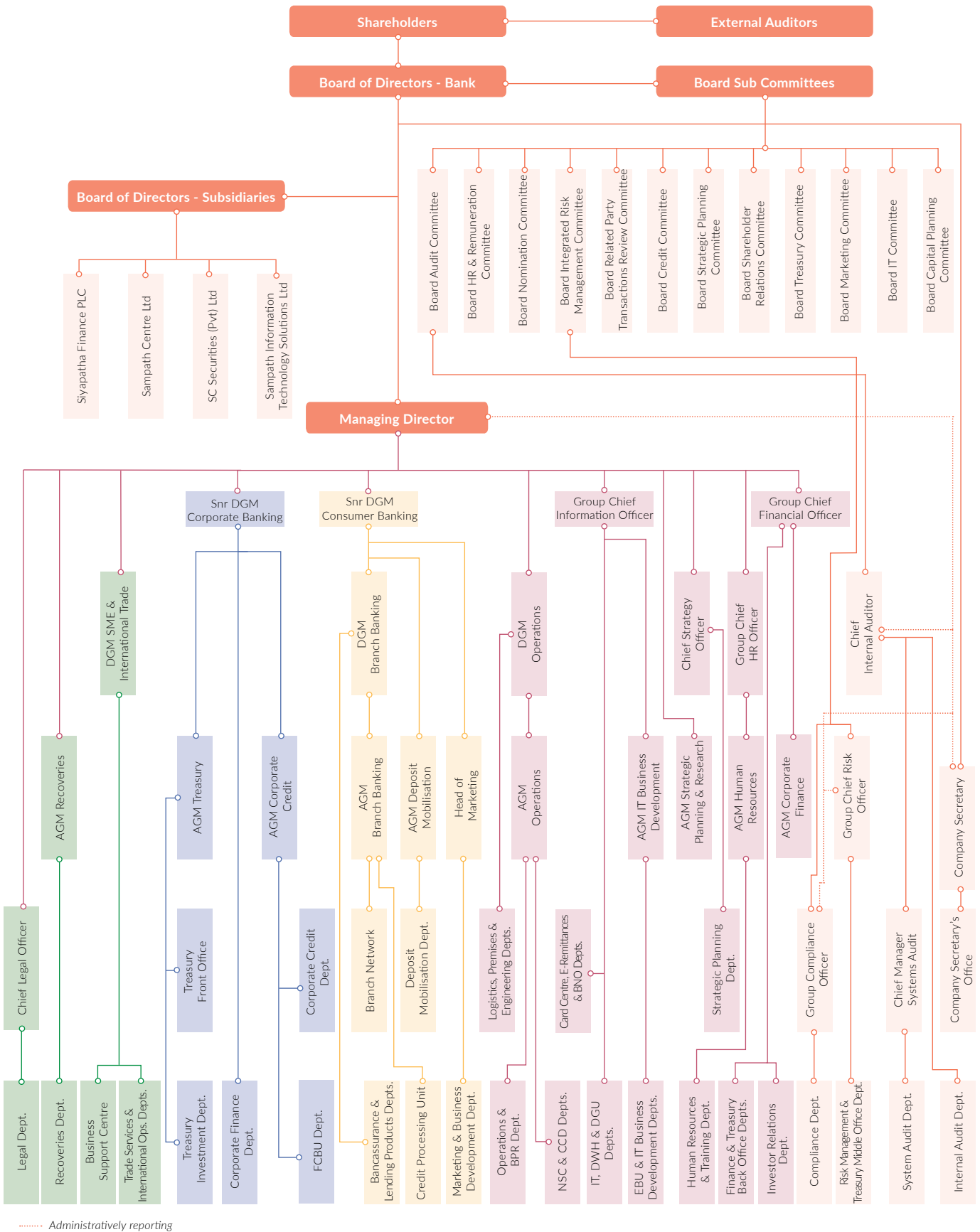


CHANNA PALANSURIYA
Chairman

14th February 2019

GOVERNANCE STRUCTURE

GRI 102-18,19,20



..... Administratively reporting

Corporate Governance Framework

Sampath Bank PLC ("the Bank") is committed to creating long-term value sustainably by improving the financial well-being of its shareholders, employees, customers and communities and thereby contributing to the nation's wealth, strong corporate governance being the backbone of this commitment. The purpose of the Bank's Corporate Governance Framework is therefore to provide oversight for the Bank's operations in order to safeguard the interests of all stakeholders.

The framework is aimed to ensure that the Bank is well governed, and able to fulfil stakeholders' deliverables to meet legislative requirements effectively and sustainably at all times.

Leadership

The Board of Directors ("the Board") of the Bank is responsible for implementing the Corporate Governance Framework across the business. The Board functions independently of the management in seeking to provide strategic direction to support long-term value creation for all stakeholders. In discharging these duties, the Board is required to be guided by the Bank's vision, corporate values, as well as its Articles of Association. The Board remains the ultimate authority in charge of ensuring that all internal directives, policies and procedures are properly communicated and implemented across the business in order to safeguard the interests of stakeholders.

To assist in the management of certain critical functions, the Board has established and appointed Directors to 12 Board Sub Committees. The Terms of Reference for each Sub Committee is approved by the Board and reviewed and amended when necessary. Membership of each Board Sub Committee (Sub Committee) is reviewed periodically, with due consideration on the governance requirements as well as on the mix of skills and experience required to perform the functions of each such Sub Committee.

To provide further support, 12 Management Committees have also been established.

Accountability and Transparency

The Board is committed to comprehensive financial reporting and transparent disclosure of the Bank's financial and non-financial performance. It is the Board's responsibility to ensure that the Bank complies with all statutory and regulatory requirements applicable to Sri Lankan banks and public listed entities. These include;

- Companies Act No. 7 of 2007
- Banking Act No. 30 of 1988 and its amendments
- Banking Act Direction No. 11 of 2007 on Corporate Governance for Licensed Commercial Banks issued by the Central Bank of Sri Lanka and its amendments
- Code of Best Practice on Corporate Governance 2017 issued by the Institute of Chartered Accountants of Sri Lanka
- Anti-Money Laundering Laws and Regulations and Financial Transaction Reporting Act No. 6 of 2006 and its amendments
- Listing Rules of the Colombo Stock Exchange
- Securities and Exchange Commission of Sri Lanka Act No. 36 of 1987 and its amendments
- Inland Revenue Act No. 24 of 2017 and its amendments
- Shop and Office Employees Act No. 19 of 1954 and its amendments
- Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995
- Foreign Exchange Act No. 12 of 2017 and its regulations

In addition, the Bank has voluntarily adopted the following reporting frameworks/standards, which demonstrates the Board's commitment to benchmark globally accepted best practices. These include;

- Integrated Reporting Framework issued by the International Integrating Reporting Council (IIRC)
- GRI Standards for Sustainability reporting issued by the Global Reporting Initiative
- The United Nations Sustainable Development Goals (SDGs)

The Board reviews and approves the contents of all major disclosure documents, including the Annual Report and the Quarterly Financial Reports to shareholders.

Ethics and Culture

The Board is focused on shaping a more accountable culture that not only supports the achievement of business strategies, but also drives decisions those are lawful, ethical and responsible, which leads to better customer satisfaction and risk mitigatory outcomes. While setting the tone from the top, the Board strives to emulate these principles which pave the way for a culture of good governance at all levels of the Bank. In this context, the Board is governed by the Code of Conduct and Governance Requirements for the Board of Directors, which sets out best practices for ethical behaviour in compliance with the Policy on Managing Conflicts of Interest, the Whistle Blowing Policy and Directive on dealing with Related Party Transactions.

The Key Management Personnel are governed by the Code of Conduct for Key Management Personnel while all the other employees are expected to comply with the Bank's Code of Conduct for Employees and the Policy on Managing Conflicts of Interest, the Whistle Blowing Policy and the Directive on dealing with Related Party Transactions.

Stakeholder Engagement

The Board welcomes engagement with stakeholders and encourage them to express their views. A robust framework is in place to facilitate constructive engagement with all stakeholders. Meanwhile, open lines for communication are maintained to promote regular interaction with regulators.

CORPORATE GOVERNANCE

Continuous Improvement

The Board remains proactive in monitoring and regularly reviewing as and

when required the existing governance directives, policies and procedures where appropriate in order to take cognisance of evolving needs of the business and

any regulatory changes as well as to keep pace with latest globally accepted best practices on Corporate Governance.

Key focus for 2018;

The emphasis for 2018 was five-pronged as detailed below;

1. Aligning with new changes introduced in the Code of Best Practice on Corporate Governance 2017 by Institute of Chartered Accountants of Sri Lanka, focusing the following;

- Strengthening the IT governance framework through the establishment of a new Data Governance Unit to handle data security and manage the integrity of existing data.
- Improving the Bank's preparedness against external cyber security threats by setting up a 24/7 Information Security Monitoring Unit. In addition an independent Information Security Officer (ISO) was also appointed. The ISO, who reports directly to the Chief Risk Officer is tasked with determining the Bank's sensitivity and risk appetite towards cyber security threats at any given time.

- Appointment of an independent third party to conduct a cyber security audit every quarter.
- Rolling out of a new Environmental and Social Risk Management System to serve as the basis of integrating environmental and social governance parameters across all operations of the Bank.

2. Reinforcing the governance culture through workshops aimed at building Board-level awareness regarding the anti-money laundering regulations. The workshop saw the participation of the Board members, which was conducted by the Financial Intelligence Unit (FIU) of the Central Bank of Sri Lanka covering matters including;

- Prevention of money laundering and the Bank's role in same
- The importance of exercising Customer Due Diligence and Transactions Due Diligence

- The duty of the Bank in monitoring and reporting Suspicious Transactions as required by the Financial Transactions Reporting Act and preserving confidentiality in such reporting
- The objectives and impact of various regulations issued by the FIU through Gazette notifications

3. Improvements to the Bank's Policy on Communication focusing on;

- Communication via social media
- Aligning Bank's Policy on Communications with the Bank's Brand Strategy and
- Communications on account of Bank's Business Continuity Plan

4. Updating the Whistle Blowing Policy, streamlining the content to be more user friendly

5. Updating the Policy on Managing Conflicts of Interest, aligning same with the prevailing Codes of Conduct in the Bank

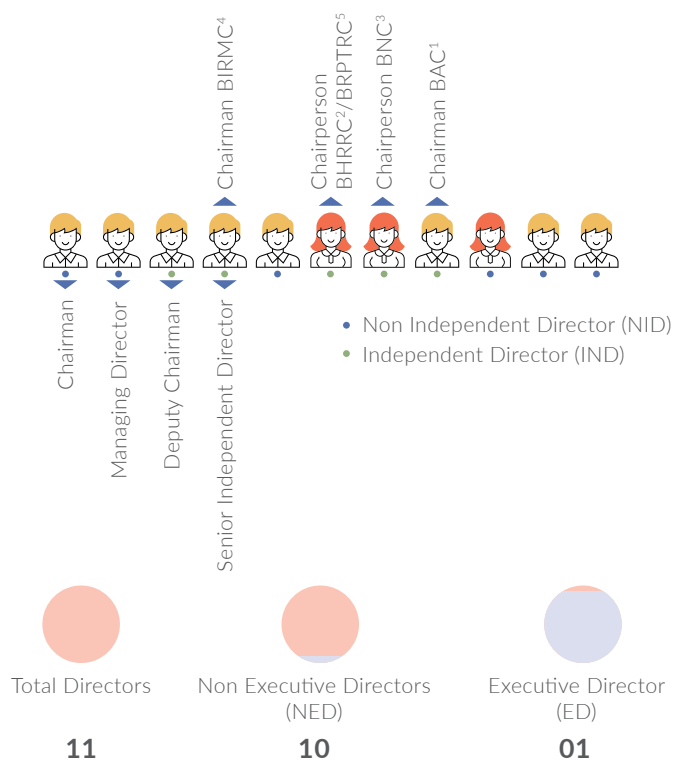
Directors' Attendance at Board and Mandatory Board Sub Committee Meetings

Directors	Classification	Board Meetings	Board Audit Committee	Board HR & Remuneration Committee	Board Nomination Committee	Board Integrated Risk Management Committee	Board Related Party Transactions Review Committee
Mr Channa Palansuriya	NID/NED	16/16	-	05/05	09/11	-	-
Prof Malik Ranasinghe	IND/NED	16/16	14/14	01/01	-	-	04/04
Mr Sanjiva Senanayake	IND/NED	16/16	-	01/01	10/11	06/06	03/04
Mr Deepal Sooriyaarachchi ¹	NID/NED	16/16	10/14	05/05	-	05/06	04/04
Mrs Dhara Wijayatilake	IND/NED	15/16	13/14	05/05	11/11	-	04/04
Miss Annika Senanayake	IND/NED	16/16	-	02/05	11/11	04/06	-
Mr Ranil Pathirana	IND/NED	12/16	13/14	-	-	-	-
Mrs Saumya Amarasekera	NID/NED	14/16	-	03/05	09/11	05/06	-
Mr Rushanka Silva	NID/NED	16/16	-	-	-	-	-
Mr Dilip de S Wijeyeratne ²	NID/NED	02/02	-	-	-	-	-
Mr Nanda Fernando	ED	15/16	-	-	-	06/06	03/04
Total No. of Meetings		16	14	05	11	06	04

¹ Independent Director until 12.11.2018

² Appointed to the Board w.e.f. 13.11.2018

Board Composition



1 Board Audit Committee (BAC)
 2 Board Human Resources and Remuneration Committee (BHRRC)
 3 Board Nomination Committee (BNC)
 4 Board Integrated Risk Management Committee (BIRMC)
 5 Board Related Party Transactions Review Committee (BRPTRC)

Board Gender Representation

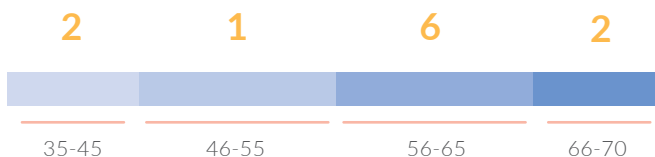


Board of Directors' Industry/Background Experience

EXPERIENCE	No. of Directors
Banking	3
Finance	6
Business & Management	6
HR Management	1
Law	2
Marketing	2
Engineering	2
Public Administration	2

An individual Director may represent more than one discipline

Age group wise



Priorities for the Future

In par with Corporate Governance Principles set by the Regulators, more prominence to be given to furtherance and uphold Corporate Governance culture with a focus towards adopting a higher standard of Corporate ethics in conducting business of the Bank.

NANDA FERNANDO
 Managing Director

Colombo, Sri Lanka
 14th February 2019

CORPORATE GOVERNANCE

The Code of Best Practice on Corporate Governance 2017 issued by the Institute of Chartered Accountants of Sri Lanka (ICASL CODE)

ICASL Code (the Code) Reference	Principle, Compliance and Implementation	Status																																				
SECTION 1 - THE COMPANY (THE BANK)																																						
A	DIRECTORS																																					
A.1	THE BOARD																																					
(1)	A.1 Effective Board																																					
	<p>The Board of Directors, until 12.11.2018 comprised ten (10) members and presently comprises Eleven (11) Directors, of whom Ten (10) are Non-Executive Directors including the Chairman. The Executive Director is the Managing Director who is also a member of the Corporate Management, to whom the day-to-day running of the organisation has been delegated. The Board has appointed Board Sub Committees to assist in discharging their collective duties and approves policies, governance structures and the delegation of authority to provide a conducive business environment for effective performance of the Bank. The Board is closely involved in developing strategy and setting the short-, medium- and long-term goals of the Bank and regularly monitors performance against pre-determined Key Performance Indicators (KPIs), which include both quantitative and qualitative measures, on a regular basis.</p> <p style="text-align: center;">Attendance as a Percentage at Board Meetings During 2018</p> <table border="1"> <thead> <tr> <th>Meeting</th> <th>Meetings Attended (%)</th> <th>Meetings Not Attended (%)</th> </tr> </thead> <tbody> <tr><td>1</td><td>100</td><td>0</td></tr> <tr><td>2</td><td>100</td><td>0</td></tr> <tr><td>3</td><td>100</td><td>0</td></tr> <tr><td>4</td><td>100</td><td>0</td></tr> <tr><td>5</td><td>95</td><td>5</td></tr> <tr><td>6</td><td>100</td><td>0</td></tr> <tr><td>7</td><td>75</td><td>25</td></tr> <tr><td>8</td><td>90</td><td>10</td></tr> <tr><td>9</td><td>100</td><td>0</td></tr> <tr><td>10</td><td>100</td><td>0</td></tr> <tr><td>11</td><td>95</td><td>5</td></tr> </tbody> </table> <p style="text-align: center;">* Appointed to the Board w.e.f. 13.11.2018</p>	Meeting	Meetings Attended (%)	Meetings Not Attended (%)	1	100	0	2	100	0	3	100	0	4	100	0	5	95	5	6	100	0	7	75	25	8	90	10	9	100	0	10	100	0	11	95	5	Complied
Meeting	Meetings Attended (%)	Meetings Not Attended (%)																																				
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7	75	25																																				
8	90	10																																				
9	100	0																																				
10	100	0																																				
11	95	5																																				
(2)	A.1.1 Regular Meetings																																					
	<p>Board meetings are held monthly whilst special Board meetings are convened as the need arises. During 2018 the Board held 16 scheduled meetings and 06 Strategic Planning Committee meetings. In addition to the Board, the following Board Sub Committees met regularly during the year:</p>	Complied																																				

	ICASL Code (the Code) Reference	Principle, Compliance and Implementation	Status												
		<table border="1"> <tr> <td>1. Board Audit Committee</td> <td>7. Board Strategic Planning Committee</td> </tr> <tr> <td>2. Board Human Resources & Remuneration Committee</td> <td>8. Board Shareholder Relations Committee</td> </tr> <tr> <td>3. Board Nomination Committee</td> <td>9. Board Treasury Committee</td> </tr> <tr> <td>4. Board Integrated Risk Management Committee</td> <td>10. Board Marketing Committee</td> </tr> <tr> <td>5. Board Related Party Transactions Review Committee</td> <td>11. Board IT Committee</td> </tr> <tr> <td>6. Board Credit Committee</td> <td>12. Board Capital Planning Committee</td> </tr> </table> <p>The meeting calendar scheduling all Board and Board Sub Committee meetings for the ensuing year is prepared well in advance and circulated to all Board Members.</p> <p>The Board members use iPads to access Board Papers via secure connections and are able to join meetings even through remote access, such as video conference. Details of Board Meetings, Mandatory Board Sub Committee Meetings and attendance are given on page 126 of this report.</p>	1. Board Audit Committee	7. Board Strategic Planning Committee	2. Board Human Resources & Remuneration Committee	8. Board Shareholder Relations Committee	3. Board Nomination Committee	9. Board Treasury Committee	4. Board Integrated Risk Management Committee	10. Board Marketing Committee	5. Board Related Party Transactions Review Committee	11. Board IT Committee	6. Board Credit Committee	12. Board Capital Planning Committee	
1. Board Audit Committee	7. Board Strategic Planning Committee														
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BOARD'S RESPONSIBILITIES: TO PROVIDE ENTREPRENEURIAL LEADERSHIP WITHIN A FRAMEWORK OF EFFECTIVE CONTROLS, STRENGTHENING THE SAFETY AND SOUNDNESS OF THE BANK															
(3)	A.1.2	Ensure the Formulation and Implementation of Sound Business Strategy													
		The Board is responsible for setting strategy, policies and for monitoring performance against agreed goals and KPIs. During the year, the Board held 06 strategic planning meetings, where the Board reviewed the progress of the Strategic Plan 2017-2019 and re-aligned strategies based on proposals of the Corporate Management where necessary and formulated and approved the strategy for the period 2018 to 2020.	Complied												
(4)	A.1.2	The Board has appointed the Chairman of the Bank who is a Non-Executive Non-Independent Director and has appointed a Senior Independent Director,	Complied												
(5)	A.1.2	Board is responsible to ensure that the Chief Executive Officer (CEO)/Managing Director (MD) and the Management Team possess Skills, Experience and Knowledge to Implement the Strategy.													
		MD and Management team has the required skill, knowledge and experience in implementing the strategy since they have multi-skilling with Banking, Finance, IT, Management, Marketing, HR and Audit backgrounds.	Complied												
		The Board Human Resources and Remuneration Committee supports the Board Nomination Committee in implementing the succession strategy for Key Management Personnel (KMP's) through a continuous Talent Mapping and Skills Development process.													
(6)	A.1.2	Succession Strategy for CEO and KMPs.													
		The Board Nomination Committee is responsible for adopting an effective succession strategy with regard to the MD and KMPs, in support of which, a Board approved Procedure for Selection, Nomination and Appointment of MD and KMPs is in place.	Complied												

CORPORATE GOVERNANCE

	ICASL Code (the Code) Reference	Principle, Compliance and Implementation	Status
(7)	A.1.2	<p>Approval of budgets and major capital expenditure</p> <p>The Board is responsible for reviewing and approving major capital expenditure budgets and monitoring the actual performance of the individual Strategic Business Units against approved budgets and the approval of quarterly and audited financial statements.</p> <p>In support of reviewing and approving major capital expenditure, a formal Procurement Procedure is being followed. The Capital Expenditure proposed to be incurred are first submitted to the Procurement Committee that has been established under the said Procurement Procedure, with whose recommendation only, the proposed expenditure are submitted for approval by the Board.</p> <p>The budgets for the ensuing year are approved by the Board along with the revolving Strategic Plan for the ensuing year. At the quarterly review of the Strategic and Budget Plan for 2018, the compliance with the cost budgets was also reviewed.</p>	Complied
(8)	A.1.2	<p>Determining the matters expressly reserved to the Board and those delegated to the Management</p> <p>A Board approved formal schedule of matters specifically reserved to the Board for decision is in place. A formal procedure compliant with the Bank's Memorandum and Articles of Association is followed by the Board in delegating authority upon the Management on matters and limits deemed appropriate to be delegated upon the Management, subject to the condition that the Management reports to the Board regularly, the authorities exercised by them under the authorities delegated by the Board.</p>	Complied
(9)	A.1.2	<p>Ensure Effective Systems to Secure Integrity of Information, Internal Controls, Business continuity and Risk Management</p> <p>Board Audit Committee reviews Internal Audit reports submitted by the Internal Audit Department and monitors follow up action. Further, based on the assessment of Internal Control Over Financial Reporting (ICOFR), Directors concluded that the Bank's Internal Control Over Financial Reporting is effective. A descriptive account of the measures taken in this regard is contained in the Board Audit Committee Report given on pages 176 to 178.</p> <p>A Board approved, annually reviewed Business Continuity Plan is in place. A fire drill and a system drill were carried out pertaining to the year 2018 in compliance with the requirements of such Business Continuity Plan.</p> <p>An independent Risk Management Unit has been established, headed by the Group Chief Risk Officer who functionally reports to the Board Integrated Risk Management Committee. The Risk Management Unit is tasked with the responsibility of assessing and mitigating various risks encountered by the Bank and the Group in carrying out their respective businesses.</p>	<p>Complied</p> <p>Complied</p> <p>Complied</p>

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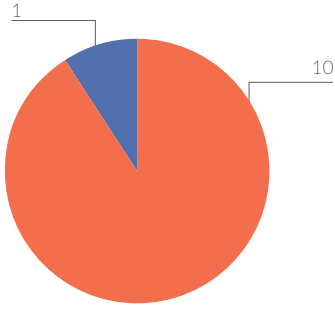
	ICASL Code (the Code) Reference	Principle, Compliance and Implementation	Status
(10)	A.1.2	Ensure Compliance with Laws, Regulations and Ethical Standards	
		<p>An independent Compliance function too has been established, which is headed by the Group Compliance Officer who functionally reports to the Board Integrated Risk Management Committee, which is tasked with ensuring Bank’s compliance with laws and regulations.</p> <p>In order to ensure that ethical standards are followed, the Board approved Policy on Managing Conflicts of Interest, the Whistle Blowing Policy, the Directive on Dealing with Related Party Transactions, the Customer Charter, the Codes of Conduct for Employees, the Key Management Personnel, and the Code of Conduct and Governance Requirements for Directors have been implemented Bank-wide and as appropriate.</p>	<p>Complied</p> <p>Complied</p>
(11)	A.1.2	Ensure all Stakeholder Interests are Considered in Corporate Decisions	
		<p>The Articles of Association of the Bank requires the Directors to take decisions, taking into account the interests of customers, shareholders, employees and the community. Additionally, the Customer Charter, the Board Shareholder Relations Committee, Bank’s HR Policy, the Policy on Managing Conflicts of Interest as well as the Board Related Party Transactions Review Committee are in place in order to uphold the interests of these key stakeholders.</p>	<p>Complied</p>
(12)	A.1.2	Recognising sustainable business development and consider the need for adopting “Integrated Reporting”	
		<p>Integrated Reporting and Recognising sustainable business development.</p> <p>The Board of Directors, both individually and collectively comply with best practices on economic, environmental, and social topics whilst ensuring that the interest of all shareholder groups are considered when taking decisions.</p> <p>Economic Sustainability Please refer pages 206 to 356.</p> <p>The environment Please refer pages 84 to 89.</p> <p>Labour Practice Please refer pages 64 to 73.</p> <p>Society Please refer pages 78 to 82.</p> <p>Product and service responsibility Please refer pages 74 to 77.</p> <p>Stakeholder Identification, Engagement and Effective Communication Please refer pages 45 to 48.</p> <p>Sustainable Reporting and Disclosure Please refer pages 375 to 380.</p>	<p>Complied</p> <p>Complied</p> <p>Complied</p> <p>Complied</p> <p>Complied</p> <p>Complied</p> <p>Complied</p>

CORPORATE GOVERNANCE

	ICASL Code (the Code) Reference	Principle, Compliance and Implementation	Status
(13)	A.1.2	Ensure that the Company's Values and Standards are set with Emphasis on Adopting Appropriate Accounting Policies and Fostering Compliance with Financial Regulations	
		The Board Audit Committee and the Board respectively review and approve Bank's accounting policies annually or sooner if required, to ensure that they are in line with the business model of the Bank and evolving international and local accounting standards and industry best practices.	Complied
(14)	A.1.2	Establish a process of monitoring and evaluation on strategy implementation, budgets, plans and related risks	
		The Terms of Reference of the Board Strategic Planning Committee ensures that the Revolving Strategic Plan relevant for the current year is reviewed on a quarterly basis, re-aligning strategies where ever and whenever deemed necessary or appropriate. The 2018/2020 Strategic Plan was duly reviewed by this Committee quarterly, in this manner.	Complied
		The Terms of Reference of the Board Integrated Risk Management Committee requires the Risk Management Unit to analyse and submit to the Board for Board's information, consideration and appropriate action, the Risks arising out of strategies, prior to the Board granting approval for the revolving Strategic Plan. The Board considered the risks highlighted by the Risk Management Unit as risks arising out of strategies prior to approving the Revolving Strategic Plan for 2019 - 2021.	Complied
(15)	A.1.2	Ensuring that a process is established for corporate reporting on annual and quarterly basis	
		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.	Complied
(16)	A.1.2	Fulfil such other Board Functions as are vital, given the scale, nature and complexity of the business concerned	
		The Board is committed to fulfil its functions in line with the laws, regulations and good governance practices adopted by the Bank.	Complied
(17)	A.1.3	Procedure for Directors to Obtain Independent Professional Advice at the Bank's Expense	
		A Board approved Policy is in place, enabling Directors to seek and obtain Independent Professional Advice	Complied
		As per this Policy, Independent professional advisory services were sought on matters including the implementation of Cyber Security, SLFRS 9, Industrial Relations and projected economic conditions stemming from the Budget Proposals during the year.	
(18)	A.1.4.A	Directors Access to advice and services, Appointment and Removal of the Company Secretary	
		As per the Board approved Policy providing Directors access to Advice and Services of the Company Secretary, all Directors have the opportunity to obtain the advice and services of the Company Secretary who is responsible for ensuring follow-up of Board procedures, compliance with relevant rules and regulations, directions and statutes, keeping and maintaining minutes and relevant records of the Bank. Under this procedure, during the year under review, the Company Secretary provided advice to the Board.	Complied
		The Articles of Association of the Bank specify that the appointment and removal of the Company Secretary shall be by resolution involving the Board. The Procedure to Select and Appoint Chief Executive Officer and Key Management Personnel (KMP) to support the discretionary power of the Board of Directors to appoint the Company Secretary, based on the recommendation of the Board Nomination Committee. The Bank acknowledges the Company Secretary as a KMP.	Complied

	ICASL Code (the Code) Reference	Principle, Compliance and Implementation	Status
(19)	A.1.4.B	Insurance cover for Board of Directors and KMPs An insurance policy is in place to cover the Board of Directors and KMPs of the Bank.	Complied
(20)	A.1.5	Independent Judgement The Directors of the Bank have no vested interest in the Bank's business and take decisions on matters before them using independent judgement. The Bank's Policy on Managing Conflicts of Interest, the review of relevant transactions by the Board Related Party Transaction Review Committee and adherence to the provisions of Section 47 of Banking Act No. 30 of 1988 further ensure Directors' independence in judgement.	Complied
(21)	A.1.6	Dedicate Adequate Time and Effort to Matters of the Board and the Company Dates of regular Board meetings and regular Board Sub Committee meetings are scheduled well in advance and the relevant papers are circulated generally seven days prior to the meeting. There is provision to circulate papers closer to the meeting on an exceptional basis. It is estimated that Non-Executive Directors dedicated not less than 90 hours during the year under review for the affairs of the Bank and in addition, those Directors who are also members of Board Sub Committees dedicated not less than 190 hours for the affairs of the Bank. The attendance at meetings of the Board and its mandatory Sub Committees is given in page 126.	Complied
(22)	A.1.7	One third of the Directors can call for a resolution to be presented to the Board where they feel it is in the best interest of the company to do so. A Board approved Procedure is in place enabling all Directors include proposals in the Agenda. Discussion and reporting on Bank's Cyber Security was such a matter resolved by the Board to be introduced as an agenda item at the Board Meetings and the Board Capital Planning Committee and Board IT Committee were established, based on the proposals submitted by Directors.	Complied
(23)	A.1.8	Training for Directors The Company Secretary, in consultation with the Chairman, recommends Directors to attend training sessions/seminars. During 2018 the following areas were covered, under Training for Directors: <ul style="list-style-type: none"> • Cyber Security • Credit training sessions for the Board of Directors • Familiarisation programme for the Board of Directors conducted by the Financial Intelligence Unit of Sri Lanka (CBSL) • A technical seminar for Directors of Licensed Commercial Banks conducted by the CBSL Additionally, the Board encourages knowledge sharing amongst the Directors. They also participate in the sessions organised by professional bodies and Sri Lanka Institute of Directors. The Board being the highest governance body identifies the significance of developing and enhancing its collective knowledge on economics, environmental and social topics. The annual self-assessment by Directors also covers aspects on training to identify training needs for Directors.	Complied

	ICASL Code (the Code) Reference	Principle, Compliance and Implementation	Status
	A.2	DIVISION OF RESPONSIBILITIES BETWEEN CHAIRMAN AND MANAGING DIRECTOR (MD)	
(24)	A.2	Conducting the business of the Board separately; to the executive responsibilities of the Management of the Company	
		The positions of the Chairman and the CEO/MD have been separated in line with best practices in order to maintain a balance of power and authority. The Chairman is a Non Executive Director while the CEO/MD is an Executive Director.	Complied
	A.3	CHAIRMAN'S ROLE	
(25)	A.3	Chairman's Role in preserving good Corporate Governance	
		The Chairman's functions and responsibilities which include all aspects specified in the Code, the Continuing Listing Requirements of the CSE and the Banking Act Direction No. 11 of 2007 on Corporate Governance for Licensed Commercial Banks in Sri Lanka have been documented and duly approved by the Board.	Complied
(26)	A.3.1	Conduct Board proceedings in a proper manner	
		The routine Agenda for Board Meetings has been developed by the Chairman in consultation with all other Directors including the CEO/MD and the Company Secretary. These items include discussions on strategy, the Bank's performance, Industry Performance, Financials, status of Human Resources, Risk Management and Compliance, Treasury update, update on Bank's status on Cyber Security and Information on exercising authorities delegated by the Board upon Management.	Complied
		Board proceedings are conducted according to the Agenda. The papers for discussion and the Agenda are generally circulated seven days prior to the meeting through uploading the same onto iPads via a secure link. All Directors have been provided with iPads and they can access the current as well as the past Board papers via this secure link.	Complied
		The Code of Conduct and Governance Requirements for Directors and the Terms of Reference of each Board Sub Committee spell out the Directors' duties and responsibilities and the standard of care required from them. These documents too have been uploaded on to the iPads as "Shared Documents" providing easy and prompt access via the said secure link to Directors.	Complied
		All Directors make effective contributions at meetings for the benefit of the Bank, offering their views, concerns and advice from the point of view of diverse fields and their respective professions.	Complied
		All Directors have access to Management to seek Information for discussions at Board Meetings. Board papers are quite informative and any further information required by Directors are provided by the Management, upon request. All Directors have the liberty to request inclusion of matters of concern in the Agenda, which is supported by the Board approved Procedure to enable Directors to include matters and proposals in the Agenda.	Complied
		Board's composition being Ten Non-Executive Directors and One Executive Director, the required balance and independence in judgements is ensured and maintained.	Complied
		The Minutes of Board Meetings and of Board Sub Committee Meetings carry various concerns raised and views expressed by Directors individually in the deliberations as precisely as possible.	Complied
		The Board is aware of its responsibility towards all stakeholders of the Bank and are in control of the affairs of the Bank.	Complied

ICASL Code (the Code) Reference	Principle, Compliance and Implementation	Status
A.4	FINANCIAL ACUMEN	
(27)	Availability of Financial Acumen and Knowledge to offer guidance on matters of finance	
	<p>Financial acumen has been a key attribute of the successful careers of the following Directors who have held senior management positions related to finance in other leading financial institutions:</p> <ul style="list-style-type: none"> • Mr Sanjiva Senanayake • Mr Deepal Sooriyaarachchi • Mr Ranil Pathirana • Mr Rushanka Silva • Mr Dilip de S Wijeyeratne 	Complied
A.5	BOARD BALANCE	
(28)	Non-Executive Directors of sufficient calibre and number	
	<p>Until 12.11.2018, the Board comprised nine Non-Executive Directors including the Chairman and one Executive Director who is the CEO/MD. W.e.f. 13.11.2018, the Board's composition has been ten Non-Executive Directors and one Executive Director; the majority being Non-Executive Directors as prescribed by the Code.</p>	Complied
	<p>The Non-Executive Directors are professionals/academics/business leaders, holding/ having held senior positions in their respective fields who are deemed to be of sufficient and appropriate calibre. As the majority of the Board comprises Non-Executive Directors, their opinions and views carry significant weight in the Board decisions.</p>	Complied
	<p>Mr Sanjiva Senanayake, the Senior Independent Director of the Bank, has served in key managerial positions in several local and foreign Financial Institutions including the International Finance Corporation. The Deputy Chairman holds a Doctorate in Civil Engineering Economics. Six Directors, including the MD, hold Masters' Degrees in Business Administration, Science - (Engineering) and Law respectively. Three members hold Bachelor's degrees in Commerce, Law and Arts (Management). Two Directors are Fellow Members and another is an Associate Member of the Chartered Institute of Management Accountants – UK, whilst one Director is an Associate member of the Institute of Chartered Accountants of Sri Lanka, who is also a Fellow Member of the Chartered Institute of Management Accountants – UK.</p>	Complied
	<p>A Senior Independent Director has been appointed by the Bank since the Chairman, though, is a Non-Executive Director, is not an Independent Director.</p>	Complied
	<p>Executive Directors & Non-Executive Directors</p>  <p>The pie chart illustrates the composition of the Board. The orange segment represents Non-Executive Directors, which is 10 out of 11 total directors. The blue segment represents Executive Directors, which is 1 out of 11 total directors. A legend below the chart identifies the colors: orange for Non-Executive Directors and blue for Executive Directors.</p>	

CORPORATE GOVERNANCE

	ICASL Code (the Code) Reference	Principle, Compliance and Implementation	Status						
(29)	A.5.2	<p>Two Thirds of the Non-Executive Directors should be Independent</p> <p>Criteria to deem a Director “Independent”</p> <p>Until 12.11.2018, Six (06) of the Non-Executive Directors of the Bank were deemed Independent of management and free of any business or other relationship that could materially interfere with or could reasonably be perceived to materially interfere with the exercise of their unfettered and independent judgement, meeting the criteria of both, the Code as well as of the Banking Act Direction No. 11 of 2007 Corporate Governance for Licensed Commercial Banks issued by the Central Bank of Sri Lanka (CBSL), and complying with the regulatory requirement.</p> <p>W.e.f. 13.11.2018, the number of Non-Executive Directors deemed Independent, meeting the said criteria has been reduced to Five (05), creating a non-compliance with the regulatory requirement.</p> <p>Independent Directors & Non-Independent Directors</p> <table border="1"> <caption>Independent Directors & Non-Independent Directors</caption> <thead> <tr> <th>Category</th> <th>Count</th> </tr> </thead> <tbody> <tr> <td>Independent Directors</td> <td>5</td> </tr> <tr> <td>Non-Independent Directors</td> <td>6</td> </tr> </tbody> </table>	Category	Count	Independent Directors	5	Non-Independent Directors	6	Not complied
Category	Count								
Independent Directors	5								
Non-Independent Directors	6								
(30)	A.5.3	<p>Independence of Non-Executive Directors</p> <p>Five (05) of the Non-Executive Directors are independent of management and free of any business or other relationship that could materially interfere with or could reasonably be perceived to materially interfere with the exercise of their unfettered and independent judgement.</p>	Complied						
(31)	A.5.4	<p>Annual Declarations have been obtained from each Non-Executive Director as to the status of independence/non-independence for the year 2018.</p>	Complied						
(32)	A.5.5	<p>Annual Evaluation of Independence</p> <p>The Board carried out the annual evaluation of independence of the Directors based on the submission of the annual declarations. Based on these, the following Directors were deemed to be independent as at 31.12.2018:</p> <ul style="list-style-type: none"> • Prof Malik Ranasinghe • Mr Sanjiva Senanayake • Mrs Dhara Wijayatilake • Miss Annika Senanayake • Mr Ranil Pathirana <p>There were no Directors deemed Independent where all criteria were not met.</p>	Complied						

	ICASL Code (the Code) Reference	Principle, Compliance and Implementation	Status
(33)	A.5.6	Alternate Directors An executive of the Company should not be appointed as an Alternate Director of the Company. The Alternate to an Independent Director should meet the criteria of independence and consequent to the appointment of the Alternate Director, the minimum number of Independent Directors also should be satisfied, The Bank, as a policy, does not encourage the appointment of Alternate Directors, but encourages at all times, the participation of all Directors in person.	Complied
(34)	A.5.7	Appointment of Senior Independent Director (SID) Bank has appointed a Chairman and a CEO/MD as required by the said Banking Act Direction No. 11 of 2007. The Chairman of the Company not being an Independent Director, Non-Executive-Independent Director Mr Sanjiva Senanayake has been appointed as the Senior Independent Director (SID).	Complied
(35)		Meetings with the Senior Independent Director The SID held meetings with the Non-Executive Directors twice during 2018 and with the Executive Director, once.	Complied
(36)	A.5.8	The SID is available for the Non-Executive Directors for confidential discussions and participated at the shareholders' meetings during the year.	Complied
(37)	A.5.9	Chairman to hold meetings with Non-Executive Directors, without Executive Directors being present Chairman held one meeting with the Non-Executive Directors without the Executive Director being present during the year 2018.	Complied
(38)	A.5.10	Recording of Directors' concerns in Board Minutes Board Minutes are prepared in order to record any concerns of the Board as a whole or those of individual Directors regarding matters placed for their approval/guidance/action. These Minutes are circulated and formally approved at the subsequent Board meeting, In the process of minuting the proceedings of a meeting, the concerns raised by each Director is clearly recorded together with the responses of the others.	Complied
	A.6	SUPPLY OF RELEVANT INFORMATION	
(39)	A.6.1	Provision of appropriate and timely information The management provides comprehensive information including both quantitative and qualitative information for the monthly Board Meetings, generally seven days prior to the Board meetings. The Directors also have free and open access to Management at all levels to obtain further information or clarify any concerns they may have. As described above, they also have the right to seek independent professional advice at the Company's expense, in support of which a Board Approved Policy is in place and copies of advice obtained in this manner are circulated to other Directors who request it.	Complied

	ICASL Code (the Code) Reference	Principle, Compliance and Implementation	Status
(40)	A.6.1	<p>Chairman to ensure all Directors are properly briefed on issues arising at Board Meetings</p> <p>All Directors are promptly and adequately briefed on matters arising at Board meetings through comprehensive Board Papers. Additionally, the relevant members of the Management team are on standby for further clarifications as may be required by Directors or will make presentations at Board meetings.</p> <p>Any Director who does not attend a meeting is updated on proceedings prior to the next meeting through:</p> <ul style="list-style-type: none"> Formally documented minutes of meetings. A separate Board paper prepared highlighting the items which need to be completed and need follow-up action of the previous meetings. (This is taken up immediately after confirmation of minutes.) Archived minutes and Board papers accessible electronically at the convenience of the Directors. 	Complied
(41)	A.6.2	<p>Board Papers and Agenda to be circulated seven days prior to meetings</p> <p>As described above, Board papers are generally circulated seven days before the meeting. There is provision for circulation of urgent papers and/or papers on highly sensitive matters with a shorter notice and also for approval of matters by circulation, but such instances are the exception and not the rule.</p> <p>Minutes of the meetings should ordinarily be provided to Directors at least two weeks after the meeting date.</p> <p>Minutes of meetings are provided within the stipulated period wherever possible.</p>	Complied
	A.7	APPOINTMENTS TO THE BOARD	
(42)	A.7.1	<p>Formal and transparent procedure for new appointments through an established Nomination Committee</p> <p>The Board has established a Board Nomination Committee whose Terms of Reference complies substantially with the Specimen given in the Code and with the Banking Act Direction No. 11 of 2007 on Corporate Governance for Licensed Commercial Banks. Membership of this important Board Sub Committee is given on page 181 of the Annual Report. Accordingly, New Directors (both Executive and Non Executive) are appointed by the Board upon consideration of recommendations by the Board Nomination Committee in terms of the Board approved Policy on Selection, Nomination, Appointment and Election of Directors which is in place, in support of this process.</p>	Complied
(43)	A.7.2	<p>Annually assess Board composition</p> <p>The Board annually assesses its composition to ascertain whether the combined knowledge, skill and experience of the Board matches the strategic demands facing the Bank and is satisfied that it matches the requirements demanded.</p> <p>Board Nomination Committee considers the outcome of such assessments when appointments to the Board are proposed.</p>	Complied

	ICASL Code (the Code) Reference	Principle, Compliance and Implementation	Status
(44)	A.7.3	<p>Disclosure of information to Shareholders upon appointment of New Directors</p> <p>All new appointments to the Board are communicated to the shareholders via the Colombo Stock Exchange in the English language, together with brief resumes of such Directors. Such announcements sets out the fields of such Director's expertise, his/her directorships in other companies, the number of shares he/she holds in the Bank, whether he/she is appointed as an Executive Director or a Non-Executive Director, and whether as an Independent Director or as a Non-Independent Director.</p> <p>The appointment of Mr Dilip de S Wijeyeratne w.e.f. 13th November 2018 was announced to the public in this manner.</p> <p>Further, the profiles of the current Directors are given on pages 16 to 21 in this Annual Report which has been translated into Sinhala as well, in keeping with the traditions of the Bank.</p>	Complied
	A.8	RE-ELECTION	
(45)	A.8.1	<p>All Directors should submit themselves for re-election at regular intervals</p> <p>As per the Articles of Association of the Bank, one-third of the Directors retire at each Annual General Meeting and offer themselves for re-election. Such Directors who retire are those who held office for the longest period since their election/re-appointment. In accordance with this provision, the following Directors retire and offer themselves for re-election at the 33rd Annual General Meeting:</p> <ul style="list-style-type: none"> • Mr Ranil Pathirana • Mr Deepal Sooriyaarachchi • Prof Malik Ranasinghe • Mrs Dhara Wijayatilake <p>Following Directors were re-elected at the 32nd Annual General Meeting:</p> <ul style="list-style-type: none"> • Mr Channa Palansuriya • Mr Sanjiva Senanayake • Mrs Saumya Amarasekera • Miss Annika Senanayake <p>A brief resume of each Director standing for re-election is provided in English and Sinhala to enable shareholders to make an informed decision.</p> <p>The Board and the Board Nomination Committee are actively engaged in succession planning for both Executive and Non-Executive Directors to ensure that Board composition is periodically reviewed to ensure and that the Board retains its effectiveness at all times.</p>	Complied
(46)	A.8.1	<p>Non-Executive Directors are appointed for specified terms subject to re-election</p> <p>Non-Executive Directors are appointed with approval of the Central Bank of Sri Lanka (CBSL) and stand for election at the immediately succeeding Annual General Meetings in terms of Articles of Association of the Bank. This is in compliance with the requirements of the Code as well as the said CBSL Direction No. 11 of 2007.</p> <p>Mr Dilip de S Wijeyeratne who was appointed to the Board w.e.f. 13.11.2018, will be subject to election by the shareholders at the Annual General Meeting to be held on 29.03.2019.</p>	Complied

	ICASL Code (the Code) Reference	Principle, Compliance and Implementation	Status
(47)	A.8.2	All Directors including Chairman to be subject to re-election at first opportunity after appointment and re-election at least once in every three years thereafter	
		All Non-Executive Directors stand for election by shareholders at Annual General Meetings immediately following their appointment. Mr Rushanka Silva, who was appointed to the Board during the latter part of 2017, was elected by the shareholders at the Annual General Meeting held on 29th March 2018.	Complied
		Mr Dilip de S Wijeyeratne, who was appointed to the Board w.e.f. 13.11.2018 to fill up a casual vacancy in the Board, will come up for election by the shareholders at the Annual General Meeting to be held in March 2019.	
		As per the Articles of Association of the Bank, one-third of the Directors retire at each Annual General Meeting and offer themselves for re-election.	Complied
(48)	A.8.3	Resignation of a Director	
		In the event that a Director wishes to resign from his/her position as a Director, he/she is expected to provide a written communication to the Board formally tabling his/her resignation along with reasons for such resignation. Such request would be duly tabled at the immediately succeeding Board Meeting.	Complied.
		During the year under review, no Director tendered resignation.	
	A.9	APPRAISAL OF BOARD PERFORMANCE	
(49)	A.9.1	Appraisal of Board Performance	
		Each Director of the Board annually appraises the Board's own performance to ensure that it is discharging its responsibilities satisfactorily. This process requires each Director to fill a Board Performance Evaluation Form in line with the provisions of the relevant Section of the Code. The responses are reviewed by the Company Secretary who compiles a report which is submitted for discussion at a Board Meeting.	Complied
(50)	A.9.2	Appraisal of Board Sub Committees	
		The annual self-assessment of the Board Sub Committees too follows a similar process and the reports are retained by the Company Secretary.	Complied
(51)	A.9.3	Process to review Directors' performance at the time of re-election	
		A Self Review process to ascertain the extent of the contribution participation and engagement of each Director is followed simultaneously with the Board Performance Evaluation by the Directors.	Complied
(52)	A.9.4	Disclosure of the method of appraisal of the Board and Board Sub Committee performance	
		As explained in A.9.1, A.9.2 and A.9.3 above	Complied

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ICASL Code (the Code) Reference	Principle, Compliance and Implementation	Status
A.10	DISCLOSURE OF INFORMATION IN RESPECT OF DIRECTORS Shareholders should be kept advised of relevant details in respect of Directors	
(53)	A.10.1 Annual Report discloses the following information relating to Directors:	
	<ul style="list-style-type: none"> Name, qualifications, expertise in relevant functional areas, material business interests and a brief profile of each Director is given on pages 16 to 21. 	Complied
	<ul style="list-style-type: none"> Each Director's Executive/Non-Executive and Independent/Non-Independent status is given on pages 16 to 21. 	Complied
	<ul style="list-style-type: none"> Related Party Transactions are given on pages 308 to 312. 	Complied
	<ul style="list-style-type: none"> Names of companies and other entities in which each Director concerned serves as a Board member are given on pages 16 to 21. 	Complied
	<ul style="list-style-type: none"> Membership of Directors in Board Mandatory Sub Committees are given on pages 176 to 184 and their attendance at Board Meetings and Board Sub Committee meetings are given on page 126. 	Complied
A.11	APPRAISAL OF CHIEF EXECUTIVE OFFICER (CEO)/MANAGING DIRECTOR (MD) The Board should, at least annually, assess the performance of the CEO	
(54)	A.11.1 Set reasonable financial and non-financial targets to be met by the CEO/MD	
	The Board discussed and set financial and non-financial targets to be achieved during the year by the MD with reference to the short-, medium- and long-term objectives of the Bank at the beginning of 2018. The targets for 2019 were also set at the end of 2018.	Complied
(55)	A.11.2 Evaluate performance of the CEO/MD with reference to targets	
	The performance evaluation of the MD for 2017 was carried out by the Board HR & Remuneration Committee during the first quarter of 2018 with reference to targets and goals achieved by the Bank which were reported to the Board. The Board expressed its satisfaction at the MD's level of performance during 2017.	Complied
	The performance evaluation of the Managing Director for 2018 will be carried out during the first quarter of 2019.	
B	DIRECTORS' REMUNERATION	
B.1	REMUNERATION PROCEDURE	
(56)	B.1.1 Appointment of a Remuneration Committee	
	The Board has established a Board Human Resources & Remuneration Committee (Board HR & Remuneration Committee) to develop policies and recommend remuneration for the Directors and KMPs respectively for approval by the Board. No Director is involved in deciding his own remuneration. The Terms of Reference of this Committee is substantially in compliance with Schedule C of the Code and other regulatory guidelines and the Committee held 05 meetings during the year under review.	Complied
	The Board follows the Board approved Reward Management Policy for Key Management Personnel, as well as the Board approved Directors' Remuneration Policy in recommending remuneration for the KMPs and Directors for approval by the Board.	
	Further information regarding the Board HR & Remuneration Committee is given in the Board HR & Remuneration Committee Report on pages 179 & 180.	Complied

CORPORATE GOVERNANCE

	ICASL Code (the Code) Reference	Principle, Compliance and Implementation	Status
(57)	B.1.2 & B.1.3	Remuneration Committee to comprise exclusively of Non-Executive Directors, of whom, the majority should be independent whilst the Chairperson of the Committee should be an Independent Director.	
		<p>Until 12. 11. 2018, the Board HR & Remuneration Committee comprised the following Directors, all of whom are Non-Executive Directors.</p> <ul style="list-style-type: none"> • Mr Deepal Sooriyaarachchi (Chairman) • Mr Channa Palansuriya • Mrs Dhara Wijayatilake • Miss Annika Senanayake • Mrs Saumya Amarasekera <p>With effect from 13.11.2018 the Board resolved for the Committee's composition to be:</p> <ul style="list-style-type: none"> • Mrs Dhara Wijayatilake (Chairperson) • Mr Channa Palansuriya • Prof Malik Ranasinghe • Mr Sanjiva Senanayake • Mr Deepal Sooriyaarachchi • Miss Annika Senanayake • Mrs Saumya Amarasekera, <p>owing to the fact that Mr Deepal Sooriyaarachchi ceased to be an Independent Director w.e.f. 13th November 2018</p>	Complied
(58)	B.1.4	Remuneration for Non-Executive Directors	
		Remuneration of Non-Executive Directors is determined by the Board as a whole, in accordance with the Board approved Policy on Directors' Remuneration, in accordance with the Articles of Association of the Company.	Complied
(59)	B.1.5	Remuneration of Executive Directors	
		Remuneration of Executive Directors is recommended by the Board HR & Remuneration Committee which has access to professional advice from within or outside the Bank in formulating their proposals for approval by the Board of Directors. The Chairman of the Bank is also a member of this Board Sub Committee. The Board approved Reward Management Policy for KMPs which is in place governs the remuneration of the Executive Directors as well, the Executive Directors being a KMP.	Complied
	B.2	THE LEVEL AND MAKE UP OF REMUNERATION	
(60)	B.2.1 & B.2.2	Remuneration for Executive Directors should attract, retain and motivate	
		Remuneration for Executive Directors designed to attract, retain and motivate them as determined by the Board HR & Remuneration Committee. The Bank is served by one Executive Director, who is the Managing Director. His remuneration comprises a fixed salary component, which includes perquisites and allowances as well as a performance based component linked to achievement of both qualitative and quantitative aspects of the Bank's corporate targets and his individual targets. Board HR & Remuneration Committee considers market practices and seeks professional advice when required in order to discharge its responsibilities with regard to recommending on remuneration of the Executive Director.	Complied

	ICASL Code (the Code) Reference	Principle, Compliance and Implementation	Status
(61)	B.2.3	Positioning Company remuneration levels relative to other companies	
		The Board HR & Remuneration Committee reviews the Bank's remuneration levels in relation to other banks in the country. A salary survey of specific job positions held by the Corporate Management and the staff as a whole was followed to determine salaries by the Board upon recommendation by Board HR & Remuneration Committee during the year under review.	Complied
(62)	B.2.4	Sensitivity of the Remuneration Committee to remuneration and employment conditions	
		Board HR & Remuneration Committee is mindful of the comparative employment conditions and considers the nature and extent of responsibility, the work volume and the level of performance against the targets set at the beginning of the year when considering the team based performance based incentives.	Complied.
(63)	B.2.5	Performance related elements of remuneration for Executive Directors	
		Considering the recommendations made by the Board HR and Remuneration Committee, after much deliberations, the Board approved an extremely challenging, but transparent set of targets for the MD, who is the only Executive Director of the Bank. These targets are intended to earn the highest value additions to all stakeholders, of which, a component is directly linked to the performance related component of the MD's remuneration.	Complied
(64)	B.2.6	Share option schemes	
		No share option scheme was implemented or introduced during 2018.	Complied
(65)	B.2.7	Designing schemes of performance related remuneration	
		A scheme of team based performance related remuneration has been in force in the Bank since 2016. However, under this scheme, no performance related remuneration is granted with effect in the retrospect.	Complied
(66)	B.2.8	Early termination of employment of Directors	
		No Contract for Services have been entered into by the Bank with its Non-Executive Directors. The term of a Director (whether Executive or Non- Executive) would come to an end in the circumstances set out in the Board approved Procedure for Selection, Nomination and Appointment of Directors. No compensation is payable by the Company to its Non-Executive Directors on "early determination" of term for any reason whatsoever. This is supported by the Board approved Directors' Remuneration Policy which is in place.	Complied
		The terms of employment of, MD who is an employee of the Bank, are governed by the terms of his Contract of Employment.	
(67)	B.2.9	Dealing with early termination	
		As stated in B 2.8 above, the Bank has not adopted a Policy or a practice to grant compensation to Non-Executive Directors whose term is prematurely determined for any reason whatsoever. As stated previously, the terms of employment of MD who is an employee of the Bank, are governed by the terms of his Contract of Employment.	Complied
(68)	B.2.10	Levels of remuneration for Non-Executive Directors	
		The Board as a whole determines the levels of remuneration for Non-Executive Directors taking into account, the time, commitment and responsibilities of their role and market practices. Remuneration for Non-Executive Directors does not include share option schemes. A Board approved policy on Directors' Remuneration is in place, setting out Bank's policy and principles with regard to remuneration for the Non-Executive Directors.	Complied

CORPORATE GOVERNANCE

	ICASL Code (the Code) Reference	Principle, Compliance and Implementation	Status
	B.3	DISCLOSURE OF REMUNERATION	
(69)	B.3.1	Composition of Board HR & Remuneration Committee, Remuneration Policy and Disclosure of Aggregate Remuneration Paid to Directors	
		The composition of the Board HR & Remuneration Committee and its report is given on pages 179 & 180.	Complied
		The aggregate remuneration to Executive and Non-Executive Directors are given in Note No. 47.3.1 to the Financial Statements on page 308.	Complied
		Names of the Members of the Board Human Resources & Remuneration Committee are disclosed on pages 179 & 180 in this Annual Report.	Complied
	C	RELATIONS WITH SHAREHOLDERS	
	C.1	CONSTRUCTIVE USE OF THE ANNUAL GENERAL MEETING (AGM) AND CONDUCT OF GENERAL MEETINGS	
(70)	C.1.1	Constructive use of the AGM & other general meetings	
		The Annual General Meeting is the main forum for contact between shareholders and the Board. The Bank has a history of being one of the most attended Annual General Meetings in the country. A separate Sub Committee of the Board, Board Shareholder Relations Committee has been established for the purpose of building up relations with the shareholders and addressing their concerns. This Committee conducts an open forum with the shareholders immediately following the AGM each year. In addition, the Committee met two occasions in order to follow up on the proposals submitted by shareholders at the Shareholders' forum in 2018 as well as those submitted and from time to time during the year.	Complied
		The Annual Report, together with the Notice of the AGM and the other papers related thereto, are duly circulated to all shareholders, 15 working days prior to the AGM and a Sinhala version is also published each year and dispatched to shareholders, who have requested for a Sinhala translation of the same. Shareholders are previously requested to notify their respective language preference to receive the Annual Report. Additionally, the Chairman's and MD's messages are translated into Tamil as well each year.	Complied
(71)	C.1.2	Adoption of separate resolution and Count of all proxy votes lodged	
		A separate resolution to be proposed on each substantially separate issue and particularly relating to the adoption of the Annual Report of the Board of Directors (the Report) and the Accounts.	Complied
		A separate resolution was proposed and adopted on each substantially separate issue. The Report and the Accounts were adopted by separate resolutions.	
		All proxy votes lodged, together with the votes of shareholders present at the AGM are considered for each resolution. Any votes withheld were not considered in determining the number of votes for and against each resolution.	Complied

	ICASL Code (the Code) Reference	Principle, Compliance and Implementation	Status
(72)	C.1.3	To ensure that all valid proxy appointments received for General Meetings are properly recorded and counted	
		The Bank duly maintains a register where the Proxies received are registered. The register is closed after the deadline for Proxies to be lodged as per the Notice of Meeting and the number of votes received for and against each resolution is announced at the relevant General Meeting.	Complied
		At the meeting, for adoption of each resolution, the Chairman, in addition to the details of the Proxies registered, calls for a vote by show of hands followed by the announcement as to whether the resolution is carried or not.	Complied
(73)	C.1.4	Availability of Board Sub Committee Chairperson at AGM	
		Board Sub Committee Chairpersons are present at the AGM as a rule, to answer any questions raised at the AGM (unless prevented by ill health or due to urgent unavoidable circumstances), who will respond when requested to do so by the Chairman.	Complied
		At the AGM held on 29th March 2018, the following Chairpersons were present:	
		Mr Ranil Pathirana (Chairman - Board Audit Committee)	
		Mr Deepal Sooriyaarachchi (Chairman - Board Human Resources & Remuneration Committee & Board Marketing Committee)	
		Miss Annika Senanayake (Chairperson - Board Nomination Committee)	
		Mr Sanjiva Senanayake (Chairman - Board Integrated Risk Management Committee & Board Treasury Committee)	
		Mrs Dhara Wijayatilake (Chairperson - Board Related Party Transactions Review Committee)	
		Mr Channa Palansuriya (Chairman - Board Strategic Planning Committee)	
		Prof Malik Ranasinghe (Chairman - Board Credit Committee, Board Shareholder Relations Committee, Board IT Committee &, Board Capital Planning Committee)	
(74)	C.1.5	Circulation of Notice of AGM and related documents to Shareholders	
		Notice of the AGM and related papers are circulated to shareholders at least 15 working days prior to the meeting in accordance with the regulations.	Complied
(75)	C.1.5	Summary of procedures governing voting at the AGM	
		A summary of the procedure governing voting at the AGM is provided in the Proxy Form, which is circulated to shareholders 15 working days prior to the AGM.	Complied

	ICASL Code (the Code) Reference	Principle, Compliance and Implementation	Status
	C.2	COMMUNICATION WITH SHAREHOLDERS To implement effective communication with shareholders	
(76)	C.2.1	A channel to be available to reach all shareholders of the Company for timely dissemination of information	
		<p>The Bank posts on its website (www.sampath.lk) copies of Annual Reports, Interim Reports and all other material information relating to the Bank. These are posted on the website as soon as practicable after they have been released to the Colombo Stock Exchange.</p> <p>All public disclosures of the Bank (immediate or otherwise) promptly reach the shareholders through the Market Announcements made by the Company. The Bank provides fair disclosures with emphasis on the integrity, accuracy, timeliness and relevance of the information provided.</p> <p>In addition, the Board has appointed a Sub Committee on Shareholder Relations tasked with identifying and addressing the shareholders' concerns. It is the first listed company in Sri Lanka to form such a Committee. This Committee conducts an annual Shareholder Relations Forum to identify shareholder concerns. Additionally, the AGM is also a key forum for contact with shareholders and the Bank has a proud history of well attended AGMs where shareholders take an active role in exercising their rights. The Annual Report is translated into Sinhala and the Chairman's and MD's messages are translated into Sinhala and Tamil as well to facilitate further communication with shareholders.</p>	Complied
(77)	C.2.2	Policy and methodology for communication with Shareholders	
		A Board approved Policy on Communication is in place, in which the provisions for communicating with shareholders are specifically addressed.	Complied
(78)	C.2.3	Implementation of the policy and methodology for communication with Shareholders	
		The mechanism to Implement the said Policy on Communication is clearly stated under the "Policy Implementation Mechanism" in the said Policy, spelling out the responsibilities of different officers/categories of officers, with regard to communication with different categories of stakeholders.	Complied
(79)	C.2.4 & C.2.6	Contact person in relation to Shareholder matters The Company should disclose the contact person or such communication	
		<p>Shareholders have been duly notified that any communication/correspondence with the Bank should be through the Company Secretary, though they are at liberty even to communicate directly with any of the Board Members. The contact numbers of the Company Secretary is provided in the Annual Report on Inner Back Cover.</p> <p>Additionally, shareholders may, at any time, direct questions to and request for publicly available information from the Directors or management of the Bank. They may also provide their comments and suggestions to the Directors or Management through the Company Secretary.</p>	Complied
(80)	C.2.5	Process to make all Directors aware of major issues and concerns of Shareholders	
		The Company Secretary maintains a record of all correspondence received and directs as soon as practicable such correspondence to the Board Shareholder Relations Committee as per its Terms of Reference, to individual Directors or the relevant officers as applicable. The responses for such correspondence are duly communicated to the shareholders by the Company Secretary, wherever necessary and/or relevant.	Complied

	ICASL Code (the Code) Reference	Principle, Compliance and Implementation	Status
(81)	C.2.7	Process of responding to Shareholder matters	
		As stated in C.2.5.	Complied
	C.3	MAJOR AND MATERIAL TRANSACTIONS Disclosures to shareholders In terms of the Companies Act and Regulations issued under the Securities and Exchange Commission of Sri Lanka Act.	
(82)	C.3.1 & C.3.2	Disclosure of major transactions	
		<p>Bank's procedure on Dealing with Related Party Transactions provides for mandatory public disclosure of any major Related Party Transaction or a series of such transactions the Bank is about to engage in, of which the value is greater than One Third of the assets of the Bank, requiring the approval of the shareholders by an Ordinary Resolution therefore.</p> <p>Further, in terms of Section 185 in terms of the Companies Act, any major transaction proposed to be entered into by the Bank too requires approval of the shareholders by virtue of a special resolution, when the due notice to the public would be given through market announcements.</p> <p>During the year under review, the Bank did not engage in or commit any "Major Transaction" which materially affected the Bank's net asset base, warranting neither such disclosure nor such approval by the shareholders.</p>	Complied
	D	ACCOUNTABILITY AND AUDIT	
(83)	D.1	FINANCIAL AND BUSINESS REPORTING (THE ANNUAL REPORT) A balanced and an understandable assessment of the Company's financial position, performance, business model governance structure, risk management, internal controls and challenges, opportunities and prospectus to be presented.	
		<p>The Bank's position and prospects have been discussed in detail in the following sections of this Annual Report.</p> <ul style="list-style-type: none"> • Chairman's Message is given on pages 30 to 33. • Managing Director's Review is given on pages 34 to 37. • Management Discussion and Analysis are given on pages 49 to 114. 	Complied
(84)	D.1.1	Board's responsibility in Financial Reporting	
		A true and fair, balanced and understandable Financial Statements prepared in accordance with the relevant laws and regulations are given on pages 206 to 356 in this Annual Report.	Complied

CORPORATE GOVERNANCE

	ICASL Code (the Code) Reference	Principle, Compliance and Implementation	Status
(85)	D.1.2	Interim reports, price-sensitive public reports, regulatory reports and statutory information requirements	
		<p>Interim reports were published within 45 days of each quarter end which included information to assist shareholders gain an understanding of the state of affairs of the Bank.</p> <p>Price sensitive information has been regularly disclosed in a precise manner to the Colombo Stock Exchange on a timely basis.</p> <p>Key Market Disclosures made on Price Sensitive Information during the year under review.</p> <ul style="list-style-type: none"> • Payment of Scrip Dividend for the year 2017 on 16th February 2018. • Announcement of the dates respectively on 1st February 2018, 8th February 2018 of the Debenture and Rights Issues 2018. • Dealings of shares by the Directors respectively on 24th April 2018, 25th October 2018, 17th December 2018. • Appointment of a New Director on 12th November 2018. <p>Reports required by the regulators including Central Bank of Sri Lanka, Department of Inland Revenue, Registrar of Companies and Colombo Stock Exchange were all filed in a timely manner in compliance with the relevant statutory requirements and these provided sufficient information for the user to obtain a balanced assessment of the Bank's operations.</p>	Complied
(86)	D.1.3	Declaration made by the Managing Director and Chief Financial Officer in maintaining accurate financial records in compliance with the appropriate accounting standards	
		Managing Director's and Group Chief Financial Officer's Responsibility Statement is given on page 200 of this Annual Report.	Complied
(87)	D.1.4	Declaration in Annual Report of the Board of Directors on the Affairs of the Company	
		The Annual Report of the Board of Directors on the Affairs of the Company on pages 187 to 196 contains the declarations as required by the Code.	Complied
(88)	D.1.5	Responsibilities of the Board for the preparation and presentation of Financial Statements and Statement by the Auditors about their reporting responsibilities	
		The Statement of Directors' Responsibility for Financial Reporting and Report of the Auditors which includes a statement about their reporting responsibilities are provided on pages 201 & 202, and 203 to 205 respectively.	Complied
(89)	D.1.6	Inclusion of a Management Discussion & Analysis	
		<p>The Management Discussion and Analysis contained in pages 49 to 114 covers the information specified in the Code which include the following :</p> <ul style="list-style-type: none"> • Business model • Industry structure and developments • Opportunities and threats • Risk Management • Internal Control Systems and their adequacy • Governance • Social and environmental protection activities carried out by the Company • Financial performance • Material developments in Human Resources, Industrial Relations and prospects for the future. 	Complied

	ICASL Code (the Code) Reference	Principle, Compliance and Implementation	Status
(90)	D.1.7	Notify Shareholders in case Net Assets of the Bank falling below 50%	
		This situation did not arise during the year under review. However, had the need arisen the Bank would have duly notified the shareholders in line with applicable laws.	Complied
(91)	D.1.8	Related Party Transactions	
		<p>There is an approved documented process providing for identifying and dealing with Related Party Transactions, identifying related parties and such transactions and the mechanism to ensure that no favourable treatment is granted to said parties in order to prevent the Bank from granting favourable treatment to Related Parties. Further, to prevent any conflict of interest in this regard, a Board approved Policy on Managing Conflicts of Interest is in place. An effective and comprehensive system of Internal Control for identifying, recording and disclosing related party transactions too is in place. A record of these transactions is maintained in the Secretariat of the Bank and is disclosed as required.</p> <p>In addition, a directive has been issued explaining the procedure to be followed in granting accommodation to Directors or to close relations of Directors, or to concerns in which Directors may have substantial interest.</p> <p>Directors and KMPs submit declarations declaring their transactions with the Bank and the Group on a quarterly and annual basis.</p> <p>All Related Party Transactions as defined in Sri Lanka Accounting Standards - LKAS 24 (Related Party Transactions) are disclosed in Note No. 47 to the Financial Statements on pages 308 to 312.</p>	Complied
	D.2	RISK MANAGEMENT AND INTERNAL CONTROL	
(92)	D.2.1	Board's responsibility to monitor the Company's Risk Management and Internal Control System	
		The Board of Directors is responsible for the adequacy and effectiveness of the internal control mechanism in place at the Bank. In considering such adequacy and effectiveness, the Board recognises that the business of banking requires reward to be balanced with risk on a managed basis and as such the internal control systems are primarily designed with a view to highlight any deviations from the limits and indicators which comprise the risk appetite of the Bank.	Complied
(93)	D.2.2	Confirmation by the Directors on carrying out a robust assessment of the principle risks faced by the Bank	
		The Board Integrated Risk Management Committee is responsible for assessing all risks including credit, market, liquidity, operational and strategic risks to the Bank on a regular basis through appropriate risk indicators and management information and in the instance of subsidiary companies, on Bank and Group basis. Board Integrated Risk Management Committee Report is given on pages 182 & 183.	Complied
(94)	D.2.3	Need for an Internal Audit function	
		<p>The Bank has established an Internal Audit function headed by the Chief Internal Auditor who is independent and reports directly to the Board Audit Committee. The Board Audit Committee exercises oversight over same.</p> <p>The Board Audit Committee reviews the Internal Audit function at regular intervals.</p>	Complied

CORPORATE GOVERNANCE

	ICASL Code (the Code) Reference	Principle, Compliance and Implementation	Status
(95)	D.2.4	Review of the process and effectiveness of risk management and internal control by the Audit Committee	
		The Board is responsible for formulating and implementing appropriate and adequate Internal Control Systems. The Board Audit Committee has responsibility to the Board to ensure that the system of Internal Controls are sufficient and effective. Board Audit Committee also periodically assesses the effectiveness of the Bank's Risk Management functions and identifies the areas needing improvement.	Complied
(96)	D.2.5	The Statement of Internal Control	
		Directors' Statement on Internal Control over Financial Reporting is given on pages 197 & 198.	Complied
	D.3	AUDIT COMMITTEE (the Committee)	
(97)	D.3	BOARD AUDIT COMMITTEE Arrangements for selection and application of Accounting Policies, Financial Reporting and Internal Control Principles	
		The Bank has established its Board Audit Committee in keeping with practices of good governance since 1997. The principal responsibilities of the Board Audit Committee include oversight over Financial Reporting, Internal Controls and monitoring Auditor Independence. Its duties include gaining assurance on control over financial processes, integrity of the Bank's financial reports, monitoring performance, objectivity and independence of the External Auditors and reviewing work of the internal Audit function. The Board Audit Committee Report is given on pages 176 to 178 in the Annual Report.	Complied
(98)	D.3.1	Composition of the Board Audit Committee	
		The Board Audit Committee comprises of four Non-Executive Directors and is chaired by an Independent Non-Executive Director who has current and relevant experience in financial reporting and control. Until 12th November 2018, all members of the Board Audit Committee were Independent Non-Executive Directors and with effect from 13th November 2018, majority of the Committee members are Independent Non-Executive Directors. Members are selected to provide a broad set of financial, commercial and other relevant experience to meet the Committee's objectives. The MD, Group Chief Financial Officer, Chief Internal Auditor or Chief Manager - Systems Audit and representatives of the External Auditors are invited to attend the meetings. The Board Audit Committee has an external consultant to advice the Committee, who attends the meetings on invitation.	Complied
(99)	D.3.2	Terms of Reference	
		The Terms of Reference of the Board Audit Committee complies with the Code of Best Practice on Corporate Governance issued by the ICASL. Terms of Reference also complies with the Banking Act Direction No. 11 of 2007 on Corporate Governance for Licensed Commercial Banks issued by CBSL and relevant Colombo Stock Exchange Regulations. This document is available with the Company Secretary. A Board approved Audit Committee Charter and a Group Internal Audit Activity Charter are in place.	Complied

	ICASL Code (the Code) Reference	Principle, Compliance and Implementation	Status
(100)		Review of External Audit function and relationship with External Auditors	
		<p>The Board Audit Committee has a key oversight role in relation to the External Auditors Messrs. Ernst & Young, whose primary relationship is with the Committee. The Bank's Auditor Independence Policy ensures that the independence and objectivity of the External Auditors are not impaired. The Board Audit Committee has responsibility for recommending to the Board, the appointment/re-appointment of the External Auditors and reviewing the nature, scope and results of the annual External Audit. The audit fee is determined by the Board Audit Committee which also assesses the effectiveness and the independence of the External Auditors.</p>	Complied
(101)	D.3.3	Disclosures	
		<p>The Annual Report of the Board of Directors on the Affairs of the Company given on pages 187 to 196 provides the following disclosures:</p> <ul style="list-style-type: none"> The composition of the Board Audit Committee A statement regarding the independence of the Internal Audit Function 	Complied
		<p>The Board Audit Committee Report given on pages 176 to 178 includes, the following information:</p> <ul style="list-style-type: none"> The names of the members of the Board Audit Committee The number of meetings held and the members' attendance (page 126) The scope and how its responsibilities are discharged 	Complied
	D.4	<p>RELATED PARTY TRANSACTION REVIEW COMMITTEE (the Committee)</p> <p>The Board has established the Board Related Party Transactions Review Committee in compliance with the Listing Rules issued by the Colombo Stock Exchange</p>	
(102)	D.4.1	<p>The Bank identifies "Related Parties" and "Related Party Transactions" as defined in LKAS 24 as well as in a broader perspective, as per the Banking Act Direction No. 11 of 2007 issued by CBSL.</p>	Complied
(103)	D.4.2	Composition of the Board Related Party Transaction Review Committee	
		<p>The Board Related Party Transaction Review Committee which was established on 30th July 2015 comprises three Independent Directors and one Non Independent, Non Executive Director.</p> <p>Chairperson of the Committee too is an Independent Non-Executive Director, who was appointed by the Board.</p>	Complied
(104)	D.4.3	Duties of the Board Related Party Transactions Review Committee (the Committee)	
		<p>The Board approved written Terms of Reference of the Committee are mainly based on the Code and the Continuing Listing Rules and its role and responsibilities are given on page 184.</p> <p>A Directive has been issued for Bank-wide implementation, disseminating instructions with regard to on the definition of Related Parties, the procedure for dealing with Related Party Transactions, reporting, approval, disclosure and reviewing requirements and responsibilities for compliance.</p> <p>All Key Management Personnel of the Bank and Directors submit a Disclosure/Declaration with regard to their respective transactions with Related Parties of the Bank as per LKAS 24 at the end of each quarter.</p>	Complied

	ICASL Code (the Code) Reference	Principle, Compliance and Implementation	Status
	D.5	CODE OF BUSINESS CONDUCT AND ETHICS	
(105)	D.5.1	Code of Business Conduct and Ethics for Directors and Staff	
		Code of Conduct and Governance Requirements, for Directors, Code of Conduct for Key Management Personnel and Code of Conduct for other employees as well as a Board approved Policy on Managing Conflict of Interest and the Board approved Whistle Blowing Policy are in place. The said documents cover bribery and corruption, entertainment and gifts, transparent procurement practices, confidentiality, fair dealing and encouraging reporting of unethical/fraudulent practices and/or behaviour.	Complied
(106)	D.5.2	Ensure that material and price sensitive information are promptly identified and reported.	
		A process is in place for the prompt disclosure of price sensitive and material information by the Company Secretary in terms of the regulatory requirements. As per the Board approved Policy on Communication, the responsibility of making market announcements of price sensitive information lies with the Company Secretary.	Complied
(107)	D.5.3	Policy and process for monitoring and disclosure of share purchase	
		The Directors, KMPs and other employees of the Bank engaged in financial reporting have been directed to inform and disclose to the Company Secretary of any purchases by them of shares of the Bank within 05 market days in the Colombo Stock Exchange (CSE) as per Section 7.8 (c) of the CSE Listing Rules. Further daily share transactions are monitored by the Company Secretary.	
		Dealings of shares by the Directors respectively on 24th April 2018, 25th October 2018, 17th December 2018 were duly disclosed in compliance with Section 7.8 (c) of the CSE Listing Rules.	Complied
(108)	D.5.4	Chairman's affirmation in the Bank's Annual Report with regard to introduction of a Bank-wide Code of Conduct and Ethics, the status of compliance with same and his awareness of any violations thereof.	
		Chairman's affirmation on Corporate Governance is given on page 123 of this Annual Report	Complied
	D.6	CORPORATE GOVERNANCE DISCLOSURES	
		The Corporate Governance Report given on pages 123 to 175 provides information regarding Corporate Governance practices in the Bank which are in compliance with:	
(109)	D.6.1	<ul style="list-style-type: none"> The Code of Best Practice on Corporate Governance 2017 issued by the Institute of Chartered Accountants of Sri Lanka The Banking Act Direction No. 11 of 2007 on Corporate Governance for Licensed Commercial Banks issued by the CBSL 	Complied
		SECTION 2 - SHAREHOLDERS	
	E	INSTITUTIONAL INVESTORS	
(110)	E.1	SHAREHOLDER VOTING	
		Bank's responsibility to encourage the institutional investors to use their vote	Complied
		The Bank's Institutional Investors as well as other Investors have throughout exercised their votes enthusiastically, expressing their candid preferences. and are encouraged to express their views freely. The Bank has a history of active shareholder involvement and participation at general meetings.	

	ICASL Code (the Code) Reference	Principle, Compliance and Implementation	Status
(111)	E.1.1	Regular structured dialogue with shareholders	
		<p>The Bank prides itself of being the only listed company which has appointed a Board Sub Committee on Shareholder Relations, with the objective of maintaining a solid and fruitful dialogue with shareholders.</p> <p>This Committee considers proposals submitted by shareholders and has implemented several benefits and privileges to shareholders. Accordingly, the Committee met 02 times during the year under review.</p> <p>In addition, the Bank holds a Shareholder Forum annually, immediately after the conclusion of the Bank's Annual General Meeting which is also a much looked forward to and well attended event by the shareholders. The Chairman of the Board Shareholder Relations Committee conveys to the Board of Directors, the concerns and proposals brought forward by the shareholders at these forums as well as those submitted to the Board Shareholder Relations Committee.</p>	Complied
	E.2	EVALUATION OF GOVERNANCE DISCLOSURES	
(112)	E.2	Encourage institutional investors to give due weight to relevant governance arrangements	
		<p>Institutional investors are kept apprised of the Bank's governance practices through the Annual Report and any new initiatives are highlighted at general meetings to ensure that due weightage is given to good corporate governance.</p>	Complied
	F	OTHER INVESTORS	
(113)	F.1	INVESTING/DIVESTING DECISION	
	F.1	Individual Shareholders are encouraged to do their own analysis or seek independent advice	
		<p>The Annual Report contains sufficient information for potential investors to carry out their own analysis. The Annual Report is published in both English and Sinhala to facilitate extended communication with the retail investors. This, together with the interim financial statements published each quarter, provide sufficient information to enable retail investors to make informed judgements regarding the performance of the Bank.</p> <p>Additionally, a separate part of the Bank's website is dedicated to Investor Relations which provides relevant information online to all investors.</p> <p>Shareholders can contact the Company Secretary for further information if required. Apart from the above, Circulars to Shareholders issued from time to time too point out to the shareholders the importance of seeking independent advice prior to making any particular investment.</p>	Complied
	F.2	SHAREHOLDER VOTING	
(114)	F.2	Encourage Shareholders to participate and vote at the AGM	
		<p>It is a tradition at the Bank to encourage retail investors to participate and vote at any General Meeting of the Bank. Additionally, they are encouraged to participate in the Bank's affairs through submitting proposals through Stakeholder Feedback Forms and Shareholder Relation Forums.</p>	Complied

CORPORATE GOVERNANCE

	ICASL Code (the Code) Reference	Principle, Compliance and Implementation	Status
	G	Internet of things and cyber security	
(115)	G.1	Process to identify how the external IT devices could connect to the organisation's network	
		Bank's preparedness against external cyber security threats being solicited by setting up a 24/7 Information Security Monitoring Unit. In addition, an independent Information Security Officer (ISO) was also appointed. The ISO, who reports directly to the Group Chief Risk Officer, is tasked with determining the Bank's sensitivity and risk appetite towards cyber security threats at any given time.	Complied
(116)	G.2	Appointment of a Chief Informational Security Officer (CISO)	
		The Bank has appointed an Independent Information Security Officer (IISO), who reports directly to the Group Chief Risk Officer, who is tasked with determining the Bank's sensitivity and risk appetite towards cyber security threats at any given time.	Complied
(117)	G.3	Allocation of adequate time on the board meeting agenda for discussion on cyber risk management	
		Board IT Committee has been formed to review and recommend the IT strategic plan, policies, expenditure and budgets and IT security requirements of the Bank.	Complied
(118)	G.4	Independent periodic review on the effectiveness of the cybersecurity risk management and the scope and the frequency of the review	
		An External party has been engaged to test the vulnerabilities in the system on a regular basis and the Systems Audit Department too is tasked with testing the systems used by the Bank for detection of any vulnerabilities and disparities.	Complied
		Appointment of an independent third party being made to conduct a cyber security audit and penetration testing every quarter and in addition, having obtained services of a reputed International Cyber Security Consultancy Firm to study and make recommendations to improve Cyber Security preparedness of the Bank are further steps taken by the Bank in minimising system vulnerabilities.	
(119)	G.5	Disclosure of the process to Identify and manage Cyber security risks	
		The required disclosure is made on pages 116 to 121 in this Annual Report.	Complied

GRI 102-27,28,29,31

ICASL Code (the Code) Reference	Principle, Compliance and Implementation	Status
H	ENVIRONMENT, SOCIETY AND GOVERNANCE (ESG)	
H.1	ESG REPORTING	
(120)	<p>H.1.1 Provision of information in relation to ESG factors, effects of ESG issues to the business and how risks and opportunities pertaining to ESG are recognised, managed, measured and reported</p> <p>Environmental and Social Risk Management System (ESMS) is aimed at reducing the Bank's environmental footprint. The Corporate Sustainability Department is tasked with conducting environmental impact assessments in comply with ESMS in order to manage the environmental risks associated with the Bank's business. Further, with the motive of managing the environmental footprint, the Bank is of the view that it can be achieved only if the staff have adequate knowledge to understand the purpose, application and intended objectives. In this context all employees are encouraged to adopt the Environmental Pledge. Strategic Sustainability Framework is given on pages 40 to 44.</p> <p>The members of the Board, particularly in the Board Sub Committees, with the view of identifying and managing the social, economical, environmental topics and their impacts, call for comprehensive analysis reports over the respective fields from both external and internal resource persons to be in line with the adequate due diligence, as and when required.</p> <p>Apparel sector analysis over the 'Possible loss of GSP+', analysis on the current construction industry, both done by Board Credit Committee, can be specified as a few instances where the efforts were taken to identify risks and opportunities involved in the same. Board peruses and considers the recommendations and observations identified under such analyses in the minutes of the respective Sub Committee meetings in arriving at decisions at Board Meetings.</p>	Complied
(121)	<p>H.1.2 Environment Factors</p> <p>Natural Capital report is given on pages 84 to 89.</p>	Complied
(122)	<p>H.1.3 Social Factors</p> <p>Social and Relationship Capital report is given on pages 74 to 83.</p>	Complied
(123)	<p>H.1.4 Governance</p> <p>Corporate Governance Report is given on pages 123 to 175.</p>	Complied
(124)	<p>H.1.5 Board's role on ESG Factors</p> <p>The Board is responsible to review the ESG factors and provide covering approvals for steps taken to enhance the ESG related areas.</p>	Complied

The Banking Act Direction No. 11 of 2007 and Subsequent Amendments thereto on Corporate Governance for Licensed Commercial Banks in Sri Lanka issued by the Central Bank of Sri Lanka (CBSL)

CBSL Section	Principle, Compliance and Implementation	Status
3(1)	Responsibilities of the Board	
	The Board has strengthened the safety and the soundness of the Bank in the following manner.	
(1)	3(1)(i)(a) Setting strategic objectives and corporate values	
	The Bank's strategic objectives and corporate values are determined by the Board and are given on page 12 in the Annual Report. These are communicated to all levels of staff through regular briefing sessions and reinforced by the Corporate Management Team. Additionally, two sessions were held devoted for dissemination of the Strategic Objectives and the Plan for year 2018-2020 for the entire staff.	Complied
(2)	3(1)(i)(b) Overall business strategy including risk policy and management	
	The Bank's strategy is set by the Board in consultation with the Corporate Management and the Revolving Strategic Plan for the period 2018-2020 approved by the Board has been successfully implemented with regular reviews. The Revolving Strategic Plan for the period 2019-2021 too has been duly approved by the Board. In addition, Risk Management framework and mechanisms have also been approved by the Board in line with the Strategic Plan. Measurable goals for the Bank as a whole have been set and performance is measured in line with these goals on a monthly and quarterly basis.	Complied
(3)	3(1)(i)(c) Risk Management	
	<p>The Board has appointed a Board Integrated Risk Management Committee tasked with recommending the Bank's Risk Policies, defining the risk appetite, identifying principal risks, setting governance structures and implementing systems to measure, monitor and manage the principal risks. The following reports provide further insights in this regard.</p> <ul style="list-style-type: none"> • Risk Management Report on pages 116 to 121. • Board Integrated Risk Management Committee Report on pages 182 to 183. <p>A mechanism/process to identify and mitigate the risks arising out of new strategies is in place at Board level.</p>	Complied

GRI 102-21,33

CBSL Section	Principle, Compliance and Implementation	Status
(4) 3(1)(i)(d)	<p>Communication with all stakeholders</p> <p>A Board approved Communication Policy is in place providing for communication with all stakeholders, including depositors, creditors, shareholders and borrowers.</p> <p>The Board has approved and implemented the following communication channels:</p> <ul style="list-style-type: none"> • Shareholders - The Board has appointed a Sub Committee on Shareholder Relations tasked with identifying and addressing the shareholders' concerns. It is the first listed company in Sri Lanka to have such a Committee. This Committee conducts an annual Shareholder Relations Forum to identify shareholder concerns. Additionally, the AGM is also a key forum to contact shareholders and the Bank has a proud history of well attended AGMs where shareholders take an active role in exercising their rights. The Annual Report is translated into Sinhala and the Chairman's and MD's messages are translated into Sinhala and Tamil as well to facilitate extended communication with shareholders. • Customers - Customers include depositors, creditors and borrowers. A Board approved Customer Complaints Handling Policy has been implemented. The Customer Complaint Handling Procedure has been printed in all three languages and disseminated to all customer contact points of the Bank. This document outlines the Customer Complaints Handling procedure of the Bank, provides relevant information on contact details of the Bank for this purpose and also of the Financial Ombudsman, a 24-hour trilingual customer hotline to support customer queries has been established and reports of complaints are reviewed by the relevant Board Sub Committees. • Staff - Staff members are given access to the management to voice their concerns through the Whistle Blowing Policy and the Grievance Handling Procedure. 	Complied
(5a) 3(1)(i)(e)	<p>Internal Control System</p> <p>The Board is tasked with reviewing the adequacy and the integrity of the Bank's internal control systems and management information systems. Accordingly, the Board Audit Committee reviews Internal Audit reports submitted by the Internal Audit Department and monitors follow up action further based on the assessment of Internal Control Over Financial Reporting (ICOFR). Directors concluded that the Bank's Internal Control Over Financial Reporting is effective.</p>	Complied
(5b) 3(1)(i)(e)	<p>Management Information Systems</p> <p>The Bank has established a valid process to review the adequacy, integrity and accuracy of all financial and non-financial information. This process is continuously being improved.</p>	Complied
(6) 3(1)(i)(f)	<p>Key Management Personnel</p> <p>The Board has identified members of the Corporate Management, the Company Secretary, Group Compliance Officer and the Exchange Control Compliance Officer as Key Management Personnel being "Officers Performing Executive Functions of Licensed Commercial Banks (LCB)" as required by CBSL Guideline dated 2nd December 2015 and the letter dated 17th June 2013 issued by the Controller of Exchange - CBSL respectively. All appointments of designated Key Management Personnel (KMPs) are recommended by the Board Nomination Committee and approved by the Board.</p>	Complied

CORPORATE GOVERNANCE

	CBSL Section	Principle, Compliance and Implementation	Status
(7)	3(1)(i)(g)	Define areas of authority and key responsibilities for Directors and Key Management Personnel Areas of authority and key responsibilities have been defined for Directors and KMPs through Code of Conduct and Governance Requirement for Directors and the relevant Position Description of the KMPs respectively.	Complied
(8)	3(1)(i)(h)	Oversight of affairs of the Bank by Key Management Personnel KMPs make regular presentations to the Board on matters under their respective purviews and are regularly called in by the Board to explain matters relating to their areas when need arises.	Complied
(9)	3(1)(i)(i)	Assesses effectiveness of own governance practices including selection and nomination of Directors and KMPs, management of conflict of interest and determination of weaknesses Selection, nomination and election of Directors are made by the Board Nomination Committee based on their field of expertise in accordance with the Board approved Procedure therefore. Directors' interests, if any, are disclosed to the Board during the Board meeting. A Director who has a particular interest abstains from voting in such a situation and he/she is not counted in the quorum. In addition Directives/Operational Guidelines have been issued with regard to dealing with Related Party Transactions and on lending to Directors, their close relatives and their concerns and the Board approved Policy on Managing Conflicts of Interest applies to the Board as well as to the employees of the Bank. A Board approved Policy on Managing Conflicts of Interest is in place.	Complied
		The Board appraises its own performance through each Director completing the Self Evaluation Form in relation to business strategy and contributions of the members based on their field of expertise. The responses are collated by the Company Secretary and submitted to the Board for review. Matters of concern are brought to the attention of the Board by the Company Secretary.	Complied
(10)	3(1)(i)(j)	Succession plan for Key Management Personnel The structure of the Bank which was recommended by the Board Nomination Committee has been approved by the Board in principle. The succession plan is implemented based on the Board approved Procedure for same.	Complied
(11)	3(1)(i)(k)	Regular meetings with Key Management Personnel KMPs are called on need basis for discussions at the meetings of the Board and its Sub Committees to review policy and other matters relating to their areas. Progress towards corporate objectives is a regular agenda item at the Board Meetings and the KMPs are regularly involved in Board level discussions on the same.	Complied
(12)	3(1)(i)(l)	Regulatory environment and maintaining an effective relationship with regulator Directors are briefed about developments in the regulatory environment at Board Meetings to ensure that their knowledge is updated regularly to facilitate the effective discharge of their responsibilities. Compliance Reports submitted to the CBSL which include all returns to regulators are presented to the Board quarterly and monitored closely by the Board. The MD attended all CEO/MD forums on Governance organised by CBSL and briefed the Board during 2018.	Complied Complied Complied

	CBSL Section	Principle, Compliance and Implementation	Status
(13)	3(1)(i)(m)	Hiring External Auditors The Board Audit Committee carries out necessary due diligence regarding the hiring of the External Auditors and makes recommendations to the Board. The appointment of the External Auditor is made at the AGM. Oversight of the External Auditors is carried out by the Board Audit Committee (BAC) and the Board is briefed of any concerns in this regard if a necessity arises. To ensure greater independence of the Board Audit Committee the independent consultant appointed to the BAC continues to provide her advice and services to this Committee.	Complied
(14)	3(1)(ii)	Appointment of Chairman and CEO/MD and their functions and responsibilities The Board has appointed the Chairman and the Chief Executive Officer/MD and the Board has approved their respective functions and responsibilities, maintaining the balance of power between the two roles.	Complied
(15)	3(1)(iii)	Board Meetings Regular Board Meetings are held and special meetings are scheduled if the need arises. The Board met 16 times during 2018. The Bank has minimised obtaining approval via circular resolutions and it is done only on an exceptional basis and such resolutions are ratified by the Board at the subsequent meeting.	Complied
(16)	3(1)(iv)	Arrangements for Directors to include proposals in the agenda A Board approved procedure is in place to enable all Directors to include matters and proposals in the agenda. Monthly meetings are scheduled and informed to the Board at the beginning of each calendar year to enable submission of proposals in the agenda for regular meetings where such matters and proposals relate to the promotion of business and the management of risk of the Bank.	Complied Complied
(17)	3(1)(v)	Notice of Meetings Notice of Meetings and the agenda for the Board Meetings are circulated among the Directors generally seven days prior to the meeting, giving Directors adequate time to attend and submit any urgent proposals. Additionally, Notices, Agenda and all related Board papers are uploaded through a secure link onto iPads for Directors to access.	Complied Complied
(18)	3(1)(vi)	Directors' attendance The Directors are apprised of their attendance in accordance with the Banking Act Direction No. 11 of 2007 on Corporate Governance for Licensed Commercial Banks. Details of the Directors' attendance is set out on page 126. All Directors have attended at least two-thirds of the total number of Board meetings during the year under review.	Complied Complied
(19)	3(1)(vii)	Company Secretary The Board has appointed the Company Secretary of the Bank, who is an Attorney-at-Law of the Supreme Court of Sri Lanka, who satisfies the provisions of Section 43 of the Banking Act No. 30 of 1988. The Company Secretary's primary responsibilities are to handle the secretarial services to the Board and Shareholders and carry out other functions specified in the statutes and other regulations.	Complied

	CBSL Section	Principle, Compliance and Implementation	Status
(20)	3(1)(viii)	Directors' access to advice and services of Company Secretary All members of the Board have the opportunity to obtain the advice and services of the Company Secretary who is an Attorney-at-Law to and who is responsible to the Board for follow up of Board Procedures, Compliance with relevant Rules and Regulations, Directions and Statutes and keeping and maintaining Minutes and relevant records of the Bank. A Board approved procedure to provide for this is in place.	Complied
(21)	3(1)(ix)	Maintenance of Board Minutes The Company Secretary maintains the Minutes of the Board Meetings and circulates the same amongst all Board Members. Additionally, the Directors have access to the past Board papers and Minutes through the secure electronic link via iPads.	Complied
(22)	3(1)(x)	Minutes to be in sufficient detail and serve as a reference for regulators and supervisory authorities The detailed minutes of the meetings include: <ul style="list-style-type: none"> • A summary of data and information used by the Board in its deliberations • The matters considered by the Board Members • The fact-finding discussions and the issues of consent or dissent • The testimonies and confirmations of relevant executives with regard to the Board's strategies and policies and adherence to relevant laws and regulations • Matters regarding the risks to which the Bank is exposed and an overview of the risk management measures including reports of the Board Integrated Risk Management Committee • The decisions and Board resolutions including reports of all Board Sub Committees. 	Complied
(23)	3(1)(xi)	Directors' ability to seek independent professional advice The Bank has adopted a Board approved Policy for "Directors' Access to Independent Professional Advice" and the Board resorts to such advice when deemed necessary. The Company Secretary provided advice to the Board. The Board Sub Committees and various professionals in Corporate and Senior Management share their knowledge with the Board on various matters relevant to them. In addition, Directors are able to obtain independent professional advice, as and when necessary, in discharging their responsibilities. These meetings are coordinated by the Company Secretary. During the year under review, the Board sought independent professional advice on several matters including on Industrial Relations.	Complied Complied
(24)	3(1)(xii)	Dealing with Conflicts of Interest The Directors are conscious of their obligation to deal with situations where there is a conflict of interest in accordance with the Articles of Association of the Bank, the Bank's Policy on Managing Conflicts of Interest and the Banking Act Direction No. 11 of 2007. The Bank maintains registers of Directors' and KMPs' Interests which are regularly updated which includes interests of the spouses, dependent children under 18 years of age and their business concerns. Directors abstain from participating in the discussions, voicing their opinion or approving in situations where there is a conflict of interest. Additionally Director concerned is not counted in the quorum in such instances.	Complied

	CBSL Section	Principle, Compliance and Implementation	Status
(25)	3(1)(xiii)	Schedule of matters reserved for Board's decision The Board has an approved schedule of matters specifically reserved for its decision to ensure that the direction and control of the Bank is within its authority in line with regulatory codes, guidelines and international best practices.	Complied
(26)	3(1)(xiv)	Inform Central Bank if there are solvency issues The Board is aware of the need to inform the Director of Bank Supervision prior to taking any decision or action if the Bank is about to become insolvent or about to suspend payments to its depositors and other creditors. If such a situation arises, the Bank will duly inform the Director of Bank Supervision and such a situation did not arise during the year 2018. Through the Code of Conduct and Governance Requirements for Directors, the Directors have been compelled with the responsibility of informing the Director of Bank Supervision and making necessary public and other disclosures upon the occurrence of such an event.	Complied
(27)	3(1)(xv)	Compliance with Capital Adequacy The Board monitors capital adequacy and other prudential measures vis-a-vis regulatory requirement, the Bank has defined risk appetite and industry benchmarks on a quarterly basis. As at 31.12.2018 the Bank was in compliance with the minimum capital requirements.	Complied
(28)	3(1)(xvi)	Publish Corporate Governance Report in Annual Report The Board publishes the Corporate Governance Report in the Bank's Annual Report. This report is given on pages 123 to 175.	Complied
(29)	3(1)(xvii)	Self-assessment of Directors The Board has adopted a scheme of self-assessment to be undertaken by each Director annually, the records of which are maintained with the Company Secretary. The assessments are compiled by the Company Secretary and submitted to the Board of Directors for discussion.	Complied
	3(2)	Board Composition	
(30)	3(2)(i)	Number of Directors As per CBSL Direction on Corporate Governance for Licensed Commercial Banks, the number of Directors should not be less than seven or more than 13. The Bank's Board comprised 10 Directors up to 12.11.2018, and 11 Directors from 13.11.2018, complying with this provision.	Complied
(31)	3(2)(ii)	Period of service of a Director The period of service of a Director excluding the Executive Directors is limited to 9 years or until the seventieth birthday, whichever is earlier as per the Banking Act Direction No. 11 of 2007 on Corporate Governance. There are no Directors, whose tenure of service has exceeded 9 years on the Board and no Directors who reached Seventy years of age during the year under review. Details of their respective tenure of service are given on pages 16 to 21.	Complied
(32)	3(2)(iii)	Board balance There are ten Non-Executive Directors and one Executive Director, being well within the requirement of the prescribed ratio of Executive Directors to Non-Executive Directors being one-third of the total.	Complied
(33)	3(2)(iv)	Independent Non-Executive Directors The Board, until 12.11.2018 comprised six Independent Non-Executive Directors and w.e.f. 13.11. 2018, five Independent Non-Executive Directors which complies with the prescribed requirement.	Complied

CORPORATE GOVERNANCE

	CBSL Section	Principle, Compliance and Implementation	Status
(34)	3(2)(v)	Alternate Directors	
		There were no alternate Directors appointed during the year 2018, following the Bank's current policy of not appointing any Alternate Directors to the Board.	Complied
(35)	3(2)(vi)	Criteria for Non-Executive Directors	
		Non-Executive Directors are persons with credible track record who have necessary skills and experience to bring an independent judgment to bear on issues of strategy, performance and resources. The profiles of the Non-Executive Directors are detailed on pages 16 to 21.	Complied
		The Board has approved a procedure to appoint Directors providing for appointment of Independent Directors as well.	Complied
(36)	3(2)(vii)	Quorum for the Board Meeting is more than 50% of Directors and more than half the quorum to comprise Non-Executive Directors	
		This requirement is strictly observed and the attendance of the Board members at the meetings for the year 2018 evidencing compliance with the requirement.	Complied
(37)	3(2)(viii)	Identify Independent Non-Executive Directors in communications and disclose the categories of Directors in Annual Report	
		The Independent Non-Executive Directors are expressly identified as such in all corporate communications that disclose the names of Directors of the Bank. The composition of the Board, by category of Directors, including the names of the Chairman, Executive Directors, Non-Executive Directors and Independent Non-Executive Directors are given on page 126 of the Corporate Governance Report.	Complied
(38)	3(2)(ix)	Succession planning and appointments to the Board	
		The Board has established a Board Nomination Committee, whose Terms of Reference comply with the Code of Best Practice on Corporate Governance 2017 and the Banking Act Direction No. 11 of 2007 on Corporate Governance for Licensed Commercial Banks issued by the CBSL (The CBSL Direction). Accordingly, new Directors including the Executive Directors are appointed by the Board upon consideration of recommendations by the Board Nomination Committee.	Complied
(39)	3(2)(x)	Election of Directors filling casual vacancies	
		In accordance with the provisions in the Articles of Association and the CBSL Direction, Directors appointed to the Board after the last AGM will stand for election by the shareholders at the very next AGM.	Complied
		Mr Dilip de S Wijeyeratne, who was appointed to the Board w.e.f. 13.11.2018 will stand for election by shareholders at the AGM to be held on 29th March 2019.	
(40)	3(2)(xi)	Communication of reasons for removal or resignation of Director	
		Resignations of Directors and the reasons for same are informed to the regulatory authorities and shareholders as per CSE requirements and the requirements of the Companies Act No. 07 of 2007 together with a statement confirming whether or not there are any matters that need to be brought to the attention of shareholders.	Complied
		No resignations or retirements of Directors occurred during the year 2018.	
(41)	3(2)(xii)	Prohibition of Directors or employees of a bank becoming a Director at another bank	
		The Board and the Board Nomination Committee take into account this requirement in their deliberations when considering appointments of Directors. The Employee Code of Conduct prohibits employees to be elected/nominated as a Director of another bank.	Complied

	CBSL Section	Principle, Compliance and Implementation	Status
	3(3)	Criteria to Assess Fitness and Propriety of Directors	
(42)	3(3)(i)	Age of Director should not exceed 70 years None of the Directors reached the age of seventy years during the year under review.	Complied
(43)	3(3)(ii)	Directors should not hold Directorships of more than 20 Companies None of the Directors held office as a director in more than 20 companies during 2018.	Complied
	3(4)	Management Functions Delegated by the Board	
(44)	3(4)(i)	Understand and study delegation arrangements The Board consciously delegates authority to perform different functions as it deems fit to appropriate officers.	Complied
(45)	3(4)(ii)	Extent of delegation should not hinder Board's ability to discharge its functions The Board delegates authority to Management to carry out certain duties from time to time within the provisions of the Bank's Memorandum and Articles of Association. The management, who carry out duties on behalf of the Board under the authorities delegated to them, report to the Board regularly on matters attended to by them.	Complied
(46)	3(4)(iii)	Review delegation arrangements periodically to ensure relevance to operations of the Bank The Board periodically reviews and approves the delegation arrangements in place and ensures that the extent of delegation addresses the needs of the Bank whilst enabling the Board to discharge their functions effectively.	Complied
	3(5)	The Chairman and Chief Executive Officer/Managing Director	
(47)	3(5)(i)	Separation of roles The roles of the Chairman and CEO/MD are separate and their respective duties are documented, and approved by the Board.	Complied
(48)	3(5)(ii)	Non-Executive Chairman and appointment of a Senior Independent Director The Chairman is a Non-Executive Director but not an Independent Director as he is also a Director of a fully-owned subsidiary of the Bank as well as being a Director of another Company in which another Director (Mr Rushanka Silva) is also a member. The Board has appointed Mr Sanjiva Senanayake as Senior Independent Director with appropriate Terms of Reference to ensure the independent element in decision making which has been disclosed in the Annual Report.	Complied
(49)	3(5)(iii)	Disclosure of the identity of the Chairman and CEO/MD and any relationships with the Board Members The identity of the Chairman and CEO/MD are disclosed in the Annual Report on pages 16 to 21 and there are many references to these roles throughout. The Chairman and one Non-Executive, Non-Independent Director are Common Directors on the board of another Company. Two of the other Non-Executive Non-Independent Directors are also common Directors on the Board of another Company. Same and except for their business relationship above, there is no material financial, business or family relationships between the Chairman, CEO/MD and other members of the Board other than those disclosed on pages 16 to 21 and in Note No. 47 to the Financial Statements given on pages 308 to 312 as per annual declarations and the register of Directors' Interests which is updated regularly.	Complied

CORPORATE GOVERNANCE

	CBSL Section	Principle, Compliance and Implementation	Status
(50)	3(5)(iv)	Chairman to: (a) Provide leadership to the Board; (b) Ensure that the Board works effectively and discharges its responsibilities; (c) Ensure that all key and appropriate issues are discussed by the Board in a timely manner.	
		The Board approved the key responsibilities of the Chairman and this document includes the matters identified in relevant guidelines and codes. The self-evaluation process evidences that the Chairman provides leadership to the Board, the Board works effectively and discharges its responsibilities and all key and appropriate issues are discussed by the Board in a timely manner.	Complied
(51)	3(5)(v)	Responsibility for Agenda lies with Chairman but may be delegated to the Company Secretary	
		The Company Secretary draws up the agenda for the meetings in consultation with the Chairman.	Complied
(52)	3(5)(vi)	Ensure that Directors are properly briefed and provided with adequate information	
		The Chairman ensures that the Board is adequately briefed and informed regarding the matters arising at Board meetings. The following procedures are in place to ensure this: <ul style="list-style-type: none"> • Agenda and Board papers are circulated 7 days prior to Board Meetings, generally. • Relevant members of the Management team are available for explanations and clarifications if required. • Management information is provided in agreed formats on a regular basis to enable Directors to assess the performance and stability of the Bank. 	Complied
(53)	3(5)(vii)	Encourage active participation by all Directors and lead in acting in the interests of the Bank.	
		The Board encourages all Directors to make a full and active contribution. This is evident from the responses in the self-evaluation forms submitted by each Director at the year end.	Complied
(54)	3(5)(viii)	Encourage participation of Non-Executive Directors and relationships between Non-Executive and Executive Directors	
		10 out of the 11 members of the Board are Non-Executive Directors, creating a conducive environment for active participation by the Non-Executive Directors. All Non-Executive Directors participate in Sub Committees of the Board, ensuring further opportunity for active participation. The Bank has also appointed a Senior Independent Director which further supports the participation and strengthens views of the Non-Executive Directors. The Executive and Non-Executive Directors actively participate at Board Meetings.	Complied
(55)	3(5)(ix)	Refrain from direct supervision of Key Management Personnel and executive duties	
		The Chairman does not get involved in the supervision of KMPs or any other executive duties.	Complied
(56)	3(5)(x)	Ensure effective communication with Shareholders	
		The Bank historically has active shareholder participation at its General Meetings and at the Shareholder Relations Forum which is held immediately following the AGM where shareholder issues are discussed. A Board Sub Committee has been appointed to ensure that there is effective communication with shareholders.	Complied
(57)	3(5)(xi)	CEO/MD functions as the apex executive in charge of the day-to-day operations	
		The responsibility of day-to-day operations of the Bank have been delegated to the CEO/MD.	Complied

CBSL Section	Principle, Compliance and Implementation	Status
3(6)	Board Appointed Committees (the Committee)	
(58)	3(6)(i) Establishing Board Sub Committees, their functions and reporting	
	<p>12 Board Sub Committees have been established by the Board with oversight by the respective Chairpersons and written Terms of Reference for each. The Company Secretary serves as the Secretary to all Sub Committees and maintains Minutes and records. The reports of the following Mandatory Sub Committees are included in the Annual Report:</p> <ul style="list-style-type: none"> • Board Audit Committee on pages 176 to 178. • Board Human Resources & Remuneration Committee on pages 179 & 180. • Board Nomination Committee on page 181. • Board Integrated Risk Management Committee on pages 182 & 183. • Board Related Party Transactions Review Committee on page 184. <p>The Chairpersons of the Sub Committees are present at the AGM to clarify any matters that may be referred to them by the Chairman.</p>	Complied
	3(6)(ii) Board Audit Committee (BAC)	
(59)	3(6)(ii)(a) Chairman to be an Independent Non-Executive Director with qualifications and experience in accountancy and/or audit	
	The Chairman of the Board Audit Committee is an Independent Non-Executive Director who is a Fellow member of the Chartered Institute of Management Accountants, UK.	Complied
(60)	3(6)(ii)(b) Committee to comprise solely of Non-Executive Directors	
	All members of the Board Audit Committee were Non-Executive Independent Directors until 12.11.2018. W.e.f. 13.11.2018, majority of members of the Board Audit Committee are Non-Executive Independent Directors.	Complied
(61)	3(6)(ii)(c) Functions of the Board Audit Committee	
	<p>In accordance with the Terms of Reference, the Board Audit Committee has made the following recommendations on matters in connection with:</p> <ul style="list-style-type: none"> • The appointment of the External Auditor for audit services to be provided in compliance with the relevant statutes; • The implementation of the Central Bank guidelines issued to Auditors from time to time; • The application of the relevant accounting standards, including SLFRS 9 and SLFRS 15; and • The service period, audit fee and any resignation or dismissal of the Auditors. <p>The Board Audit Committee 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>	Complied
(62)	3(6)(ii)(d) Review and monitor External Auditors' independence and objectivity and the effectiveness of the audit processes	
	The Board Audit Committee (BAC) obtains representations from the External Auditors on their independence and that the audit is carried out in accordance with the applicable standards and best practices.	Complied

CORPORATE GOVERNANCE

	CBSL Section	Principle, Compliance and Implementation	Status
(63)	3(6)(ii)(e)	Provision of non-audit services by External Auditors A Board approved policy is in place approved by the Board in this regard. When such services are intended to be obtained from External Auditors, prior approval is obtained from the Board Audit Committee in accordance with regulations.	Complied
(64)	3(6)(ii)(f)	Determines scope of audit The Board Audit Committee discussed and finalised with the External Auditors, the nature and scope of the audit to ensure that it includes: <ul style="list-style-type: none"> • An assessment of the Bank's compliance with the relevant Directions in relation to Corporate Governance and Internal Controls Over Financial Reporting; • The preparation of financial statements for external purposes in accordance with relevant accounting principles and reporting obligations; <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>	Complied
(65)	3(6)(ii)(g)	Review financial information of the Bank The Board Audit Committee reviews the financial information of the Bank, in order to monitor the integrity of its Financial Statements, Annual Report, Accounts and Quarterly Reports prepared for disclosure, and the significant financial reporting judgments contained therein. The review focuses on the following: <ul style="list-style-type: none"> • Major judgemental areas • Any changes in accounting policies and practices • Significant adjustments arising from the audit • The going concern assumption • The compliance with relevant accounting standards and other legal requirements. <p>The Board Audit Committee makes recommendations to the Board on the above on a quarterly basis.</p>	Complied
(66)	3(6)(ii)(h)	Discussions with External Auditor without the Executive Management on interim and final audits The Board Audit Committee discusses issues, problems and reservations (if any) arising from the interim and final audits with the External Auditors. This Committee met the External Auditors in the absence of executive management of the Bank on 02 occasions during the year 2018.	Complied
(67)	3(6)(ii)(i)	Review of management letter and Bank's response The Board Audit Committee has reviewed the External Auditors' Management Letter and the Management's responses thereto.	Complied

	CBSL Section	Principle, Compliance and Implementation	Status
(68)	3(6)(ii)(j)	<p>Review of Internal Audit function</p> <p>The Board Audit Committee has oversight of the Internal Audit function and has the following responsibilities with regard to the same:</p> <ul style="list-style-type: none"> • Review of the adequacy of the scope, functions and resources of the Internal Audit Department, and ensures that the Department has the necessary authority to carry out its work; • Reviewing the Internal Audit programme and results of the audits and ensures that appropriate actions are taken on the recommendations of the Internal Audit Department; • Reviewing appraisals of the performance of the Head and senior staff members of the Internal Audit Department; • Recommending any appointment or termination of the Head and senior staff members of the Internal Audit Department; • Ensuring that the Board Audit Committee is apprised of resignations of senior staff members of the Internal Audit Department including the Chief Internal Auditor, and provides an opportunity to the resigning senior staff members to submit reasons for resigning; • Ensuring that the Internal Audit function is independent of other activities it audits and that it is performed with impartiality, proficiency and due professional care. 	Complied
(69)	3(6)(ii)(k)	<p>Internal investigations</p> <p>The Board Audit Committee has reviewed the major findings of internal investigations during the year and management's responses thereto. It has also ensured that the recommendations of such investigations are implemented.</p>	Complied
(70)	3(6)(ii)(l)	<p>Attendees at meetings of the Board Audit Committee</p> <p>The Consultant to the Board Audit Committee, CEO/MD, Group Chief Financial Officer, Chief Internal Auditor, Chief Manager - Systems Audit and representatives of the External Auditors usually attend meetings. Other Board members may also attend meetings upon the invitation of the Board Audit Committee. The Board Audit Committee met the External Auditors without the Executive Directors being present in terms of the Corporate Governance Code.</p>	Complied
(71)	3(6)(ii)(m)	<p>Explicit authority, resources and access to information</p> <p>The Board Audit Committee has:</p> <ul style="list-style-type: none"> • explicit authority to investigate into any matter within its terms of reference; • the resources which it needs to do so; • full access to information; and • authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary. 	Complied

	CBSL Section	Principle, Compliance and Implementation	Status
(72)	3(6)(ii)(n)	Regular meetings The Board Audit Committee has scheduled regular quarterly meetings. Additional meetings are scheduled when required. Accordingly, the Board Audit Committee met 10 times during the year. This excludes the meetings of the Board Audit Committee with the External Auditors and the meetings of the Committee with the Internal Auditors. Members of the Board Audit Committee are served with due notice of issues to be discussed and the conclusions in discharging its duties and responsibilities are recorded in the Minutes of the meetings maintained by the Company Secretary.	Complied
(73)	3(6)(ii)(o)	Disclosure in Annual Report The Report of the Board Audit Committee is given on pages 176 to 178. The report includes the following: <ul style="list-style-type: none">• Details of the activities of the Board Audit Committee;• The number of Board Audit Committee meetings held in the year; and Details of attendance of each individual Director at such meetings is given on page 126.	Complied
(74)	3(6)(ii)(p)	Maintain minutes of meetings The Company Secretary and, in his absence, the Chief Internal Auditor serves as the Secretary to the Board Audit Committee and maintains minutes of the meetings of the Board Audit Committee meetings.	Complied
(75)	3(6)(ii)(q)	Whistle Blowing Policy and relationship with External Auditor The Bank has a Board approved Whistle Blowing Policy where-under an employee of the Bank may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters. The Company Secretary forwards all communications received in his/her office in this regard, including anonymous communications, to the Chairman of the Board Audit Committee who addresses the issue in an appropriate manner. This Policy is annually reviewed by the Board Audit Committee and approved by the Board. The Board Audit Committee is the key representative body for overseeing the Bank's relations with the External Auditors and meets the External Auditors on a regular basis to discharge this function.	Complied Complied
	3(6)(iii)	Board Human Resources and Remuneration Committee (BHR & RC)	
(76a)	3(6)(iii)(a)	Policy to determine the remuneration of Directors. A Board approved Policy to determine the Directors' remuneration is in place.	Complied
(76b)	3(6)(iii)(a)	Policy to determine the remuneration for CEO/MD and KMPs A Board approved Policy on Reward Management for KMPs is in place. The term "Reward Management" includes salaries and other staff benefits offered by the Bank and the CEO is considered a KMP.	Complied
(77)	3(6)(iii)(b)	Goals and targets for the Directors, MD (the CEO) and KMPs Goals and targets for the CEO/MD and the KMPs for the year 2018 are documented under the Objective Setting for the year approved by the Committee. The Duties and responsibilities of the Non-Executive Directors are contained in the Bank's Code of Conduct and the Governance Requirements for Directors and the Terms of Reference of each Board Sub Committee approved by the Board of Directors.	Complied

	CBSL Section	Principle, Compliance and Implementation	Status
(78)	3(6)(iii)(c)	Evaluation of the performance of the CEO/MD and KMPs against the set targets and goals. Performance evaluations of the CEO/MD and KMPs for the year ended 31st December 2018 will be reviewed by the Committee during the first quarter of 2019. The performance evaluations of the CEO/MD and KMPs for the year ended 2017 were carried out during the first quarter of 2018.	Complied Complied
(79)	3(6)(iii)(d)	“Terms of Reference” provides that the MD is not present at meetings when matters relating to the MD are being discussed Terms of Reference of the Committee provides that the CEO/MD should not be a member of the Committee. CEO/MD attends meetings of the Committee on invitation and when matters relating to him are discussed, he is not present. CEO/MD was not present when matters relating to him were discussed during the year.	Complied
	3(6)(iv)	Board Nomination Committee (BNC)	
(80a)	3(6)(iv)(a)	Procedure to appoint Directors The BNC has developed and implemented a Board approved procedure to appoint new Directors.	Complied
(80b)	3(6)(iv)(a)	Procedure to appoint CEO and Key Management Personnel A Board approved policy to select, nominate and appoint CEO/MD and KMPs is in place, which is being followed.	Complied
(81)	3(6)(iv)(b)	Re-election of Directors The BNC makes recommendations regarding the re-election of current Directors who retire by rotation in terms of Article 87 of the Bank’s Articles of Association taking into account, <i>inter-alia</i> , the performance and contribution made by the Director concerned towards the overall discharge of the Board’s responsibilities and the Term of service each Director has provided to the Bank since his/her appointment/re-election.	Complied
(82)	3(6)(iv)(c)	Eligibility criteria for appointments to key managerial positions including the CEO The BNC sets the eligibility criteria to be considered, including qualifications, experience and key attributes, for appointment or promotion to key managerial positions as well as the position of CEO/MD. The BNC considers the applicable statutes and guidelines in setting the relevant criteria. These have been documented and included in the Job Descriptions completed for the CEO/MD and KMPs.	Complied
(83)	3(6)(iv)(d)	Fit and proper criteria for Directors, CEO and KMPs Bank obtains declarations and affidavits from Directors, CEO/MD and KMPs which are submitted to the CBSL to obtain concurrence of CBSL that they are fit and proper persons to hold office as specified in the criteria given in Banking Act Direction No. 11 of 2007 and as set out in the statutes.	Complied
(84)	3(6)(iv)(e)	Succession plan for retiring Directors, CEO/MD and KMPs Board approved procedures covering Succession Planning for retiring Directors, CEO/MD and KMPs are in place and the BNC follows the said procedure in planning succession of retiring Directors (including the MD).	Complied

CORPORATE GOVERNANCE

	CBSL Section	Principle, Compliance and Implementation	Status
(85)	3(6)(iv)(f)	Committee Chairperson and other members	
		The BNC is chaired by an Independent Non-Executive Director. Amongst the other members, two members are Independent Non-Executive Directors whilst the other 2 members are Non-Independent Non-Executive Directors. The MD attends meetings by invitation.	Complied
	3(6)(v)	Board Integrated Risk Management Committee (BIRMC)	
(86)	3(6)(v)(a)	Composition of BIRMC	
		BIRMC comprises 04 Non-Executive Directors, 01 Executive Director, Group Chief Risk Officer and Group Compliance Officer. The BIRMC works closely with KMPs within the framework of authority and responsibility assigned to the BIRMC.	Complied
(87)	3(6)(v)(b)	Risk assessment of the Bank, Subsidiary Companies and Associate Companies	
		Credit Risk, Market Risk, Liquidity Risk, Compliance Risk and the Operational Risk are assessed and the reports are submitted to the BIRMC through the Group Chief Risk Officer. Risks are assessed at the BIRMC and the relevant reports are submitted by the Risk Management Unit to the BIRMC.	Complied
		The Board has approved on recommendation of BIRMC, the policies on Credit Risk Management, Market Risk Management and Operational Risk Management which provide a framework for management and assessment of risks. Accordingly, quarterly information on pre-established risk indicators are reviewed by the BIRMC.	
		The BIRMC has a process to assess and evaluate all risks of the Bank and the findings and issues are submitted to the Board's review and action, if any. BIRMC evaluates the risk management of Subsidiary companies both at the Bank level and Group level.	
(88)	3(6)(v)(c)	Review the adequacy and effectiveness of management level committees	
		BIRMC reviews the adequacy and the effectiveness of all management level committees including the Credit Policy Risk and Portfolio Review Committee and the ALCO to address specific risks and to manage those risks within the laid down limits specified by the BIRMC as required by the Direction.	Complied
(89)	3(6)(v)(d)	Corrective action to mitigate risks exceeding prudential levels	
		BIRMC takes prompt corrective action to mitigate the effects of specific risks in case such risks are at levels beyond the prudent risk levels decided by BIRMC based on the Bank's policies and regulatory and supervisory requirements. The Key Risk Indicators of the Bank are approved by the BIRMC and the Board on a regular basis.	Complied
(90)	3(6)(v)(e)	Frequency of meetings	
		The BIRMC has regular meetings in compliance with its Terms of Reference and schedules additional meetings when required. The agenda covers matters assessing all aspects of risk management including updated Business Continuity Plans. The BIRMC met 06 times during the year.	Complied
(91)	3(6)(v)(f)	Officers responsible for failure to identify specific risks or implement corrective action	
		Terms of Reference of the BIRMC provides for the BIRMC to recommend to Board to take corrective action as directed by Director of Bank Supervision in respect of officers identified to be responsible for failure to identify specific risks, upon being informed of such by the CEO/ MD.	Complied
(92)	3(6)(v)(g)	Risk assessment report to Board	
		Risk reports summarising significant risks, if any, highlighted at BIRMC meetings are submitted to the Board after each meeting by the Secretary to the committee within a week. In addition, all serious and/or urgent risk concerns are immediately conveyed by the BIRMC Chairman to all the Board Directors.	Complied

GRI 102-25

CBSL Section	Principle, Compliance and Implementation	Status
(93) 3(6)(v)(h)	Compliance function The Independent Compliance Department established, assesses the Bank's compliance with laws, regulations, and regulatory guidelines. In addition, the Compliance Department assesses the Bank's compliance with internal controls and approved policies on all areas of business operations. This function is headed by a dedicated Group Compliance Officer who reports to the Board Integrated Risk Management Committee (BIRMC) and is responsible for providing the following: <ul style="list-style-type: none"> • A detailed quarterly report on statutory and mandatory reporting requirements indicating the status of compliance to the Board; • A monthly compliance report is tabled at the BIRMC for information and necessary action. 	Complied
3(7)	Related Party Transactions	
(94) 3(7)(i)	Categories of Related Parties and avoidance of Conflict of Interest A duly approved documented process is in place on identification of and dealing with categories of Related Parties and their transactions in order for the Bank to avoid any conflicts of interest that may arise from any transaction with the relevant parties. Further, Directors and the KMPs are individually requested to declare their transactions with the Bank on a quarterly and annual basis. The avoidance of Conflict of Interest is further supported by the Board approved policy on Managing Conflict of Interest.	Complied
(95) 3(7)(ii)	Related Party Transactions covered by Direction Related Party Transactions covered for the purpose of the above process with Directors and Key Management Personnel include: <ul style="list-style-type: none"> • The grant of any type of accommodation, as defined in the Monetary Board's Directions on maximum amount of accommodation pursuant to Section 47 of the Banking Act No. 30 of 1988. • The creation of any liabilities of the Bank in the form of deposits, borrowings and investments. • The provision of any services of a financial or non-financial nature provided to the Bank or received from the Bank. • The creation or maintenance of reporting lines and information flows between the Bank and any Related Parties which may lead to the sharing of potentially proprietary, confidential or otherwise sensitive information that may give benefits to such Related Parties 	Complied
(96) 3(7)(iii)	Monitoring of Related Party Transactions Defined as more favourable treatment The Bank has implemented a preventive system to ensure that no favourable treatment is offered to Related Parties including those noted in 3(7)(i) above. Additionally, at the review of every Related Party Transaction by the Related Party Transactions Review Committee, a detective mechanism based on comparables too takes place.	Complied
(97) 3(7)(iv)	Granting accommodation to a Director or close relation of a Director A procedure is in place with regard to granting accommodation to Directors or to close relations of Directors or to concern in which a Director has a substantial interest. Such accommodation requires approval at a meeting of the Board of Directors, by not less than two-thirds of the number of Directors other than the Director concerned, voting in favour of such accommodation. The terms and conditions of a facility offered would include a provision that it will be secured by such security as may from time to time be determined by the Monetary Board as well.	Complied

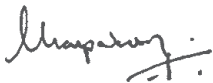
	CBSL Section	Principle, Compliance and Implementation	Status
(98)	3(7)(v)	Accommodation granted to persons, or concerns of persons, or close relations of persons, who subsequently are appointed as Directors of the Bank	
		A Directive on monitoring grant of such accommodation to Directors and their related parties is in place. The said Operational procedure sets out the different situations that may arise when granting accommodation to Directors or to their close relatives or concerns in which the Directors may have substantial Interest and the steps to be taken when an individual already have been granted accommodation subsequently becomes a Director.	Complied
		The Company Secretary obtains Related Party Disclosures from all Directors on a quarterly basis. The Operational instructions issued and the Directive on Dealing with Related Party Transactions too require any team member engaged in relevant areas of business to act in compliance with the regulatory framework set out in the said Directives and Statutes.	Complied
		Employees of the Bank are aware of the requirement to obtain necessary security as defined by the Monetary Board in the relevant circumstances.	Complied
		A process to monitor compliance with this regulation has been established.	Complied
(99)	3(7)(vi)	Favourable treatment or accommodation to Bank employees or their close relations	
		No favourable treatment/accommodation are provided to Bank employees other than those provided under the scheme of staff benefits in terms of the operating instructions issued by the Bank from time to time governing same and the Bank's Board approved Policy on Reward Management for Key Management Personnel. Employees of the Bank are informed through operational circulars to refrain from granting favourable treatment to employees or their close relations or to any concern in which an employee or close relation has a substantial interest except as provided in the Bank's Operational Guidelines and Directives.	Complied
(100)	3(7)(vii)	Remission of accommodation granted to Directors subject to Monetary Board approval	
		Operational instructions have been issued specifying strict instructions to refrain from remissions of accommodation granted to Directors, their close relations or to concerns in which they have a substantial interest are being effected without approval of the Monetary Board.	Complied
		The situation has not arisen in the Bank to date and operating instructions as stated above have been issued to prevent non-compliance with this requirement.	
	3(8)	Disclosures	
(101)	3(8)(i)	Publish Annual and Quarterly Financial Statements	
		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.	Complied
	3(8)(ii)	Disclosures in Annual Report	
(102)	3(8)(ii)(a)	A statement to the effect that the Annual Audited Financial Statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures	
		A statement to this effect is included in the following: <ul style="list-style-type: none"> Annual Report of the Board of Directors on the Affairs of the Company given on pages 187 to 196. 	Complied

GRI 102-35

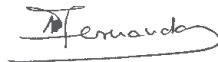
CBSL Section	Principle, Compliance and Implementation	Status																								
(103) 3(8)(ii)(b)	Report by the Board on the Bank's internal control mechanism																									
	<p>The Annual Report includes the following reports where the Board confirms that the financial reporting system 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:</p> <ul style="list-style-type: none"> • Directors' Statement on Internal Control over Financial Reporting given on pages 197 & 198. 	Complied																								
(104) 3(8)(ii)(c)	Assurance Report issued by the Auditors under 'Sri Lanka Standard on Assurance Engagements SLSAE 3050'																									
	The Board has obtained an assurance report on the effectiveness of Internal Controls Over Financial Reporting which is published on page 199.	Complied																								
(105) 3(8)(ii)(d)	Details of Directors																									
	<p>Details of Directors are given on pages 16 to 21.</p> <p>Directors' interests in contracts with the Company are given below; (including Executive Directors)</p> <table border="1"> <thead> <tr> <th>Category</th> <th>Amount Rs 000</th> </tr> </thead> <tbody> <tr> <td>Loans</td> <td>-</td> </tr> <tr> <td>Deposits</td> <td>279,515</td> </tr> <tr> <td>Credit cards</td> <td>1,314</td> </tr> <tr> <td>Interest income</td> <td>2,333</td> </tr> <tr> <td>Interest expense</td> <td>25,940</td> </tr> <tr> <td>Share based payments</td> <td></td> </tr> <tr> <td> Cash dividend</td> <td>-</td> </tr> <tr> <td> Scrip dividend (Number of shares)</td> <td>2,501</td> </tr> <tr> <td>Aggregate value of remuneration/fee paid by the Bank</td> <td>113,518</td> </tr> <tr> <td>Post employment benefits paid</td> <td>3,356</td> </tr> <tr> <td>Termination benefits</td> <td>-</td> </tr> </tbody> </table>	Category	Amount Rs 000	Loans	-	Deposits	279,515	Credit cards	1,314	Interest income	2,333	Interest expense	25,940	Share based payments		Cash dividend	-	Scrip dividend (Number of shares)	2,501	Aggregate value of remuneration/fee paid by the Bank	113,518	Post employment benefits paid	3,356	Termination benefits	-	Complied
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(106) 3(8)(ii)(e)	<p>Total accommodation granted to each category of related parties and as a percentage of the Bank's regulatory capital</p> <p>Related Party Transactions are given in Note No. 47 to the Financial Statement on pages 308 to 312.</p> <p>Net accommodation granted to Related Parties are given below;</p> <table border="1"> <thead> <tr> <th>Category of related party transaction</th> <th>As a % of regulatory capital of the Bank</th> <th>Amount Rs 000</th> </tr> </thead> <tbody> <tr> <td>Director and close family members</td> <td>0.01</td> <td>6,247</td> </tr> <tr> <td>KMPs & close family members</td> <td>0.17</td> <td>179,961</td> </tr> <tr> <td>Subsidiaries</td> <td>8.29</td> <td>8,550,735</td> </tr> <tr> <td>Shareholders owning material interest in the Bank</td> <td>-</td> <td>-</td> </tr> <tr> <td>Concerns 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</td> <td>5.84</td> <td>6,023,383</td> </tr> </tbody> </table>	Category of related party transaction	As a % of regulatory capital of the Bank	Amount Rs 000	Director and close family members	0.01	6,247	KMPs & close family members	0.17	179,961	Subsidiaries	8.29	8,550,735	Shareholders owning material interest in the Bank	-	-	Concerns 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	5.84	6,023,383	Complied
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(107) 3(8)(ii)(f)	<p>Aggregate values of remuneration paid to, and transactions with Key Management Personnel</p> <table border="1"> <thead> <tr> <th>Nature of transaction</th> <th>Amount Rs 000</th> </tr> </thead> <tbody> <tr> <td>Short-term employment benefits</td> <td>476,530</td> </tr> <tr> <td>Post-employment benefits</td> <td>26,559</td> </tr> <tr> <td>Loans & advances including credit cards</td> <td>182,131</td> </tr> <tr> <td>Deposit & investments</td> <td>277,323</td> </tr> <tr> <td>Interest income</td> <td>18,741</td> </tr> <tr> <td>Interest expenses</td> <td>25,880</td> </tr> <tr> <td>Cash dividend paid</td> <td>-</td> </tr> <tr> <td>Scrip dividend paid (Number of shares)</td> <td>21,291</td> </tr> </tbody> </table> <p>The remuneration paid to, and transactions with Executive Directors are included in 3(8)(ii)(d) above.</p>	Nature of transaction	Amount Rs 000	Short-term employment benefits	476,530	Post-employment benefits	26,559	Loans & advances including credit cards	182,131	Deposit & investments	277,323	Interest income	18,741	Interest expenses	25,880	Cash dividend paid	-	Scrip dividend paid (Number of shares)	21,291	Complied
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	CBSL Section	Principle, Compliance and Implementation	Status
(108)	3(8)(ii)(g)	Confirmation by the Board on the Annual Corporate Governance Report	
		Board has confirmed in the Annual Report of the Board of Directors on the Affairs of the Company, that all the findings of the Factual Findings Report of Auditors have been incorporated in the Bank's Annual Corporate Governance Report.	Complied
(109)	3(8)(ii)(h)	Report confirming compliance with prudential requirements, regulations, laws and internal controls	
		The Statement of Directors' Responsibility on Financial Reporting given on pages 201 & 202 clearly sets out details regarding compliance with prudential requirements, regulations, laws and internal controls. There were no instances of material non-compliance to report on corrective action taken during the year.	Complied
(110)	3(8)(ii)(i)	Measures taken to rectify non-compliant issues	
		There were no lapses inviting supervisory concerns in the Bank's Risk Management System or non-compliance with these directions that have been pointed out by the Director of Bank Supervision required to be disclosed by the Bank during the year.	Complied



CHANNA PALANSURIYA
 Chairman



NANDA FERNANDO
 Managing Director

14th February 2019

BOARD AUDIT COMMITTEE REPORT

The Board Audit Committee (the Committee), which was established on 10th April 1997, is appointed by and responsible to the Board of Directors (the Board). The Committee comprises 04 Non-Executive Directors, 03 of whom were Independent as at 31st December 2018, who conduct Committee proceedings in accordance with the Committee's Terms of Reference approved by the Board. The Committee's composition as at 31st December 2018 was:

Mr Ranil Pathirana
(Chairman) (IND/NED)

Prof Malik Ranasinghe
(IND/NED)

Mr Deepal Sooriyaarachchi
(NID/NED)

Mrs Dhara Wijayatilake
(IND/NED)

(IND - Independent Director, NID - Non-Independent Director, NED - Non Executive Director)

Mrs Ranjani Joseph, a senior practicing Chartered Accountant, serves the Committee in the capacity of a Consultant and is invited to attend the meetings.

Brief profiles of the members of the Committee are given on pages 16 to 21 of the Annual Report. The Company Secretary, and in his absence, the Chief Internal Auditor functions as the Secretary to the Committee.

The Chairman of the Committee, Mr Ranil Pathirana, an Independent Non-Executive Director, is a Fellow Member of the Chartered Institute of Management Accountants, UK and counts many years of experience in the Financial Services industry.

MEETINGS

The Committee met on 14 occasions during the year 2018. Attendance by the Committee members at these meetings is given in the table on page 126 of the Annual Report. The Managing Director, Group Chief Financial Officer, Chief Internal Auditor, Chief Manager-Systems Audit, the Consultant to the Board Audit Committee and the External Auditors also

attended these meetings by invitation. 04 of these meetings were held to consider and recommend to the Board of Directors, the Bank's quarterly and Annual Financial Statements.

TERMS OF REFERENCE

The establishment, role and functions of the Board Audit Committee are regulated by the Banking Act Direction No. 11 of 2007, on Corporate Governance for Licensed Commercial Banks issued by the Central Bank of Sri Lanka, the Rules on Corporate Governance as per Section 7.10 of Listing Rules issued by the Colombo Stock Exchange and the Code of Best Practice on Corporate Governance 2017 issued by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka). The Committee submits its minutes and reports on its activities to the Board regularly and also assists the Board in its general oversight of financial reporting, internal controls and functions relating to internal and external audits.

ROLE AND RESPONSIBILITIES

The Committee is responsible for:

1. Reviewing financial information, in order to monitor the integrity of the Financial Statements of the Bank, its Annual Report, accounts and quarterly reports prepared for disclosure.
2. Reporting to the Board on the quality, appropriateness and acceptability of the Bank's accounting policies and practices.
3. Assessing the reasonableness of the underlying assumptions for estimates and judgments made in preparing the Financial Statements.
4. Reviewing accounting and financial reporting, risk management processes and regulatory compliance.
5. Reviewing the Financial Statements (including quarterly interim statements) prior to publication to ensure constant and continuous compliance with statutory provisions, accounting standards and accounting policies.

6. Reviewing Internal Audit reports and liaising with the Bank's Corporate Management to ensure that precautionary measures are taken to minimise and control weaknesses, procedure violations, frauds and errors.
7. Assessing the independence and reviewing the adequacy of the scope, functions and resources of the Internal Audit Department, including the appointment of the Chief Internal Auditor and the performance of the Head and senior staff members of the Internal Audit Department
8. Overseeing the appointment, compensation, resignation and dismissal of the External Auditors, including review of the External Audit function, its cost and effectiveness and monitoring of the External Auditors' independence and to ensure that the engagement of the Audit partner shall not exceed five years and that the particular Audit partner is not re-engaged for the audit before the expiry of three years from the date of the completion of the previous term.
9. Reviewing the effectiveness of the Bank's system of Internal Control Over Financial Reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of Financial Statements for external purposes have been done in accordance with applicable accounting standards and regulatory requirements.
10. Engaging Independent Advisors for specialised functions where it deems necessary.

ACTIVITIES IN 2018

Financial Reporting

The Committee, as part of its responsibility to oversee the Bank's financial reporting process on behalf of the Board of Directors, has reviewed and discussed with the Management and the External Auditors, the quarterly and the Annual Financial Statements prior to their release. The review included the quality, appropriateness and acceptability of

accounting policies and practices, the clarity of the disclosures and the extent of compliance with financial reporting standards, in terms of Companies Act No. 7 of 2007, Banking Act No. 30 of 1988 and other relevant financial and governance reporting requirements. To facilitate the review, the Committee considered reports from the Group Chief Financial Officer and reports from the External Auditors on the outcome of the half-year review and Annual Audit.

The Committee closely monitored the implementation of the Sri Lanka Accounting Standard - SLFRS 9 (Financial Instruments), issued by CA Sri Lanka which became effective from 1st January 2018. The Bank commenced working towards this goal during the year 2016 with the assistance of an external consultant. The Committee closely monitored the implementation of the new Accounting Standard right throughout this period. The Committee also guided the management with the selection of the new accounting policies and ratified the assumptions made by the management during the transition process. External auditors independently validated the transition to SLFRS 09 and its impact on the Bank's Financial Statements, during the year-end audit.

Sri Lanka Accounting Standard - SLFRS 15 (Revenue from Contracts with Customers) also became effective from 1st January 2018. The Bank, with the assistance of an external consultant, carried out an impact assessment in 2017, essentially focusing on the materiality on fee and commission income categories. After analysing the current accounting treatment against the requirements of SLFRS 15, it was established that the adoption of this Accounting Standard does not have a material impact on the Bank.

The Board has taken into consideration the requirements of the SLFRS 16 - Leases which is effective from 1st January 2019 and necessary steps are being taken to assess its impact on financial statements and to design suitable internal controls.

Internal Control Over Financial Reporting (ICOFR)

The Bank is required to comply with Section 3(8)(ii)(b) of the Banking Act Direction No. 11 of 2007 and assess the effectiveness of Internal Control Over Financial Reporting as of 31st December 2018.

The Bank assessed the effectiveness of its Internal Control Over Financial Reporting as of 31st December 2018 based on the criteria set out in the Guidance for Directors of Banks on "The Directors' Statement of Internal Control", issued by the CA Sri Lanka in 2010.

The Bank's assessment was based on processes documented by the respective process owners. For the successful implementation of this task, a steering committee (Internal Control Over Financial Reporting Steering Committee) headed by the Group Chief Financial Officer and comprising of relevant members of the Corporate Management and other relevant Department Heads was formulated in 2010 with the guidance of the Bank's External Auditors (Ernst & Young). At present, the Group Chief Financial Officer, Chief Internal Auditor, Group Chief Risk Officer, Group Chief Compliance Officer and the Company Secretary serve in the Internal Control Over Financial Reporting Steering Committee. The Internal Audit Department carried out a series of walkthrough tests to establish their adequacy of documented processes and make appropriate recommendations where necessary.

Based on Internal Auditors' and External Auditors' assessments, the Board has concluded that, as of 31st December 2018, the Bank's Internal Control Over Financial Reporting is effective. Directors' Statement on the Bank's Internal Control Over Financial Reporting is provided on pages 197 & 198. The Bank's External Auditors have audited the effectiveness of the Bank's Internal Control Over Financial Reporting and have reported to the Board that nothing has come to their attention that causes them to believe that the financial reporting was inconsistent with their understanding of the processes adopted by the Board in the review of the design and effectiveness of the internal control system of the Bank. The External

Auditors' Report on the Bank's Internal Control Over Financial Reporting is provided on page 199.

Annual Corporate Governance Report

As required by Section 3(8)(ii)(g) of the Banking Act Direction No. 11 of 2007, on Corporate Governance for Licensed Commercial Banks issued by the Central Bank of Sri Lanka, the Annual Corporate Governance Report for 2018 is provided on pages 156 to 175. The External Auditors of the Bank have performed procedures set out in Sri Lanka Related Services Practice Statement 4750 issued by the CA Sri Lanka (SLRSPS 4750), to meet the compliance requirement of the said Corporate Governance directive. Their findings presented in their report dated 14th February 2019 addressed to the Board are consistent with the matters disclosed above and any inconsistencies to those reported by the Board on pages 156 to 175 have not been identified.

Internal Audit

During the year, the Board Audit Committee continued to fulfil its mandate to monitor and review the scope, extent and effectiveness of the activities of the Bank's Internal Audit Department, including review of the progress made on Audit activities and achievements against the Bank's Audit Plan. The Committee reviewed the Internal Audit Plan and monitored its implementation through regular communications with the Chief Internal Auditor.

In parallel, reviews were also conducted to assess the efficiency of the Internal Audit Function in its capacity as the "Third-line-of-defense". In its role as the "Third-line-of-defense", the Internal Audit Department is required to conduct system audits, Branch, Zonal Office and Head Office Departments' audits as well as Forensic/ Fraud Investigations in order to provide an independent, objective assurance and consulting services adding value and improving the operations by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the Group's governance, risk management and internal controls. Accordingly, in 2018 the Internal Audit Department carried out comprehensive audits covering all aspects of the business. The areas covered and the regularity of audits were dependent on the

BOARD AUDIT COMMITTEE REPORT

risk boundary for each section, with higher risk areas subject to more frequent audits. In the year under review, the Internal Audit Department continued its "Root Cause Analysis" process which was introduced in 2017, as a technique to examine findings of Branch/Department audits and isolate possible systemic issues to be escalated to the Management for corrective action of the Internal Audit reports prepared on this basis, 916 Branch reports, 39 Department reports and 9 reports on Subsidiaries, were reviewed by the Committee during 2018, with recommendations made to Corporate Management along with follow up action to ensure that suggestions were applied in practice.

The Committee also reviewed the major findings of Internal Investigations carried out during the year.

All Internal Audit reports were made available to External Auditors as well.

The Committee reviewed the resource requirements of the Internal Audit Department and conducted performance appraisals of 2017 for the Head and senior staff members of the Internal Audit Department. The performance evaluation of the Head and the Senior staff members of the Internal Audit Department for the year 2018 will be carried out by the Committee during the first quarter of 2019.

External Auditors

With regard to the External Audit Function of the Bank, the role played by the Committee was as follows:

1. Undertook the annual evaluation of the Independence and Objectivity of the External Auditor and the effectiveness of the audit process.
2. Met with the External Auditors to discuss their audit approach and procedure, including matters relating to the scope of the audit and Auditors' Independence.
3. Reviewed the audited Financial Statements with the External Auditors who are responsible for expressing an opinion on its conformity with the Sri Lanka Accounting Standards.

4. Reviewed the Management Letter issued by the External Auditors together with management responses thereto.
5. Met the External Auditors on two occasions during the year without the Executive Directors and the Management being present to ensure that there was no limitation of scope in relation to the Audit and to allow for full disclosure of any incidents, which could have had a negative impact on the effectiveness of the External Audit. It was concluded that there was no cause for concern.
6. Reviewed the Non-Audit Services provided by the External Auditors and was of the view that such services were not within the category of services identified as prohibited under:
 - The guidelines issued by the Central Bank of Sri Lanka for External Auditors relating to their statutory duties in terms of Section 39 of the Banking Act No. 30 of 1988.
 - The Guideline for Listed Companies on Audit and Audit Committees issued by the Securities and Exchange Commission of Sri Lanka.
7. Reviewed the Letter of Representation issued to the External Auditors by the Board.
8. Reviewed the Letter of Independence Confirmation issued by the External Auditors as required by the Companies Act No. 7 of 2007, confirming that they do not have any relationship or interest in the company, which may have a bearing on their independence within the meaning of the Code of Conduct and Ethics of the CA Sri Lanka.
9. Reviewed the service period of the engagement of the External Audit partner to ensure that it has not exceeded five years.

The Committee has recommended to the Board, that Messrs Ernst and Young, Chartered Accountants, be reappointed for the financial year ending 31st December 2019, subject to the approval of shareholders at the next Annual General Meeting.

Whistle Blowing

The Bank's Whistle Blowing Policy continued to be implemented as a component of the Corporate Fraud Risk Management Framework. The Policy allows any team member who has a legitimate concern on an existing or potential "wrong doing", by any person within the Bank, to come forward voluntarily, and bring such concern to the notice of the Chairman of the Board Audit Committee through the Company Secretary. Concerns raised are investigated and the identity of the person raising the concern is kept confidential, Even anonymous complaints are investigated under the said Policy. This procedure continues to be strictly monitored by the Committee.

REPORTING TO THE BOARD

The Minutes of the Committee meetings are tabled at the Board meetings enabling all Board members to have access to them.

PROFESSIONAL ADVICE

The Committee has the authority to seek external professional advice from time to time on matters within its purview. During the year, consultations were held with various professionals, on matters under the Committee's purview.

BOARD AUDIT COMMITTEE EVALUATION

The annual evaluation of the Committee was conducted by the members of the Board Audit Committee during the year and concluded that its performance was effective.

On behalf of the Board Audit Committee



RANIL PATHIRANA
Chairman - Board Audit Committee

Colombo, Sri Lanka
14th February 2019

BOARD HUMAN RESOURCES AND REMUNERATION COMMITTEE REPORT

The Board Human Resources and Remuneration Committee (the Committee) was established on 18th May 1988. Mr Deepal Sooriyaarachchi functioned as the Chairman of the Committee up to the period ended 12th November 2018 and was succeeded by Mrs Dhara Wijayatilake from 13th November 2018. The Committee's composition during the period ended 31st December 2018 is:

Upto 12th November 2018

Mr Deepal Sooriyaarachchi
Chairman (IND/NED)

Mr Channa Palansuriya
(NID/NED)

Mrs Dhara Wijayatilake
(IND/NED)

Ms Annika Senanayake
(IND/NED)

Mrs Saumya Amarasekera
(NID/NED)

From 13th November 2018

Mrs Dhara Wijayatilake
Chairperson (IND/NED)

Mr Channa Palansuriya
(NID/NED)

Prof Malik Ranasinghe
(IND/NED)

Mr Sanjiva Senanayake
(IND/NED)

Mr Deepal Sooriyaarachchi
(NID/NED)

Ms Annika Senananayake
(IND/NED)

Mrs Saumya Amarasekera
(NID/NED)

(NID - Non Independent Director, IND - Independent Director, NED - Non Executive Director).

Brief profiles of the members are given on pages 16 to 21 of the Annual Report. The Company Secretary of the Bank functions as the Secretary to the Committee.

MEETINGS

During the financial year ended 31st December 2018, 05 meetings were held. The attendance of the members of these meetings is given on page 126 of the Annual Report. The Managing Director (MD) and the Group Chief Human Resource Officer as well as other executive staff attend meetings by invitation on a need basis and assist in the Committee's deliberations by providing relevant information and participating in the analysis of information, except when their own compensation packages or other matters relating to them are reviewed.

TERMS OF REFERENCE

The role and functions of the Committee are regulated by the Banking Act Direction No. 11 of 2007, the Mandatory Code of Corporate Governance for Licensed Commercial Banks issued by the Central Bank of Sri Lanka, whilst section B.1.1 of the Code of Best Practice on Corporate Governance 2017 issued by the Institute of Chartered Accountants of Sri Lanka to recommend for the Board of Directors to set-up a Board Sub Committee on Human Resources and Remuneration.

ROLE AND RESPONSIBILITIES

The overall scope of the Committee is to provide strategic direction to build an effective and efficient Human Resource background for the Bank. Based on the said Direction No. 11 of 2007, the Committee at its meeting held on 9th August 2011 adopted the following scope and responsibilities;

SCOPE

1. The Committee shall determine the remuneration policies (salaries, allowances and other financial payments) relating to Directors, Chief Executive Officer (CEO/MD) and Key Management Personnel (KMPs) of the Bank.
2. The Committee shall set goals and targets for CEO/MD and KMPs
3. The Committee shall evaluate the performance of the CEO and KMPs against set targets and goals periodically and determine the basis for revising remuneration, benefits and other payments of performance based incentives.
4. The Committee reviews recommendations by the Management with regard to remuneration and other benefits afforded to the staff and present same for approval of the Board as well as providing guidance to the Management on required changes to salaries and other benefits, having considered the strategic priorities and direction of the Bank.
5. The Committee shall take on any other areas and enlarge its scope in cases where, in its view or in the Board's view it is appropriate if it were to be handled by the Committee.

PERFORMANCE

Organisation Structure

Structural changes were introduced by strengthening the Business Support Centre, Risk Management Unit, Compliance, IT, Card Centre, Recoveries areas and setting up of Data Governance and Sales Units, in order to streamline the business processes thus enhancing productivity and customer service standards.

BOARD HUMAN RESOURCES AND REMUNERATION COMMITTEE REPORT

Career and Succession Planning

Continued the Executive Talent Development Programme along with Competency Mapping to ensure that at least 1:1 back up ratio is maintained for the Key Management Positions of the Bank.

Enhanced Competency Development

The Bank's competency development initiatives were mainly focused on developing 'Leaders at all levels' and to inculcate a sales oriented culture. Launched "Training Track"-Pathway to be a Professional Banker, Certification Programme for branch network. Structured and systematic approaches were made to develop Credit Officers and to enhance customer service and selling skills. In support of the Bank's digital readiness and team members' convenience, 50% of the competency development initiatives were channelled through online/distance learning.

Rewards for Innovation and Performance

Existing Rewards and Recognition Schemes were enhanced in order to recognise best business unit/s and individual performances based on pre-defined criteria. This is in addition to the existing criteria where individuals and teams are recognised for their outstanding performance. First ever

Achievers' Nite was held in May 2018 in recognition of outstanding performance of individuals and teams.

Engagement Survey

An engagement survey was conducted towards the end of the second quarter of the year under review with over 78% of the employees participating voluntarily. The findings were extensively reviewed by the Committee and the areas for improvement were incorporated into the strategies of the following year.

Performance Management System

Successful implementation of Performance Based Team Bonus Scheme rewarding 80% of team members with maximum bonus entitlement.

Special Recognitions/Achievements

The Bank received Awards for Talent Management and Best Employer Brand at Asia's Best Employer Brand Awards - 2018

REPORTING TO THE BOARD

The Minutes of the Committee meetings are tabled at Board meetings enabling all Board members to have access to them.

PROFESSIONAL ADVICE

The Committee has the authority to seek external professional advice on matters within its purview.

BOARD HUMAN RESOURCES AND REMUNERATION COMMITTEE EVALUATION

The annual evaluation of the Committee was conducted by the members of the Board Human Resources and Remuneration Committee during the year and concluded that its performance was effective.

APPRECIATION

The Committee extends its gratitude to Mr Deepal Sooriyaarachchi for his guidance and contribution as the Chairman of the Committee until 12th November 2018.

On behalf of the Board Human Resources and Remuneration Committee



DHARA WIJAYATILAKE

Chairperson - Board Human Resources and Remuneration Committee

Colombo, Sri Lanka
14th February 2019

BOARD NOMINATION COMMITTEE REPORT

The Board Nomination Committee (the Committee) was formed on 10th January 2002 which comprises 05 Non-Executive Directors. The composition of the Committee as at 31st December 2018 is:

Miss Annika Senanayake
(Chairperson) (IND/NED)

Mr Channa Palansuriya
(NID/NED)

Mr Sanjiva Senanayake
(IND/NED)

Mrs Dhara Wijayatilake
(IND/NED)

Mrs Saumya Amarasekera
(NID/NED)

(NID - Non Independent Director, IND - Independent Director and NED - Non Executive Director)

The Managing Director (MD) attends meetings by invitation.

Brief profiles of the members are given on pages 16 to 21 of the Annual Report. The Company Secretary of the Bank functions as the Secretary to the Committee.

MEETINGS

During 2018 the Committee held 11 meetings. Attendance by the Committee members at each of these meetings is given in the table on page 126 of the Annual Report.

TERMS OF REFERENCE

The role and functions of the Committee are regulated by the Banking Act Direction No. 11 of 2007, the Mandatory Code of Corporate Governance for Licensed Commercial Banks issued by the Central Bank of Sri Lanka (CBSL) and is compliant with the requirements set out in the Code of Best Practice on Corporate Governance 2017 issued by the Institute of Chartered Accountants, Sri Lanka.

ROLE AND RESPONSIBILITIES

1. Continuously reviews the structure and composition of the Board of Directors (the Board).
2. Reviews the skills, knowledge, expertise and experience of the Board required in comparison to the current banking environment.

3. Makes recommendations to the Board with regard to any changes it considers appropriate for the progress and success of the Bank.
4. Recommends suitable persons after careful consideration based on the competencies required for a particular job and the Bank's business need.
5. Considers and recommends the requirements of additional/new expertise of current Directors and recommends succession planning for Directors resigning from or relinquishing their positions or retiring.
6. Carefully reviews management progression and succession planning for the Key Management Personnel (KMPs).
7. Ensures that management personnel of high calibre are appointed to guide the Bank to achieve greater heights.
8. Sets criteria including qualifications, experience and key attributes required for eligibility to be considered for appointment or promotion to the post of MD and other KMPs.
9. Makes recommendations to the Board of Directors, with regard to the positions of MD and KMPs as and when vacancies occur, evaluating the balance of skills, knowledge and experience of the Board before such appointment.
10. For preparing a description of the role/position that is vacated, clearly analysing the capabilities and skills required for a particular appointment.
11. For making recommendations after review to re-appoint Non-Executive Directors annually as recommended by CBSL guidelines and when they are due for re-appointment as per the Articles of Association of the Bank.
12. For ensuring that Directors, MD and KMPs are fit and proper persons to hold office in compliance with the regulatory and statutory provisions.
13. For ensuring that it is chaired by an Independent Director and is constituted with a majority of Independent Directors.

14. To make recommendations on any other matter delegated by the Board of Directors.

PERFORMANCE

The members of the Committee work closely with the Board, in reviewing the structure and skills needed for a steadfast, strong and successful organisation. Further, the Committee also reviews its own performance, constitution and Terms of Reference to ensure that it is operating effectively, and if required recommends necessary changes.

During the year under review, the Committee has continued to focus on a progressive organisational plan in keeping with the forward and evolutionary momentum of the Sri Lankan banking industry. The Committee, having considered the skills, knowledge, expertise and experience, made the recommendations to the Board to appoint Mr Dilip de S Wijeyeratne as a Non-Executive Director of the Bank.

REPORTING TO THE BOARD

The Minutes of the Board Nomination Committee meetings are tabled at Board meetings providing all Board members access to same

PROFESSIONAL ADVICE

The Committee has the authority to seek external professional advice on matters under its purview.

BOARD NOMINATION COMMITTEE EVALUATION

The annual evaluation of the Committee was conducted by the members of the Board Nomination Committee during the year and concluded that its performance was effective.

On behalf of the Board Nomination Committee



ANNIKA SENANAYAKE
Chairperson - Board Nomination Committee

Colombo, Sri Lanka
14th February 2019

BOARD INTEGRATED RISK MANAGEMENT COMMITTEE REPORT

GRI 102-30

The Board Integrated Risk Management Committee (the Committee) was established on 27th March 2008 as a Sub-Committee of the Board of Directors (the Board) in compliance with the Banking Act Direction No. 11 of 2007 on Corporate Governance for Licensed Commercial Banks in Sri Lanka. A review of the Integrated Risk Management process of the Bank has been detailed in pages 116 to 121 of the Annual Report.

MEMBERS:

The Committee comprises four Non-Executive Directors, one Executive Director and two members from the Management as given below.

Board representatives:

Mr Sanjiva Senanayake
(IND/NED) (Chairman)

Mr Deepal Sooriyaarachchi
(NID/NED)

Miss Annika Senanayake
(IND/NED)

Mrs Saumya Amarasekera
(NID/NED)

Mr Nanda Fernando
(ED)

(NID - Non Independent Director, IND - Independent Director, NED - Non Executive Director and ED - Executive Director)

Management representatives:

Mrs Achala Wickremaratne
(Group Chief Risk Officer)

Mr Lasantha Senaratne
(Group Compliance Officer)
(Up to 31st December 2018)

Mr Sisira Dabare
(Appointed as the Group Chief Compliance Officer w.e.f. 1st January 2019.)

Key Management Personnel (KMPs) supervising Credit, Market, Liquidity, Operational and Strategic Risks also attended meetings of the Committee, by invitation.

Brief profiles of the Directors representing the Committee are given on pages 16 to 21 of the Annual Report. The Company Secretary functions as the Secretary to the Committee.

MEETINGS

The Committee held 06 meetings during the year 2018. The attendance of the Committee members at each of these meetings is given in the table on page 126 of the Annual Report.

TERMS OF REFERENCE

The responsibilities of the Committee as mandated by the Board include:

1. Assessing all risks including credit, market, liquidity, operational and strategic risks to the Bank on a monthly basis through appropriate risk indicators and management information and in the instance of subsidiary companies, on Bank and Group basis.
2. Reviewing the adequacy and effectiveness of all management level committees such as Credit Policy, Risk and Portfolio Review Committee, ALCO to address specific risks and manage those risks within quantitative and qualitative risk limits specified by the Committee.
3. Ensuring that processes are in place to maintain risks within parameters set by the Bank's policies in compliance with regulatory, supervisory and Corporate Governance requirements
4. Assessing all aspects of Risk Management and Compliance are addressed in a comprehensive Business Continuity Plan.
5. Monitoring adherence to Risk Management policies of the Bank pertaining to Credit, Market, Liquidity Operational, Reputational, Strategic and Compliance Risks, Business Continuity Plan and Disaster Recovery Plan and recommend to the Board as and when required.

6. Ensuring effective design and implementation of a Risk Management Framework with respect to Integrated Risk Management, Risk Appetite, Internal Capital Adequacy Assessment Process (ICAAP) and Stress Testing.
7. Encouraging a proactive, forward looking risk awareness culture within the Bank

GOVERNANCE

The governance structure for the management of Risk at the Bank is set out in the Risk Management Report given on pages 116 to 121 of the Annual Report.

ROLE AND RESPONSIBILITIES

The Committee receives periodic reports on the Bank's performance against Key Risk Indicators from the Risk Management Unit and Key Performance Indicators from Compliance Department. The reports and the relevant background information have been reviewed in depth and necessary Risk Mitigation measures have been initiated where necessary, in order to maintain the Bank's exposure to Risk within its Risk Appetite limits and to facilitate compliance with regulatory requirements, while facilitating the achievement of sound business results.

The Committee is supported by the Risk Management Unit and Compliance Department of the Bank, headed by the Group Chief Risk Officer and the Group Compliance Officer respectively, in discharging its responsibilities.

RISK APPETITE

The Risk Appetite of the Bank in all key risk areas, namely, Credit Risk, Market Risk and Operational Risk, have been defined and approved by the Board on the recommendation of the Committee. Regular reports have been provided to the Committee on the actual performance of identified risk areas.

PERFORMANCE

The Committee undertook the following activities in discharging its responsibilities during the year:

1. Risk Appetite:

Risk Appetite limits and Key Risk Indicators for all key risk areas were set and periodically monitored.

2. Risk Management Policies:

Policies related to Risk Management and Compliance areas were reviewed during the year, amended as appropriate and have been incorporated.

3. Stress Testing:

The overall Stress Testing Framework was reviewed during the year and the results of the tests were monitored. Necessary recommendations to improve the Bank's Stress Tolerance levels were discussed and implemented as required.

4. Progress on BASEL II/BASEL III Compliance:

Progress on the implementation of key components of BASEL II/BASEL III against set targets was reviewed and monitored to ensure that the Bank is able to meet the timelines set by the Central Bank of Sri Lanka (CBSL).

5. IT Systems Support:

Recommendations were made to enhance efficiency of monitoring and to reduce/avoid risks through the use of IT Systems in respect of Credit, Operational and Market Risk Management in the Bank.

6. Internal Capital Adequacy Assessment Process (ICAAP):

ICAAP document for both the Bank and the Group was developed for 2017 year end position, and was reviewed and approved by the

Committee and the Board. This document was forwarded to the Regulator in 2018, well before the regulatory timeline.

7. Compliance:

The Committee received reports related to Compliance from the Group Compliance Officer and reviewed same to assess the extent of compliance with the regulatory requirements based on risk based approach.

8. Internal Controls:

Internal Loss Event Reports and the adequacy of internal control and procedures (except Internal Controls over Financial Reporting which is handled by Board Audit Committee) were reviewed regularly and recommendations for improvements were made. Progress on implementation of recommendations was also monitored.

9. Outsourced Activities:

The implementation of the Outsourcing Policy was monitored to ensure compliance with CBSL directives and guidelines.

The Committee actively encouraged all the participants in Committee meetings to view risks unconventionally as well, going beyond rules and regulations, focusing on the future and taking into account event and circumstances external to the Bank, which may not get captured in standard risk measures.

10. Performing Evaluation of Senior Officers:

The Committee carried out the performance evaluation of the Group Chief Risk Officer and Group Compliance Officer for 2018.

REPORTING TO THE BOARD

The Minutes of the Committee meetings are tabled at Board meetings, providing access for same to all members.

PROFESSIONAL ADVICE

The Committee has the authority to seek external professional advice on matters under its purview.

BOARD INTEGRATED RISK MANAGEMENT COMMITTEE EVALUATION

The annual evaluation of the Committee was conducted by the members of the Board Integrated Risk Management Committee during the year who concluded that its performance was effective.

On behalf of the Board Integrated Risk Management Committee



SANJIVA SENANAYAKE

Chairman - Board Integrated Risk Management Committee

Colombo, Sri Lanka
 14th February 2019

BOARD RELATED PARTY TRANSACTIONS REVIEW COMMITTEE REPORT

The Board Related Party Transactions Review Committee (the Committee) which was established on 30th July 2015 comprises the following four Non-Executive Directors.

Mrs Dhara Wijayatilake
(Chairperson) (IND/NED)

Prof Malik Ranasinghe
(IND/NED)

Mr Sanjiva Senanayake
(IND/NED)

Mr Deepal Sooriyaarachchi
(NID/NED)

Mr Nanda Fernando
(ED) - Served on the Committee until 30th November 2018

(NID - Non Independent Director, IND - Independent Director, NED - Non Executive Director, ED - Executive Director)

The composition of the Committee complies with the provisions of the Code of Best Practices issued by the Securities & Exchange Commission of Sri Lanka (the "SEC Code"), Section 9 of the Listing Rules of the Colombo Stock Exchange (the "CSE Rules") and Section D.4.1 of the Code of Best Practice on Corporate Governance issued by the Institute of Chartered Accountants of Sri Lanka regarding the composition of the Committee. Brief profiles of the members are given on pages 16 to 21 of the Annual Report.

The Company Secretary functions as the Secretary to the Committee.

MEETINGS

During 2018, the Committee held 04 meetings. Attendance by the Committee members at each of these meetings is given in the table on page 126 of the Annual Report.

TERMS OF REFERENCE

The Terms of Reference of the Committee are based on the requirements of the SEC Code and the CSE Rules and are as follows:

1. Developing and maintaining principles on dealing with Related Party Transactions (RPTs) consistent with the provisions of the SEC Code and the CSE Rules, for adoption and implementation Bank-wide.
2. Reviewing all proposed Related Party Transactions in compliance with the provisions of the SEC Code and the CSE Rules.
3. Advising the Board on making immediate Market Disclosures and Disclosures in the Annual Report where necessary, in respect of RPTs, in compliance with the provisions of the SEC Code and the CSE Rules, Procedures and Directives/Guidelines adopted by the Committee for reviewing RPTs.
4. Ensuring that Procedures/Directives/Guidelines are issued to compel all RPTs, to be referred to the Committee for review.

REVIEW FUNCTION OF THE COMMITTEE

Review of the relevant Related Party Transactions by the Committee takes place quarterly. The Committee has communicated its observations to the Board on Related Party Transactions published in the Note 47 to the Financial Statements.

REPORTING TO THE BOARD

The Minutes of the meetings of the Committee are tabled at Board meetings enabling all Board members to have access to same.

PROFESSIONAL ADVICE

The Committee has the authority to seek external professional advice on matters within its purview

BOARD RELATED PARTY TRANSACTIONS REVIEW COMMITTEE EVALUATION

The annual evaluation of the Committee was conducted by its members during the year under review and it was concluded that its performance was effective.

On behalf of the Board Related Party Transactions Review Committee



DHARA WIJAYATILAKE

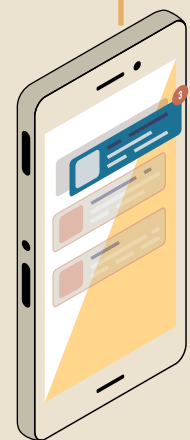
Chairperson - Board Related Party Transactions Review Committee

Colombo, Sri Lanka
14th February 2019

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VALUE CREATION SIMPLIFIED



Push Notifications

Mobile alerts or push notifications now help to notify customers about the Bank's latest products and service – information they can access at the touch of a button, offering people a more personalised 24/7 relationship with their Bank.

FINANCIAL CALENDAR

Financial Calendar - 2018

2017 Annual Report and Audited Financial Statements signed on	15th February 2018
32nd Annual General Meeting held on	29th March 2018
Rs 17.20 per share Scrip Dividend for 2017 distributed on	26th April 2018
2018 Annual Report and Audited Financial Statements signed on	14th February 2019
33rd Annual General Meeting to be held on	29th March 2019
Rs 5.00 per share Final Cash Dividend for 2018 distributable on	09th April 2019*
Rs 11.25 per share Final Scrip Dividend for 2018 distributable on	09th April 2019*

Interim Financial Statements published in terms of Rule 7.4 of the Colombo Stock Exchange (CSE) and as per the requirements of the Central Bank of Sri Lanka:

	Colombo Stock Exchange	Newspapers (as required by CBSL)		
		English	Sinhala	Tamil
2017 4th Quarter interim results released on	16th February 2018	26th February 2018	27th February 2018	27th February 2018
2018 1st Quarter interim results released on	04th May 2018	14th May 2018	16th May 2018	16th May 2018
2018 2nd Quarter interim results released on	03rd August 2018	10th August 2018	13th August 2018	13th August 2018
2018 3rd Quarter interim results released on	13th November 2018	19th November 2018	21st November 2018	21st November 2018

Proposed Financial Calendar - 2019

2019 Annual Report and Audited Financial Statements to be signed in	February 2020
34th Annual General Meeting to be held in	March 2020
Dividend for 2019 to be payable in	April 2020**

Interim Financial Statements to be published in terms of Rule 7.4 of the Colombo Stock Exchange and as per the requirements of the Central Bank of Sri Lanka:

	Colombo Stock Exchange	Newspapers (as required by CBSL)		
		English	Sinhala	Tamil
2018 4th Quarter interim results to be released on or before	15th February 2019	31st March 2019	31st March 2019	31st March 2019
2019 1st Quarter interim results to be released on or before	15th May 2019	31st May 2019	31st May 2019	31st May 2019
2019 2nd Quarter interim results to be released on or before	15th August 2019	31st August 2019	31st August 2019	31st August 2019
2019 3rd Quarter interim results to be released on or before	15th November 2019	30th November 2019	30th November 2019	30th November 2019
2019 4th Quarter interim results to be released on or before	28th February 2020	31st March 2020	31st March 2020	31st March 2020

* Subject to confirmation by Shareholders

** Subject to confirmation by Directors and Shareholders

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

1 GENERAL

The Board of Directors of Sampath Bank PLC has pleasure in presenting its Annual Report on the State of Affairs of the Company to the members of Sampath Bank PLC ("the Bank") for the financial year ended 31st December 2018, together with the audited Financial Statements of the Bank, Consolidated Financial Statements of the Group for that year and the Auditors' Report on those Financial Statements, conforming to the requirements of the Companies Act No. 7 of 2007 and the Banking Act No. 30 of 1988. The Financial Statements reviewed and recommended by the Board Audit Committee were approved by the Board of Directors on 14th February 2019.

This report includes the Information required by the Companies Act No. 7 of 2007, Banking Act Direction No. 11 of 2007 on Corporate Governance for Licensed Commercial Banks and subsequent amendments thereto, Listing Rules of the Colombo Stock Exchange and is also guided by the recommended best practices on Corporate Governance.

This Report was approved by the Board of Directors on 14th February 2019. The appropriate number of copies of the Annual Report will be submitted to the Colombo Stock Exchange, Registrar of Companies and to the Sri Lanka Accounting and Auditing Standard Monitoring Board within the statutory deadlines.

The Bank is a Licensed Commercial Bank registered under the Banking Act No. 30 of 1988 ("Banking Act") and was incorporated as a public limited liability company in Sri Lanka on 10th March 1986 under the Companies Act No. 17 of 1982 initially as "Investment and Credit Bank Limited", which was subsequently changed to Sampath Bank Limited. The Company was re-registered as per the requirements of the Companies Act No. 7 of 2007 ("Companies Act") on 28th April 2008 under the name "Sampath Bank PLC" with the Registrar General of Companies. The re-registration number of the Bank is PQ 144.

The ordinary shares of the Bank are listed on the main board of the Colombo Stock Exchange. The Bank's unsecured subordinated redeemable debentures including the recently issued BASEL III compliant debentures are also listed on the Colombo Stock Exchange.

Fitch Rating Lanka Limited has affirmed Bank's National Long Term Rating of A+ (lka) with stable outlook and subordinated debentures at 'A(lka)'. Moody's Investors Service ("Moody's") has assigned an Issuer and Long Term Local Currency Deposit Rating of B2 with stable outlook.

The Registered Office as well as the Head Office of the Bank is located at No. 110, Sir James Peiris Mawatha, Colombo 02, Sri Lanka.

2 VISION, VALUES AND CORPORATE CONDUCT

The Bank's Vision and Values are given in page 12 of the Annual Report. The business activities of the Bank are conducted at a high level of ethical standards in achieving its Vision.

3 PRINCIPAL BUSINESS ACTIVITIES

The principal business activities of the Bank and the Group during the year are given below as required by the Section 168 (1) (a) of the Companies Act.

3.1 The Bank

The principal activities of the Bank include accepting deposits, corporate and retail banking, project financing, trade financing, treasury and investment services, issuance of local and international credit and debit cards, off-shore banking, resident and non-resident foreign currency operations, electronic banking services: such as telephone banking, internet banking, mobile banking, payment gateway, money remittance facilities, pawning, leasing, factoring, hire purchase, travel related services and dealing in Government Securities etc.

3.2 Subsidiaries

The Bank owns four subsidiaries as at 31st December 2018. Names of the subsidiaries and their principal business activities are as tabulated below:

Entity	Principal Business Activities
Siyapatha Finance PLC	Granting leasing, hire purchase, factoring & other loan facilities & accepting deposits
Sampath Centre Limited	Renting of commercial property
S C Securities (Pvt) Limited	Stock broking
Sampath Information Technology Solutions Limited	Software development, renting of IT equipment, IT services outsourcing and document management services.

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

4 CHANGES TO THE GROUP STRUCTURE

The Bank invested an additional Rs 250 Mn in Sampath Information Technology Solutions Limited on 2nd January 2018. The Bank also increased its investment in Siyapatha Finance PLC by Rs 650 Mn during 2018 (Rs 250 Mn on 12th January 2018 and Rs 400 Mn on 29th November 2018) as Siyapatha required additional capital to meet Basel III capital adequacy requirements. There were no other changes made to the Group structure during the year under review.

5 REVIEW OF OPERATIONS

A review of the financial and operational performance of the Bank and the Group together with important events that took place during the year 2018 as required by the Section 168 (1) (a) of the Companies Act are contained in the Chairman's Message (pages 30 to 33), the Managing Director's Review (pages 34 to 37), and Management Discussion and Analysis (pages 49 to 114). These reports form an integral part of the Annual Report of the Board of Directors.

6 FUTURE DEVELOPMENTS

The Bank focuses on a business expansion drive through the existing Branch Network, concentrating mainly on its core banking operations to increase its market share and profitability. This will be further supplemented by a more vigorous drive on innovative product development, process improvements and staff development, aimed at fulfilling the rapidly changing customer needs in the challenging market conditions and maximising the value we create for all the stakeholders. No new branches were opened during the year. As required under Section 168 (1) (a) of the Companies Act, an overview of the future development of the Bank and the Group is given in the Chairman's Message (pages 30 to

33), the Managing Director's Review (pages 34 to 37), and Management Discussion and Analysis (pages 49 to 114). These reports form an integral part of the Annual Report of the Board of Directors.

7 FINANCIAL STATEMENTS

The Financial Statements of the Group and the Bank have been prepared in accordance with the Sri Lanka Accounting Standards (SLFRSs & LKASs) laid down by the Institute of Chartered Accountants of Sri Lanka, and comply with the requirements of the Companies Act No. 7 of 2007, the Banking Act No. 30 of 1988 and regulatory requirements inclusive of specific disclosures. The aforementioned Financial Statements for the year ended 31st December 2018 duly signed by the Group Chief Financial Officer, three Directors of the Bank and the Company Secretary are given on pages 206 to 356 which form an integral part of this Annual Report of the Board of Directors (as per the Section 168 (1) (b) of the Companies Act).

8 DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

The Directors are responsible for the preparation of Financial Statements of the Group and the Bank to reflect a true and fair view of its state of affairs. The Directors are of the view that these Financial Statements appearing on pages 206 to 356 have been prepared in conformity with the requirements of the Sri Lanka Accounting Standards, Companies Act, Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995, the Banking Act and amendments thereto, the Listing Rules of the Colombo Stock Exchange and the Banking Act Direction No. 11 of 2007 on Corporate Governance for Licensed Commercial Banks issued by the Central Bank of Sri Lanka (CBSL). The Statement of Directors' Responsibility for Financial Reporting is given on pages 201 & 202 and forms an

integral part of the Annual Report of the Board of Directors.

9 AUDITORS' REPORT

The Auditors of the Bank are Messrs Ernst & Young, Chartered Accountants. Messrs Ernst & Young carried out the audit on the Financial Statements of the Group and the Bank for the year ended 31st December 2018 and their report on those Financial Statements, as required by Section 168 (1) (c) of the Companies Act is given on pages 203 to 205.

10 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of the Financial Statements are given on pages 214 to 356 as required by Section 168 (1) (d) of the Companies Act.

11 FINANCIAL RESULTS AND APPROPRIATIONS

11.1 Income

The gross income of the Group for 2018 was Rs 121,883,835,000/- (2017: Rs 97,440,220,000/-) whilst the Bank's gross income was Rs 115,310,251,000/- (2017: Rs 92,589,785,000/-). An analysis of the gross income is given in Note 7 to the Financial Statements

11.2 Profit and Appropriations

The Group has recorded a profit before tax growth of 9.2% in 2018 whilst its profit after tax has reduced by 0.6% compared to 2017. The Bank's profit before tax and profit after tax for the year too recorded a growth of 10.5% and 0.3% respectively over 2017. Group's Total Comprehensive Income (net of tax) for the year is Rs 11,431,989,000/- (2017: Rs 12,685,200,000/-) whilst the Bank has recorded a Total Comprehensive Income (net of tax) of Rs 10,966,825,000/- (2017: Rs 12,679,910,000/-). A detailed breakup of the profits & appropriations of the Bank is given below:

For the year ended 31st December	2018 Rs 000	2017 Rs 000
Profit for the year after payment of all operating expenses and provision for depreciation and contingencies	18,349,999	16,605,925
Less: Income tax expense	6,207,182	4,501,805
Net profit after taxation	12,142,817	12,104,120
Other comprehensive income (OCI)		
Actuarial (losses) / gains on defined benefit plans	(51,439)	(634,766)
Deferred tax effect on above	14,403	177,735
	12,105,781	11,647,089
Unappropriated balance brought forward from previous year	6,072,399	4,397,449
	18,178,180	16,044,538
Impact of adopting SLFRS 9	(2,126,111)	n/a
Restated balance under SLFRS 9 as at 1st January 2018	16,052,069	16,044,538
Appropriations		
Transfer to Statutory Reserve Fund	(610,000)	(610,000)
Transfer to General Reserve	(5,200,000)	(6,000,000)
Dividend		
Interim scrip dividend - 2016 (Rs 14.00 per share)	-	(2,477,734)
Final cash dividend - 2016 (Rs 4.75 per share)	-	(884,405)
Final scrip dividend - 2017 (Rs 17.20 per share)	(4,598,427)	-
Unappropriated balance carried forward	5,643,642	6,072,399
Proposed dividend		
Final scrip dividend - 2017 (Rs 17.20 per share)	-	4,598,427
Final cash dividend - 2018 (Rs 5.00 per share)	1,404,511	-
Final scrip dividend - 2018 (Rs 11.25 per share)	3,160,151	-

12 TAXATION

Income tax rate applicable on the Bank's domestic operations and on-shore and off-shore operations of the off-shore Banking Centre is 28% (2017: 28%). The Bank is liable for VAT and NBT on financial services at 15% (2017: 15%) and 2% (2017: 2%) respectively. Bank is also liable for Debt Repayment Levy (DRL) at 7% with effect from 01.10.2018.

The Group has also provided deferred taxation on all known temporary differences under the liability method, as permitted by the Sri Lanka Accounting Standard - LKAS 12 (Income Taxes).

13 DIVIDEND

The Directors recommended that a final dividend of Rs 16.25 per share (2017: Rs 17.20 per share) be paid for the financial year ended 31st December 2018. This will be paid by Rs 5.00 in the form of cash dividend and balance Rs 11.25 in the form of scrip dividend (2017: Rs 17.20 in the form of scrip dividend). Further, in compliance with the Bank's Articles of Association this dividend is to be approved by the shareholders at the Annual General Meeting to be held on 29th March 2019.

The Board of Directors was satisfied that the Bank would meet the solvency test immediately after the payment of final dividend proposed, in terms of the Section 31 (3) of the Companies Act. The Board provided the Statement of Solvency to the Auditors and obtained Certificate of Solvency from the Auditors in respect of the dividend payment conforming to the statutory provision. Further details are given in Note 19 to the Financial Statements.

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

14 RESERVES

A summary of the Group's reserves is given below.

As at 31st December	2018 Rs 000	2017 Rs 000
Statutory Reserve Fund	3,609,000	2,973,000
Revaluation Reserve	5,093,154	5,093,154
Available for Sale Reserve	n/a	2,299,721
FVOCI Reserve	1,160,765	n/a
General Reserve	38,909,902	33,701,026
Retained Profit	8,481,881	8,533,827
Non-controlling Interest	-	-
Total	57,254,702	52,600,728

15 CAPITAL EXPENDITURE

The total capital expenditure on acquisition of property, plant and equipment and intangible assets of the Group and the Bank amounted to Rs 2,728,297,000/- and Rs 1,950,817,000/- respectively (2017 Group: Rs 2,487,506,000/- and Bank: Rs 2,009,300,000/-). Details are given in Notes 32 and 33 to the Financial Statements.

16 CAPITAL COMMITMENTS

The capital expenditure approved and contracted for, as at the reporting date is given in Note 46.3 to the Financial Statements.

17 PROPERTY, PLANT AND EQUIPMENT (PPE)

Details of property, plant and equipment are given on Note 32 to the Financial Statements.

18 MARKET VALUE OF FREEHOLD PROPERTIES

All freehold lands and buildings of the Group and the Bank were revalued in November / December 2016 by professionally qualified independent valuers and brought into the Financial Statements in that year. The Group reassessed the market values of the entire class of freehold lands and buildings in December 2017 through professionally qualified independent valuers, to ensure that the carrying amount of such properties reflects the current

market prices. Accordingly, material market value changes were identified pertaining to seven properties and their values were adjusted to bring the current market prices into the Financial Statements as at 31st December 2017. There were no significant changes identified by the valuers relating to the market values of other properties in the same class of assets in December 2017. The Directors are of the opinion that the revalued amounts are not in excess of the current market values of such properties as at 31st December 2018. The details of freehold properties owned by the Bank are given in Note 32.4 to the Financial Statements.

19 STATED CAPITAL, DEBENTURES AND BONDS

19.1 Stated Capital - Bank

The Stated Capital of the Bank as at 31st December 2018 amounted to Rs 32,795,952,050.60 consisting of 280,902,248 ordinary voting shares (2017: Rs 16,307,721,908.88 consisting of 217,222,236 ordinary shares). The number of shares in issue of the Bank increased from 217,222,236 ordinary voting shares to 280,902,248 ordinary voting shares as a result of the payment of Final Scrip Dividend for 2017 and the 3:13 Rights Issue in 2018.

The details of the shares issued are given in Note 42.1 to the Financial Statements.

19.2 Debt Capital - Bank

The Bank has issued rated, unsecured, subordinated, redeemable debentures to the value of Rs 33,500,000,000/- as at 31st December 2018 (2017: Rs 31,000,000,000/-), which are listed on the Colombo Stock Exchange. Out of the above, the debentures issued in 2017 and 2018 to the value of Rs 13,500,000,000/- has an option for conversion to ordinary voting shares by the Bank, solely if instructed by the Central Bank of Sri Lanka to do so in compliance with Basel III requirements.

The details of the debentures outstanding as at 31st December 2018 are given in Note 38.1 to the Financial Statements. These debentures are eligible for the Tier II Capital of the Bank.

The Bank has issued a deep discounted zero coupon bond with a maturity value of Rs 3,458,108,968/- for 20 years. The present paid up value of this bond is Rs 2,314,880,000/- (2017: Rs 2,120,767,000/-) and this forms part of the Tier II Capital. The above Bond was issued in August 2003 and will mature in August 2023. The details are given in Note 38.2 to the Financial Statements.

19.3 Issue of Shares and Debt Capital - Subsidiaries

The Subsidiaries of the Bank did not make any share or debenture issues during the year other than those mentioned below. Siyapatha Finance PLC increased its stated capital by Rs 650,000,000/- by two Rights Issues during the year. Siyapatha Finance PLC also issued 1,569,242 ordinary voting shares by way of a scrip dividend during the year (2017: 1,652,420). As a result, its stated capital increased by Rs 62,749,289/- (2017: Rs 58,941,827/-) from Rs 635,916,827/- as at 31st December 2017 to Rs 1,348,666,116/- as at 31st December 2018.

Sampath Information Technology Solutions Ltd increased its stated capital by Rs 250,000,000 (6,756,756 ordinary voting shares) from Rs 29,000,000/- as at 31st December 2017 to Rs 279,000,000/- as at 31st December 2018.

20 SHARE INFORMATION

Information relating to earnings, dividends, net assets and market value per share is given in the Financial Highlights on page 6. Information on the trading of the shares and movement in the number of shares of the Bank is given in the Investor Information section on pages 105 to 114.

21 SHAREHOLDING

There were 19,202 registered ordinary shareholders as at 31st December 2018 (2017: 17,440). Information on the distribution of shareholding and the respective percentages are given on pages 106 and 108 of the Annual Report. Details of top twenty shareholders, percentages of their holdings and percentage holding of the public too are given in the Investor Information section on page 109.

22 EQUITABLE TREATMENT TO SHAREHOLDERS

The Bank has at all times ensured that all shareholders are treated equitably.

23 THE BOARD OF DIRECTORS

The Board of Directors of the Bank comprises eleven (2017: ten) with wide financial and commercial knowledge and experience. The names of the Directors of the Bank during the period 1st January 2018 to 31st December 2018 are given below as per Section 168 (1) (h) of the Companies Act. Their profiles in brief are given on pages 16 to 21 of the Annual Report. The classification of Directors into Executive (ED), Non-Executive (NED) and Independent (IND), Non-Independent (NID) is given against the names as per Listing Rules and Corporate Governance Rules of Colombo Stock Exchange and Banking Act Direction No. 11 of 2007 issued by the Central Bank of Sri Lanka (CBSL).

24 CHANGES IN DIRECTORATE

The Bank has disclosed the names of the persons holding office as Directors of the Bank as at the end of the accounting period and the names of any persons who were

appointed to hold office as Directors of the Bank during the accounting period in terms of Section 168 (1) (h) of the Companies Act. Mr Dilip de S Wijeyeratne was appointed to the Board w.e.f. 13th November 2018. There were no persons who ceased to hold office as Directors of the Bank during the accounting period.

25 RETIREMENT AND RE-ELECTION / RE-APPOINTMENT OF DIRECTORS

In terms of Articles No. 86 and 87 of the Articles of Association of the Company, Mr Ranil Pathirana, Mr Deepal Sooriyaarachchi, Prof Malik Ranasinghe and Mrs Dhara Wijayatilake retire by rotation and being eligible, offer themselves for re-election on the unanimous recommendation of the Board Nomination Committee and approval of the Board of Directors.

Mr Dilip de S Wijeyeratne having been appointed to the Board with effect from 13th November 2018 to fill-up a casual vacancy in the Board, offers himself for election by the shareholders in terms of Article 93 of the Articles of Association of the Bank with the unanimous recommendation of the Board Nomination Committee and approval of the Board.

Name of the Director	Classification	Remarks
Mr Channa Palansuriya	NID/NED	Director from 01.01.2012, Deputy Chairman from 26.01.2012 up to 12.11.2015, Ceased to be a Director on 12.11.2015 and was re-appointed as a Director on 28.04.2016 and Chairman since 01.08.2016
Prof Malik Ranasinghe	IND/NED	Director since 30.08.2011, Deputy Chairman since 01.08.2016
Mr Sanjiva Senanayake	IND/NED	Director since 01.01.2012, Senior Director since 26.01.2012
Mr Deepal Sooriyaarachchi	NID/NED	Director since 05.08.2010, Independent Director until 12.11.2018.
Mrs Dhara Wijayatilake	IND/NED	Director since 30.08.2011
Miss Annika Senanayake	IND/NED	Director since 01.01.2012
Mr Ranil Pathirana	IND/NED	Director since 01.01.2012, Independent Director since 31.01.2015
Mrs Saumya Amarasekera	NID/NED	Director since 01.06.2012
Mr Rushanka Silva	NID/NED	Director since 01.09.2017
Mr Dilip de S Wijeyeratne	NID/NED	Director since 13.11.2018
Mr Nanda Fernando	ED	Managing Director since 13.09.2016

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

Sections 210 and 211 of the Companies Act do not apply to the Bank, in view of the more stringent provision contained in Section 3 (3) (i) of Banking Act Direction No. 11 of 2007 on Corporate Governance for Licensed Commercial Bank, which restricts the age of a Director of a Licensed Commercial Bank to 70 years.

26 LIST OF DIRECTORS OF THE SUBSIDIARIES OF THE BANK

Names of the Directors of Subsidiary companies are as follows:

26.1 Siyapatha Finance PLC

Mr Channa Palansuriya (Chairman)
Mr W M P L De Alwis (Deputy Chairman)
Dr H S D Soysa (Senior Director)
Mr K M S P Herath (Managing Director)
Mr P M A Sirimane (until 15.10.2018)
Mr Tharaka Ranwala
Mr P S Cumarantunga
Ms A Nanayakkara
Mr Rushanka Silva
Mr Janakan Selvaratnam (w.e.f. 18.12.2018)
Mr J H Gunawardena (w.e.f. 29.01.2019)

26.2 Sampath Centre Ltd

Mr I W Senanayake (Chairman)
Mr S G Wijesinha
Mr R Samaranayake
Mr Rushanka Silva
Mr D V A Ihalalanda
Mr S P Kannangara

26.3 S C Securities (Pvt) Ltd

Mr S G Wijesinha (Chairman)
Mr W M P L De Alwis
Mr R Samaranayake
Mr S.N.Kulatilake (w.e.f. 12.01.2018)

26.4 Sampath Information Technology Solutions Ltd

Mr R Samaranayake (Chairman)
Mr L J K Hettiaratchi (resigned w.e.f. 31.12.2018)
Mr D J Gunaratne (resigned w.e.f. 01.09.2018)
Mr M V Indrasoma
Ms A Nanayakkara (w.e.f. 01.12.2018)
Mr W S C Perera (w.e.f. 01.12.2018)
Mr Ajith Salgado

27 REGISTER OF DIRECTORS AND SECRETARIES

As required under Section 223 (1) of the Companies Act, the Bank maintains a Register of Directors and Secretaries which contains the name, surname, former name (if any), residential address, business, occupation, dates of appointment and dates of resignation (if applicable) of each Director and the Secretary.

28 BOARD SUB COMMITTEES

The Board, while assuming the overall responsibility and accountability for the management oversight of the Bank, has also appointed Board Sub Committees to ensure that the activities of the Bank at all times are conducted with the highest ethical standards and the best interests of all its stakeholders. The Board has formed twelve Board Sub Committees including four mandatory Board Sub Committees as required by the Banking Act Direction No. 11 of 2007 and one mandatory Board Sub Committee as required by Section 9 of the Listing Rules of the Colombo Stock Exchange. The composition of these five Board Sub Committees as at 31st December 2018 were as follows:

28.1 Board Audit Committee

Mr Ranil Pathirana (Chairman)
Prof Malik Ranasinghe
Mr Deepal Sooriyaarachchi
Mrs Dhara Wijayatilake
Mrs Ranjani Joseph (Consultant to the Committee)

28.2 Board Human Resources and Remuneration Committee

Mrs Dhara Wijayatilake (Chairperson w.e.f. 13.11.2018)
Mr Deepal Sooriyaarachchi (Chairman until 12.11.2018)
Mr Channa Palansuriya
Prof Malik Ranasinghe (w.e.f. 13.11.2018)
Mr Sanjiva Senanayake (w.e.f. 13.11.2018)
Ms Annika Senanayake
Mrs Saumya Amarasekera

28.3 Board Nomination Committee

Miss Annika Senanayake (Chairperson)
Mr Channa Palansuriya
Mr Sanjiva Senanayake
Mrs Dhara Wijayatilake
Mrs Saumya Amarasekera

28.4 Board Integrated Risk Management Committee

Mr Sanjiva Senanayake (Chairman)
Mr Deepal Sooriyaarachchi
Miss Annika Senanayake
Mrs Saumya Amarasekera
Mr Nanda Fernando

28.5 Board Related Party Transactions Review Committee

Mrs Dhara Wijayatilake (Chairperson)
Prof Malik Ranasinghe
Mr Sanjiva Senanayake
Mr Deepal Sooriyaarachchi

Apart from the above five mandatory Board Sub Committees, the Board has also appointed the following seven non - mandatory Board Sub Committees

28.6 Board Credit Committee

Prof Malik Ranasinghe (Chairman)
Mrs Dhara Wijayatilake
Mr Channa Palansuriya
Mr Rushanka Silva
Mr Nanda Fernando
Mr Janakan Selvaratnam (Consultant)

28.7 Board Strategic Planning Committee

Mr Channa Palansuriya (Chairman)
 Prof Malik Ranasinghe
 Mr Ranil Pathirana
 Mrs Dhara Wijayatilake
 Miss Annika Senanayake
 Mr Rushanka Silva
 Mr Nanda Fernando

28.8 Board Shareholder Relations Committee

Prof Malik Ranasinghe (Chairman)
 Mr Deepal Sooriyaarachchi
 Mr Rushanka Silva
 Mr Nanda Fernando

28.9 Board Treasury Committee

Mr Sanjiva Senanayake (Chairman)
 Prof Malik Ranasinghe
 Miss Annika Senanayake
 Mr Rushanka Silva
 (w.e.f 01.01.2018)
 Mr Nanda Fernando

28.10 Board Marketing Committee

Mr Deepal Sooriyaarachchi
 (Chairman)
 Miss Annika Senanayake
 Mrs Saumya Amarasekera
 Mr Channa Palansuriya
 Mr Rushanka Silva
 Mr Nanda Fernando

28.11 Board IT Committee

Prof Malik Ranasinghe (Chairman)
 Mr Sanjiva Senanayake
 Mr Deepal Sooriyaarachchi
 Miss Annika Senanayake
 Mr Rushanka Silva
 Mr Nanda Fernando

28.12 Board Capital Planning Committee

Prof Malik Ranasinghe (Chairman)
 Mr Sanjiva Senanayake
 Mr Ranil Pathirana
 Mr Nanda Fernando

29 DIRECTORS' MEETINGS

The details of Directors meetings which comprise Board meetings and the Board Sub Committee meetings and the attendance of Directors at these meetings are given in the Corporate Governance Report on page 126 of the Annual Report.

30 DIRECTORS' INTEREST REGISTER AND DIRECTORS' INTEREST IN CONTRACTS OR PROPOSED CONTRACTS

The Bank maintains the Directors' Interest Register as required under the provisions of Section 168 (1) (e) of the Companies Act. Directors of the Bank have made necessary declarations of their respective interests in contracts or proposed contracts, in terms of the Sections 192 (1) and 192 (2) of the Companies Act. These interests have been recorded in the Interest Register which is available for inspection in terms of the Companies Act. The particulars of the Directors' Interest in Contracts are given on page 196 of the Annual Report and form an integral part of the Annual Report of the Board of Directors. As a practice and in terms of Corporate Governance, Directors have refrained from voting on matters in which they were materially interested. The Directors have no direct or indirect

interest in contracts or proposed contracts with the Bank other than those disclosed.

31 RELATED PARTY TRANSACTIONS

Directors have also disclosed transactions if any, that could be classified as Related Party Transactions in terms of Sri Lanka Accounting Standards - LKAS 24 (Related Party Disclosure) which is adopted in preparation of the Financial Statements. Those transactions disclosed by the Directors are given in Note 47 to the Financial Statements which form an integral part of the Annual Report of the Board of Directors.

Bank has complied with the requirement of the Code of Best Practice 2017 issued by the Institute of Chartered Accountants of Sri Lanka, Listing Rules of Colombo Stock Exchange (CSE) and with all disclosure requirements stipulated thereunder.

32 DIRECTORS' INTEREST IN ORDINARY SHARES AND DEBENTURES

The shareholdings of Directors as at 31st December 2018 are as follows:

None of the Directors hold any Debentures issued by the Bank.

Name of the Director	No. of Shares as at 31st December 2018	No. of Shares as at 31st December 2017
Mr Channa Palansuriya	-	-
Prof Malik Ranasinghe	100	-
Mr Sanjiva Senanayake	-	-
Mr Deepal Sooriyaarachchi	-	-
Mrs Dhara Wijayatilake	-	-
Miss Annika Senanayake	-	-
Mr Ranil Pathirana	18,010	12,185
Mrs Saumya Amarasekera	-	-
Mr Rushanka Silva	-	-
Mr Dilip de S Wijeyeratne (Appointed to the Board w.e.f. 13.11.2018)	-	n/a
Mr Nanda Fernando	16,936	10,881

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

33 DIRECTORS' INTEREST IN SHARES AND DEBENTURES OF SUBSIDIARIES

Mr Channa Palansuriya is a Director of Siyapatha Finance PLC and holds one share in the same. The share is held in trust for the Bank.

34 DIRECTORS' REMUNERATION

As required under the Section 168 (1) (f) of the Companies Act, details of Directors' emoluments and other benefits paid in respect of the Group and the Bank during the financial year under review are given in Note 47.3.1 to the Financial Statements.

35 OUR TEAM MEMBERS

The Bank believes that its real potential rests on the strength and capabilities of its team members in a rapidly changing environment. All efforts are directed at having a motivated and competent team in order to grow and achieve results as projected in the Strategic Plan and the Budget. As at 31st December 2018, the number of employees on the payroll of the Bank was 4,189 (2017: 4,011).

36 ESOPs

The Bank did not initiate or establish any Employee Share Ownership / Option Plans during the year.

37 ENVIRONMENTAL PROTECTION

To the best knowledge of the Board, the Bank has not engaged in any activity that is harmful or hazardous to the environment. The Directors also confirm that to the best of their knowledge and belief the Bank has complied with the relevant environmental laws and regulations.

38 STATUTORY PAYMENTS

The Directors, to the best of their knowledge and belief, are satisfied that all statutory payments due to the Government, other regulatory bodies and related to the employees have been paid on a timely basis.

39 OUTSTANDING LITIGATION

In the opinion of the Directors and in consultation with the Bank's lawyers, litigation currently pending against the Bank will not have a material impact on the reported financial results or the future operations of the Bank. Details of litigation pending against the Bank are given in Note 46.5 to the Financial Statements.

40 EVENTS AFTER THE REPORTING PERIOD

No circumstances have arisen since the Statement of Financial Position date which would require adjustments to, or disclosure in, the accounts, except those disclosed in Note 49 to the Financial Statements.

41 GOING CONCERN

The Directors, after making necessary inquiries and reviews including reviews of the budget for the ensuing year, capital expenditure requirements, future prospects and risks, cash flows and such other matters required to be addressed in the Code of Best Practice on Corporate Governance issued by the Institute of Chartered Accountants of Sri Lanka and the Banking Act Direction No. 11 of 2007 on Corporate Governance for Licensed Commercial Banks issued by the CBSL, are satisfied that the Bank has adequate resources to continue operations into the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Financial Statements.

42 DONATIONS

As required by the Section 168 (1) (g) of the Companies Act, information pertaining to donations made by the Bank during the year is given below. During the year the Bank made donations to the value of Rs 3,838,000/- (2017: Rs 2,417,000/-) in terms of the resolution passed at the last Annual General Meeting. Out of the

aforementioned sum, the donations made by the Bank to Government approved charities amounted to Rs Nil (2017: Rs Nil). The Bank does not make donations for political purposes.

43 SIGNIFICANT SHAREHOLDINGS IN OTHER ORGANISATIONS

The Bank continues to hold 9.47% shareholding in LankaBangla Finance Limited in Bangladesh. Details are given in Note 29.2 to the Financial Statements.

44 RISK MANAGEMENT AND INTERNAL CONTROL

44.1 Material Foreseeable Risk Factors

The Bank has an ongoing process in place to identify, evaluate and manage the risks that are faced by the Bank. This process is detailed in the Risk Management Report on pages 116 to 121. The Directors, on a regular basis review the above-mentioned process through the Board Integrated Risk Management Committee.

44.2 Internal Controls

The Directors of the Bank have taken reasonable steps to safeguard the assets of the Group and the Bank and to prevent and detect frauds and any other irregularities. For this purpose, the Directors have instituted effective and comprehensive systems of internal controls for identifying, recording, evaluating and managing the significant risks faced by the Bank / Group throughout the year and it is being regularly reviewed by the Board of Directors.

This comprises internal reviews, internal audit and the whole system of financial and other controls required to carry on the operations in an orderly manner, safeguard the assets, prevent and detect frauds and other irregularities and secure, as far as practicable, the accuracy and reliability of the records.

45 CORPORATE GOVERNANCE

The Directors of the Bank are committed towards maintaining an effective Corporate Governance Framework and implementing processes required to ensure that the Bank is compliant with the Code of Best Practice on Corporate Governance issued by the Institute of Chartered Accountants of Sri Lanka and the Banking Act Direction No. 11 of 2007 on Corporate Governance for Licensed Commercial Banks issued by the CBSL. Details are given on Corporate Governance Report on pages 123 to 175 of this Annual Report.

As required by Section 3(8) (ii) (g) of the Banking Act Direction No. 11 of 2007 on Corporate Governance for Licensed Commercial Banks, issued by the CBSL, the Board of Directors confirm that all the findings of the "Factual Findings Report" of auditors issued under "Sri Lanka Related Services Practice Statement 4750" have been incorporated in the annual Corporate Governance Report on pages 156 to 175 of this Annual Report. Further, as required by Section 3(8) (ii) (h) of the Banking Act Direction No. 11 of 2007 on Corporate Governance for Licensed Commercial Banks, issued by the CBSL, the Board of Directors confirm that the Bank is compliant with prudential requirements, regulations, laws and internal controls and measures have been taken to rectify any material non-compliances.

46 AUDITORS

The Auditors of the Bank during the year were Messrs Ernst & Young, Chartered Accountants. They also function as the Auditors for the Bank's Subsidiary companies namely, Siyapatha Finance PLC, Sampath Centre Limited, SC Securities (Private) Limited and Sampath Information Technology Solutions Limited. Audit fees paid to Messrs Ernst & Young for the year ended 31st December 2018 by the Group and the Bank amounted to Rs 13,733,000/- (2017: Rs 13,874,000/-) and Rs 10,843,000/- (2017: Rs 10,843,000/-) respectively.

Further, the Group and the Bank paid Rs 10,799,000/- (2017: Rs 9,925,000/-) and Rs 9,355,000/- (2017: Rs 8,464,000/-) respectively to Messrs Ernst & Young as audit related fees and expenses. In addition, they were paid Rs 12,961,000/- (2017: Rs 12,245,000/-) and Rs 10,590,000/- (2017: Rs 10,127,000/-) by the Group and the Bank respectively for permitted non-audit related services including tax consultancy services. Details of the audit fees paid are given on Note 15.1 to the Financial Statements.

Based on the declaration provided by Messrs Ernst & Young, and as far as the Directors are aware, the Auditors do not have any relationship with or interest with the Bank that in

their judgments, may reasonably be thought to have a bearing on their independence within the meaning of the Code of Professional Conduct and Ethics issued by the Institute of Chartered Accountants of Sri Lanka, applicable on the date of this report.

The retiring Auditors, Messrs Ernst & Young, have expressed their willingness to continue in office. They come up for re-election at the Annual General Meeting, with the recommendation of the Board Audit Committee and the Board of Directors. In accordance with the Companies Act, a resolution proposing the re-appointment of Messrs Ernst & Young, Chartered Accountants, as Auditors is being proposed at the Annual General Meeting.

47 NOTICE OF MEETING

The 33rd Annual General Meeting of the Bank will be held at the "Balmoral", The Kingsbury, No. 48, Janadhipathi Mawatha, Colombo 01, on 29th March 2019. The Notice of Meeting is given on page 386 of the Annual Report.

As required by Section 168 (1) (k) of the Companies Act, the Board of Directors hereby acknowledge the contents of this report.

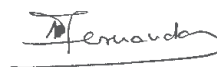
For and on behalf of the Board of Directors,



PROF MALIK RANASINGHE
Deputy Chairman



SANJIVA SENANAYAKE
Senior Independent Director



NANDA FERNANDO
Managing Director



LASANTHA SENARATNE
Company Secretary

Colombo, Sri Lanka
14th February 2019

DIRECTORS' INTEREST IN CONTRACTS WITH THE BANK

Related party disclosures as required by the Sri Lanka Accounting Standard – LKAS 24 (Related Party Disclosures) are detailed in Note 47 to the Financial Statements. In addition, the Bank carries out transactions in the ordinary course of business in an arm's length basis with entities where the Chairman or Director of the Bank is the Chairman or a Director of such entities as detailed below.

Company	Relationship	Nature of the Facility	Current Limit Rs 000	Balance Outstanding as at 31st December 2018 Rs 000	Balance Outstanding as at 31st December 2017 Rs 000
Mr Nanda Fernando					
Institute of Bankers of Sri Lanka	Director	Deposits		301	2,623
		Repo		6,200	29,983
Prof Malik Ranasinghe					
Access Engineering PLC	Independent Non Executive Director	Deposits		19,634	47,800
		Investment in debentures		303,707	303,707
		Debentures issued by the Bank		100,000	100,000
		Indirect facilities	3,100,000	217,052	529,589
United Motors Lanka PLC	Independent Non Executive Director	Deposits		178	319
Resus Energy PLC	Independent Non Executive Director	Loan & receivables	11,455	11,455	964
		Deposits		9,065	4,566
		Indirect facilities	51,192	51,192	12,344
Mr Deepal Sooriyaarachchi					
AIA Insurance Lanka PLC	Independent Non Executive Director	Deposits		20,836	7,694
		Debentures issued by the Bank		25,000	1,100,310
Singer Sri Lanka PLC*	Independent Non Executive Director	Loan & receivables	3,800,000	3,197,534	260,775
		Investment in debentures		103,074	617,378
		Indirect facilities	300,000	169,830	165,320
Panasian Power PLC	Independent Non Executive Director	Loan & receivables	183,305	183,305	693,203
		Deposits		32,385	254
		Indirect facilities	-	-	50,000
Mrs Dhara Wijayatilake					
Ceylon Chamber of Commerce	Chief Executive Officer	Debentures issued by the Bank		767,000	767,000
		Deposits		38,300	37,512
Ingame Entertainment (Pvt) Ltd	Director	Loan & receivables	2,000	676	-
Mr Ranil Pathirana					
Windforce (Pvt) Ltd	Non Executive Director	Deposits		24,087	21,170
		Repo		-	168,000
		Indirect facilities	-	-	105,000
Renewgen (Pvt) Ltd	Non Executive Director	Loan & receivables	7,357	7,357	5,459
		Deposits		53,890	29,735
Star Packaging (Pvt) Ltd	Non Executive Director	Loan & receivables	465,800	27,824	109,258
		Deposits		53	34
		Indirect facilities	200,000	84,751	153,012
ODEL PLC	Non Executive Director	Loan & receivables	150,000	65,756	105,546
		Deposits		6,309	10,060
		Indirect facilities	75,000	17,400	7,294
Hirdaramani Industries (Pvt) Ltd	Director	Deposits		476	485
Ceylon Knit Trend (Pvt) Ltd	Director	Deposits		487,215	252,537
Rosewood (Pvt) Ltd	Director	Deposits		3,990	217
		Repo		-	75,000
Alumex PLC	Non Executive Director	Loan & receivables	600,000	234,203	256,412
		Deposits		2,990	5,114
		Indirect facilities	270,000	270,314	185,275
H I Fashion Holdings (Pvt) Ltd	Director	Deposits		3,660	-
		Loan & receivables	20,900	900	-
		Indirect facilities	57,614	-	-
Mr Dilip de S Wijeyeratne*					
Regnis (Lanka) PLC	Non Executive Director	Deposits		7,285	-
		Loan & receivables	35,000	-	-
		Indirect facilities	60,439	60,439	-

* Mr Dilip de S Wijeyeratne is also a Non Executive Director at Singer Sri Lanka PLC.

DIRECTORS' STATEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

RESPONSIBILITY

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

The Board of Directors ("the Board") is responsible for the implementation of an adequate and effective internal control mechanism at Sampath Bank PLC, ("the Bank") and for continuous reviewing of its design and effectiveness. In considering the adequacy and effectiveness of the internal controls, the Board recognises that the business of banking requires reward to be balanced with risk on a managed basis and as such the internal control systems are primarily designed with a view to highlight any deviations from the limits and indicators which comprise the risk appetite of the Bank. In the light of the foregoing, the system of internal controls can only provide reasonable, and not absolute assurance, against material mis-statement of financial information and records or against financial losses or fraud.

The Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Bank and this process includes enhancing the system of Internal Control Over Financial Reporting as and when there are changes to business environment or regulatory guidelines. The process is regularly reviewed by the Board and is in accordance with the "Guidance for Directors of Banks on the Directors' Statement on Internal Control" issued by CA Sri Lanka. The Board has assessed the Internal Control Over Financial Reporting, taking into account, principles for the assessment of the internal control system as given in the said guidance.

The Board is of the view that the system of Internal Control Over Financial Reporting in place is sound and adequate to provide reasonable assurance regarding the reliability of financial reporting,

and that the preparation of financial statements for external purposes is in accordance with relevant accounting principles and regulatory requirements.

The Management assists the Board in the implementation of the Board's policies and procedures on risk and control by identifying and assessing the risks faced, and in the design, operation and monitoring of suitable internal controls to mitigate and control these risks.

KEY FEATURES OF THE PROCESS ADOPTED IN APPLYING AND REVIEWING THE DESIGN AND EFFECTIVENESS OF THE INTERNAL CONTROL SYSTEM OVER FINANCIAL REPORTING

The key processes that have been established in reviewing the adequacy and integrity of the system of internal controls with respect to financial reporting include the following:

- Establishment of Board Sub Committees to assist the Board in ensuring the effectiveness of Bank's day-to-day operations and to ensure that all such operations are carried out in accordance with the corporate objectives, strategies and the annual budget as well as the policies and business directions that have been approved.
- The Internal Audit Department of the Bank checks for compliance with policies and procedures and the effectiveness of the internal control systems on an ongoing basis using samples and rotational procedures and highlights significant findings of non-compliance. The annual audit plan is reviewed and approved by the Board Audit Committee. Audits are carried out on all units and branches, to provide an independent and objective report. The frequency of these audits are determined by the level of risk assessed. During the year 2018, the Internal Audit Department

carried out data analysis on certain selected processes of the Bank using Computer Aided Audit Techniques/ Tools covering the entire Branch Network. Through this initiative, all controls were tested on real time basis. A significant improvement in the findings were evident by testing the entire population rather than a sample. All significant findings identified by the Internal Audit Department were submitted to the Board Audit Committee for review at their periodic meetings.

- The Board Audit Committee of the Bank reviews internal control issues identified by the Internal Audit Department, the External Auditors, Regulatory Authorities and the Management; and evaluates the adequacy and effectiveness of the risk management and internal control systems. It also reviews the internal audit function with particular emphasis on the scope of audits and the quality of the same. The minutes of the Board Audit Committee meetings are forwarded to the Board on a periodic basis. Further details of the activities undertaken by the Board Audit Committee of the Bank are set out in the Board Audit Committee Report on pages 176 to 178.
- In assessing the Internal Control Over Financial Reporting, identified officers of the Bank were assigned to collate all procedures and controls that are connected with significant accounts and disclosures of the financial statements of the Bank. These in turn, were observed and checked by the Internal Audit Department for suitability of design and effectiveness on an ongoing basis. The Internal Audit Department also refers significant issues (if any) to the "Internal Control Over Financial Reporting Steering Committee" before submitting their

DIRECTORS' STATEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

final report on Internal Control Over Financial Reporting to the Board Audit Committee and the External Auditors. The Bank adopted the new Sri Lanka Accounting Standards comprising LKAS and SLFRS in 2012. The processes and procedures initially applied to adopt the aforementioned Accounting Standards were further strengthened during the years 2013 to 2018 based on the feedback received from the External Auditors, Internal Audit Department, Regulators and the Board Audit Committee. The Bank has documented procedures pertaining to these new requirements and updates the relevant procedure manuals as and when necessary. The Board has also recognised the need to introduce an automated financial reporting process in order to comply with the requirements of recognition, measurement, classification and disclosure of the financial instruments more effectively and efficiently. However, the automation process was temporarily delayed until the implementation of Sri Lanka Accounting Standard - SLFRS 9 (Financial Instruments) in 2018 in order to capture the material changes introduced by the said Standard. The Management is currently reviewing various options available to automate the financial reporting process. The assessment does not include subsidiary companies of the Bank.

- The Board took necessary steps to implement the requirements of the Sri Lanka Accounting Standard – SLFRS 9 (Financial Instruments). The required models have been implemented and processes and controls have been designed. Also adequate training and awareness sessions have been conducted to all stakeholders including the Board and Senior Management. The Board will continuously strengthen the processes and controls around management information systems and reports required for validation and compliance in line with SLFRS 9 and financial statement disclosures related to risk management.
- The Board has taken into consideration the requirements of the SLFRS 16 - Leases which is effective from 1st January 2019 and necessary steps are being taken to assess its impact on financial statements and to design suitable internal controls.
- The comments made by the External Auditors in connection with internal control system over financial reporting in previous years were reviewed during the year and appropriate steps have been taken to address any matters raised. The recommendations made by the External Auditors in 2018 in connection with the internal control system over financial reporting will be dealt with in the future.

CONFIRMATION

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

REVIEW OF THE STATEMENT BY EXTERNAL AUDITORS

The External Auditors, Messrs Ernst & Young, have reviewed the above Directors' Statement on Internal Control Over Financial Reporting included in the Annual Report of the Bank for the year ended 31st December 2018 and reported to the Board that nothing has come to their attention that causes them to believe that the statement is inconsistent with their understanding of the process adopted by the Board in the review of the design and effectiveness of the Internal Control Over Financial Reporting of the Bank. Their Report on the Statement of Internal Control over Financial Reporting is given on page 199 of this Annual Report.

By order of the Board,



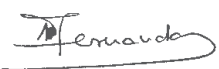
RANIL PATHIRANA
Chairman - Board Audit Committee



PROF MALIK RANASINGHE
Deputy Chairman



SANJIVA SENANAYAKE
Senior Independent Director



NANDA FERNANDO
Managing Director



LASANTHA SENARATNE
Company Secretary

Colombo, Sri Lanka
14th February 2019

INDEPENDENT ASSURANCE REPORT TO THE BOARD OF DIRECTORS OF SAMPATH BANK PLC

INTRODUCTORY INFORMATION
MANAGING OUR BUSINESS
MANAGEMENT DISCUSSION & ANALYSIS
RISK & GOVERNANCE
▶ **FINANCIAL INFORMATION**
SUPPLEMENTARY INFORMATION



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Chartered Accountants
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P.O. Box 101
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Sri Lanka

Tel : +94 11 2463500
Fax Gen : +94 11 2697369
Tax : +94 11 5578180
eysi@lk.ey.com
ey.com

REPORT ON THE DIRECTOR'S STATEMENT ON INTERNAL CONTROL

We were engaged by the Board of Directors of Sampath Bank PLC ("Bank") to provide assurance on the Directors' Statement on Internal Control over Financial Reporting ("Statement") included in the annual report for the year ended 31 December 2018.

MANAGEMENT'S RESPONSIBILITY

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

OUR INDEPENDENCE AND QUALITY CONTROL

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

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

OUR RESPONSIBILITIES AND COMPLIANCE WITH SLSAE 3050 (REVISED)

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

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

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

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.

Ernst & Young
Chartered Accountants

14 February 2019
Colombo

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

A member firm of Ernst & Young Global Limited

MANAGING DIRECTOR'S AND GROUP CHIEF FINANCIAL OFFICER'S RESPONSIBILITY STATEMENT

The Financial Statements of Sampath Bank PLC ("the Bank") and the Consolidated Financial Statements of the Bank and its Subsidiaries ("the Group") as at 31st December 2018 are prepared in compliance with the requirements of the following:

- Sri Lanka Accounting Standards issued by the Institute of Chartered Accountants of Sri Lanka,
- Companies Act No. 7 of 2007 (Companies Act),
- Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995,
- Banking Act No. 30 of 1988 and amendments thereto and Directions, Determinations and Guidelines issued by the Central Bank of Sri Lanka (CBSL),
- The Continuing Listing Rules of the Colombo Stock Exchange and
- The Code of Best Practice on Corporate Governance 2017 issued by the Institute of Chartered Accountants of Sri Lanka; and Section 3(8)(ii)(b) of the Banking Act Direction No. 11 of 2007 on Corporate Governance issued by the CBSL.

The formats used in the preparation of the Financial Statements and disclosures made comply with the formats prescribed by the Central Bank of Sri Lanka, which are also in compliance with the disclosure requirements of the Sri Lanka Accounting Standard - LKAS 1 (Presentation of Financial Statements).

The Accounting Policies used in the preparation of the Financial Statements are appropriate and are consistently applied by the Group. The significant accounting policies and estimates that involve a high degree of judgment and complexity were discussed with the Board Audit Committee and External Auditors. Comparative information has been restated wherever necessary to comply with the current presentation. However, the Bank did not restate comparative information for 2017 with regard to financial instruments within the scope of SLFRS 09. Therefore the comparative information for 2017 is reported under LKAS 39 and is not

comparable to the information presented for 2018. Differences arising from the adoption of SLFRS 09 have been disclosed under Note 06. We confirm that to the best of our knowledge, the Financial Statements give a true and fair view of the assets, liabilities, financial position, results of the operations and the cash flows of the Group. We have reasonable grounds to believe that the Bank and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, we continue to adopt the Going Concern basis in preparing the Financial Statements.

The estimates and judgments relating to the Financial Statements were made on a prudent and reasonable basis; in order that the Financial Statements reflect in a true and fair manner, the form and substance of transactions and that the Bank's state of affairs is reasonably presented. To ensure this, the Bank and all of its Subsidiaries have taken proper and sufficient care in installing a system of internal controls and procedures for safeguarding assets, preventing and detecting frauds and / or errors as well as other irregularities which are reviewed, evaluated and updated on an ongoing basis. Our Internal Auditors have conducted periodic audits to provide reasonable assurance that the established policies and procedures were consistently followed. However, there are inherent limitations that should be recognised in weighing the assurances provided by any system of internal controls and accounting.

We confirm compliance with section 3(8)(ii)(b) of the Banking Act Direction No. 11 of 2007 on Corporate Governance (Internal Control Over Financial Reporting - ICOFR) issued by the Central Bank of Sri Lanka as of 31st December 2018 and that the Bank's Internal Controls Over Financial Reporting is adequate and effective. The Annual Report of the Directors on pages 187 to 196 has briefly covered the Group's Internal Control Over Financial Reporting. In addition, Directors' Statement on Internal Control Over Financial Reporting is provided on pages 197 & 198. The Bank's External Auditors, Messrs Ernst & Young, have audited the effectiveness of the Bank's Internal Controls Over Financial Reporting and have given an unqualified opinion on page 199 of this Annual Report.

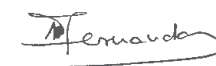
The Financial Statements of the Group were audited by Messrs Ernst & Young, Chartered Accountants, the independent External Auditors. Their report is given on pages 203 to 205 of this Annual Report.

The Board Audit Committee of the Bank meets periodically with the Internal Auditors and the independent External Auditors to review the manner in which these auditors are performing their responsibilities and to discuss issues relating to auditing, internal controls and financial reporting issues. To ensure complete independence, the External Auditors and the Internal Auditors have full and free access to the members of the Board Audit Committee to discuss any matter of substance. The Board Audit Committee report is given on pages 176 to 178.

The Board Audit Committee approves the audit and non-audit services provided by Messrs Ernst & Young, in order to ensure that the provision of such services does not impair Messrs Ernst & Young's independence.

We confirm that to the best of our knowledge:

- The Group has complied with all applicable laws, regulations and prudential requirements;
- There are no material non-compliances; and
- There are no material litigation that are pending against the Group other than those disclosed in Note 46.5 to the Financial Statements in the Annual Report.



NANDA FERNANDO
Managing Director



AJANTHA DE VAS GUNASEKARA
Group Chief Financial Officer

Colombo, Sri Lanka
14th February 2019

STATEMENT OF DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

The responsibilities of the Directors in relation to the Financial Statements of Sampath Bank PLC ("the Bank") and the Consolidated Financial Statements of the Bank and its Subsidiaries ("the Group") are 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 given on pages 203 to 205.

As per the provisions of the Companies Act No. 7 of 2007 (Companies Act), the Directors of the Bank are responsible for ensuring that the Bank and the Group keep proper books of account of all the transactions and they are required to prepare Financial Statements that give a true and fair view of the financial position of the Bank and the Group as at end of each financial year and place them before a general meeting. The Financial Statements comprise of the Statement of Financial Position as at end of the financial year, the Statement of Profit or Loss, Statement of Comprehensive Income, Statement of Cash Flows, Statement of Changes in Equity for the financial year ended and notes thereto.

The Financial Statements are prepared under the supervision of the Group Chief Financial Officer who is a member of the Corporate Management of the Bank. The Directors confirm that the Financial Statements of the Bank and the Group give a true and fair view of:

- The state of affairs of the Bank and the Group as at 31st December 2018; and
- The financial performance of the Bank and the Group for the financial year ended 31st December 2018.

The Financial Statements of the Bank and the Group have been certified by Group Chief Financial Officer, the officer responsible for their preparation, as required by the Companies Act. The accounts have been circulated and reviewed by the

Board Audit Committee and Board of Directors. Further, the Financial Statements of the Bank and the Group have been signed by three Directors and the Company Secretary in conformity with the requirements of the Companies Act.

In preparing these Financial Statements, the Directors ensure that:

- The appropriate accounting policies have been selected and applied in a consistent manner and material departures, if any, have been disclosed and explained;
- The Financial Statements are presented in accordance with Sri Lanka Accounting Standards (SLFRS/LKAS) and are consistent with the underlying books of account;
- Reasonable and prudent judgments and estimates have been made so that the form and substance of transactions are properly reflected;
- The Financial Statements provide the information required by the Companies Act, Banking Act No. 30 of 1988 (Banking Act) and the Continuing Listing Rules of the Colombo Stock Exchange.
- The companies within the Group maintain sufficient accounting records to disclose the financial position of the Group with reasonable accuracy.

The Directors ensure that the Bank and the Group have adequate resources to continue in operation and to justify applying the Going Concern basis in preparing these Financial Statements.

Financial Statements for the year 2018, prepared and presented in this Annual Report are consistent with the underlying books of account and are in conformity with the requirements of Sri Lanka Accounting Standards, Companies Act, Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995, Banking

Act together with its amendments, the Continuing Listing Rules of the Colombo Stock Exchange (CSE) and the Code of Best Practice on Corporate Governance 2017 issued by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka). Further, these Financial Statements comply with the prescribed format issued by the Central Bank of Sri Lanka (CBSL) for the preparation of annual Financial Statements of Licensed Commercial Banks. Directors confirm that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting and the Directors accept responsibility for the integrity and objectivity of the Financial Statements published in this Annual Report. The Directors confirm that in preparing the Financial Statements given on pages 206 to 356, appropriate accounting policies have been selected and applied based on the new financial reporting framework on a consistent basis, while reasonable and prudent judgments have been made so that the form and substance of transactions are properly reflected.

The Directors have taken appropriate steps to ensure that the Bank and the Group maintain proper books of account and review the financial reporting system directly at their regular meetings and also through the Board Audit Committee. The Report of the Board Audit Committee is given on pages 176 to 178. The Board of Directors also approves the Interim Financial Statements prior to their release, following a review and recommendation by the Board Audit Committee.

The Directors have taken all reasonable steps open to them to safeguard the assets of the Bank and the Group and to prevent and detect frauds and any other irregularities. For this purpose, the Directors have instituted effective and comprehensive systems of internal controls for identifying, recording, evaluating and managing the significant

STATEMENT OF DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

risks faced by the Bank throughout the year and is under regular review of the Board of Directors. This comprises internal reviews, Internal Audit and the whole system of financial and other controls required to carry on the operations in an orderly manner, safeguard the assets, prevent and detect frauds and other irregularities and secure as far as practicable, the accuracy and reliability of the records.

Based on their assessment of Internal Control Over Financial Reporting (ICOFR), in compliance with Direction 3(8)(ii)(b) of the Banking Act Direction No. 11 of 2007 on Corporate Governance for the Licensed Commercial Banks, the Directors have concluded that, as of 31st December 2018, the Group's Internal Controls Over Financial Reporting are effective. The Directors' Statement on Internal Control Over Financial Reporting and Annual Report of the Board of Directors on the Affairs of the Company are provided on pages 197 and 198 and pages 187 to 196 respectively of this Annual Report. The External Auditors' Independent Assurance Report on the "Directors' Statement on Internal Control Over Financial Reporting" is given on page 199 of this Annual Report.

As required by Section 56(2) of the Companies Act, the Directors have made an assessment of the Solvency of the Bank, immediately after the payment of the proposed final dividend and confirm that the Bank satisfies the Solvency Test as required by Section 57 of the Companies Act. The Directors have also obtained the Certificates of Solvency from the External Auditors of the Bank, Messrs Ernst & Young.

Messrs Ernst & Young, Chartered Accountants, the External Auditors of the Bank were provided with every opportunity to undertake the inspections they considered appropriate. They have examined the Financial Statements made available to them by the Directors together with all financial records, related data, minutes of the Shareholders' Meetings, Directors' Meetings, Board Audit Committee Meetings and other Board Sub Committee Meetings and expressed their opinion as reported by them in the Annual Report on pages 203 to 205.

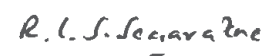
COMPLIANCE REPORT

The Directors confirm that to the best of their knowledge, all taxes, duties and levies payable by the Bank and the Group, all contributions, levies and taxes payable on behalf of and in respect of the

employees of the Bank and the Group and all other known statutory dues as were due and payable by the Bank and the Group as at reporting date have been paid or, where relevant, provided for, except as specified in Note No. 46 to the Financial Statements covering contingent liabilities. The Directors confirm that based on their assessment, the accounting controls are adequate and nothing has come to their attention to indicate any breakdown in the functioning of these controls, resulting in material loss to the Bank. The Directors also confirm that the Bank will have adequate resources to continue in operational existence and as a Going Concern for the foreseeable future.

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

By order of the Board,



LASANTHA SENARATNE
Company Secretary

Colombo, Sri Lanka
14th February 2019

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF SAMPATH BANK PLC



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Chartered Accountants
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REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

OPINION

We have audited the financial statements of Sampath Bank PLC ("the Bank") and the consolidated financial statements of the Bank and its subsidiaries ("the Group"), which comprise the statement of financial position as at 31 December 2018, and the statement of profit or loss, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements of the Bank and the Group give a true and fair view of the financial position of the Bank and the Group as at 31 December 2018, and of their financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of

our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Key audit matter	How our audit addressed the key audit matter
<p>Impairment allowance for loans to & receivables from other customers including Group's transition to SLFRS 9:</p> <p>Our audit considered impairment allowance for loans to & receivables from other customers as a key audit matter. The materiality of the reported amounts for loans to & receivables from other customers (and impairment allowance thereof), the subjectivity associated with management's impairment estimation and transition to Sri Lanka Financial Reporting Standard 9 : Financial Instruments (SLFRS 9) underpinned our basis for considering it as a Key Audit Matter</p>	<p>To assess the reasonableness of the impairment allowance, our audit procedures (among others) were designed to obtain sufficient and appropriate audit evidences, included the following:</p> <ul style="list-style-type: none"> We evaluated design, implementation and operating effectiveness of controls over estimation of impairment of loans to and receivables from other customers, which included assessing the level of oversight, review and approval of impairment policies by the Board Audit Committees and management. We test-checked the underlying calculations and data. In addition to the above, following focused procedures were performed: <p>For loans to and receivables from other customers individually assessed for impairment:</p> <ul style="list-style-type: none"> We assessed the main criteria used by the management for determining whether an impairment event had occurred, including the management estimation of impairment of loans to and receivables from other customers in industries with elevated risk of credit loss;

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF SAMPATH BANK PLC



Key audit matter	How our audit addressed the key audit matter
<p>As at 31 December 2018, 71% of its total assets of the Group consisted of loans to and receivables from other customers amounting to LKR 675,894 Million (Note 27), net of impairment allowance of LKR 21,878 Million (Note 27.3). The impact on transition to SLFRS 9 on the Group's Financial Statements has been quantified and presented in Note 6 of the Financial statements.</p> <p>The estimation of impairment allowance for loans to & receivables from other customers involved complex manual calculations. Significant estimates and assumptions used by the management in such calculations, its sensitivities and the basis for impairment allowance are disclosed in Note 4.4.6 and 51.2.1(c) and 51.2.1(d).</p>	<ul style="list-style-type: none"> Where impairment indicators existed, we assessed the reasonableness of management's estimated future recoveries including the expected future cash flows, discount rates and the valuation of collateral held. We also compared the actual recoveries against previously estimated amounts of future recoveries. <p>For loans to and receivables from other customers collectively assessed for impairment:</p> <ul style="list-style-type: none"> We assessed the completeness of the underlying information in loans and advances used in the impairment calculations by agreeing details to the Group's source documents and information in IT systems as well as re-performing the calculation of impairment allowance. We also considered reasonableness of macro-economic and other factors used by management in their judgmental overlays for various types of loan portfolios, by comparing them with publicly available data and information sources. We assessed the adequacy of the related financial statement disclosures as set out in note 27. We also assessed the adequacy of the Group's disclosure on the impact of the initial adoption of SLFRS 9 as set out in note 06. This included testing of the quantitative impact of the transition.
<p>Bank's financial reporting process and related IT systems and Controls</p> <p>Bank uses multiple and complex IT systems in its operations. As a result, preparation of financial statements inclusive of key disclosures are heavily dependent on various information system outputs. In order to rely on the output of such system for the purpose of the audit, ensuring the appropriate design and operating effectiveness of financial reporting related IT controls is critical.</p> <p>The preparation and presentation of financial statements and disclosures based on manual or IT dependent controls over the said process was considered by us as an area of significant attention. In addition, as our approach was based on a high degree of reliance on financial reporting related IT controls, a significant proportion of our audit involved procedures in this area, and accordingly we considered this to be a key audit matter.</p>	<p>Our audit procedures included the following, amongst others</p> <ul style="list-style-type: none"> We involved our internal specialised resources to understand and evaluate design and operating effectiveness of selected automated, IT dependent and manual controls as implemented by management over the process of generating financial statements and significant disclosures. Test-checking of the system report generation functionalities that were deemed key to financial statement disclosures; source data with those of the related systems; and calculations and categorisations performed by management to ensure accuracy and reasonability of functions and procedures respectively. Where we considered necessary, performing additional substantive audit procedures on specific account reconciliations that supports significant financial statements disclosures. We also performed other procedures which included understanding and evaluation of specific procedures carried out by personnel involved in the information security function that supported management's assertion of integrity of systems.

OTHER INFORMATION INCLUDED IN THE 2018 ANNUAL REPORT

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

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that

fact. We have nothing to report in this regard.

RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management



determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's and the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SLAuSs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SLAuSs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may

involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal controls of the Bank and the Group.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with ethical requirements in accordance with the Code of Ethics regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by section 163 (2) of the Companies Act No. 07 of 2007, we have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Bank.

CA Sri Lanka membership number of the engagement partner responsible for signing this independent auditor's report is 2199.

14 February 2019
 Colombo

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

A member firm of Ernst & Young Global Limited

STATEMENT OF PROFIT OR LOSS

For the year ended 31st December	Note	2018* Rs 000	Bank 2017 Rs 000	Change %	2018* Rs 000	Group 2017 Rs 000	Change %
Gross income	7	115,310,251	92,589,785	24.5	121,883,835	97,440,220	25.1
Interest income		97,934,195	79,624,760	23.0	103,832,591	83,909,371	23.7
Less: Interest expense		59,880,491	51,261,317	16.8	62,960,387	53,612,130	17.4
Net interest income	8	38,053,704	28,363,443	34.2	40,872,204	30,297,241	34.9
Fee & commission income		11,605,802	9,504,988	22.1	11,918,205	9,776,971	21.9
Less: Fee & commission expense		1,686,995	1,349,362	25.0	1,690,598	1,355,353	24.7
Net fee & commission income	9	9,918,807	8,155,626	21.6	10,227,607	8,421,618	21.4
Net trading (loss) / gain	10	(2,268,614)	339,962	(767.3)	(2,268,614)	339,962	(767.3)
Net gain on financial assets	11	160,526	145,012	10.7	160,766	145,192	10.7
Other operating income	12	7,878,342	2,975,063	164.8	8,240,887	3,268,724	152.1
Total operating income		53,742,765	39,979,106	34.4	57,232,850	42,472,737	34.8
Less: Impairment charge	13	11,222,809	2,375,793	372.4	12,138,710	2,633,673	360.9
Net operating income		42,519,956	37,603,313	13.1	45,094,140	39,839,064	13.2
Less: Operating expenses							
Personnel expenses	14	8,836,372	8,036,008	10.0	9,674,521	8,701,904	11.2
Other operating expenses	15	10,470,544	8,882,479	17.9	11,149,448	9,317,543	19.7
Total operating expenses		19,306,916	16,918,487	14.1	20,823,969	18,019,447	15.6
Operating profit before taxes on financial services		23,213,040	20,684,826	12.2	24,270,171	21,819,617	11.2
Less: Taxes on financial services	16	4,863,041	4,078,901	19.2	5,148,806	4,309,389	19.5
Profit before income tax		18,349,999	16,605,925	10.5	19,121,365	17,510,228	9.2
Less: Income tax expense	17	6,207,182	4,501,805	37.9	6,515,496	4,827,728	35.0
Profit for the year		12,142,817	12,104,120	0.3	12,605,869	12,682,500	(0.6)
Attributable to:							
Equity holders of the Bank		12,142,817	12,104,120	0.3	12,605,869	12,682,500	(0.6)
Non controlling interest		-	-	-	-	-	-
		12,142,817	12,104,120	0.3	12,605,869	12,682,500	(0.6)
Earnings per share : Basic / Diluted (Rs)	18	45.13	56.06	(19.5)	46.85	58.74	(20.2)
Dividend per share	19						
Dividend per share: Gross (Rs)		16.25**	17.20				
Dividend per share: Net (Rs)		13.99**	14.80				

* The amounts for the year ended 31st December 2018 have been prepared in accordance with Sri Lanka Accounting Standard - SLFRS 9 (Financial Instruments), whereas prior period amounts have not been restated.

** Calculated based on proposed dividend, which is to be approved at the Annual General Meeting.

The Notes to the Financial Statements from pages 214 to 356 form an integral part of these Financial Statements.

STATEMENT OF COMPREHENSIVE INCOME

INTRODUCTORY INFORMATION
MANAGING OUR BUSINESS
MANAGEMENT DISCUSSION & ANALYSIS
RISK & GOVERNANCE
► FINANCIAL INFORMATION
SUPPLEMENTARY INFORMATION

For the year ended 31st December	Bank			Group		
	2018* Rs 000	2017 Rs 000	Change %	2018* Rs 000	2017 Rs 000	Change %
Profit for the year	12,142,817	12,104,120	0.3	12,605,869	12,682,500	(0.6)
Other comprehensive income						
Items that will be reclassified to profit or loss:						
Financial assets - available for sale:						
Gain arising on re-measurement	-	1,017,636	(100.0)	-	1,017,636	(100.0)
Exchange difference in translation	-	10,766	(100.0)	-	10,766	(100.0)
	-	1,028,402	(100.0)	-	1,028,402	(100.0)
Debt instruments at fair value through other comprehensive income:						
Loss arising on re-measurement	(109,826)	-	(100.0)	(109,826)	-	(100.0)
Reclassification to profit or loss	(6,773)	-	(100.0)	(6,773)	-	(100.0)
Deferred tax effect on the above	11,358	-	100.0	11,358	-	100.0
	(105,241)	-	(100.0)	(105,241)	-	(100.0)
Net other comprehensive income that will be reclassified to profit or loss	(105,241)	1,028,402	(110.2)	(105,241)	1,028,402	(110.2)
Items that will not be reclassified to profit or loss:						
Equity instruments at fair value through other comprehensive income:						
Loss arising on re-measurement	(733,606)	-	(100.0)	(733,606)	-	(100.0)
Exchange difference in translation	162,656	-	100.0	162,656	-	100.0
Deferred tax effect on the above	(462,765)	-	(100.0)	(462,765)	-	(100.0)
	(1,033,715)	-	(100.0)	(1,033,715)	-	(100.0)
Actuarial loss on defined benefit plans	(51,439)	(634,766)	91.9	(48,506)	(646,194)	92.5
Deferred tax effect on the above	14,403	177,735	(91.9)	13,582	180,809	(92.5)
	(37,036)	(457,031)	91.9	(34,924)	(465,385)	92.5
Surplus from revaluation of property, plant & equipment	-	822,641	(100.0)	-	1,330,746	(100.0)
Deferred tax effect on revaluation surplus	-	(818,222)	100.0	-	(1,891,063)	100.0
	-	4,419	(100.0)	-	(560,317)	100.0
Net other comprehensive income that will not be reclassified to profit or loss	(1,070,751)	(452,612)	(136.6)	(1,068,639)	(1,025,702)	(4.2)
Other comprehensive income net of tax	(1,175,992)	575,790	(304.2)	(1,173,880)	2,700	(43,577.0)
Total comprehensive income for the year net of tax	10,966,825	12,679,910	(13.5)	11,431,989	12,685,200	(9.9)
Attributable to:						
Equity holders of the Bank	10,966,825	12,679,910	(13.5)	11,431,989	12,685,200	(9.9)
Non-controlling interest	-	-	-	-	-	-
	10,966,825	12,679,910	(13.5)	11,431,989	12,685,200	(9.9)

* The amounts for the year ended 31st December 2018 have been prepared in accordance with Sri Lanka Accounting Standard - SLFRS 9 (Financial Instruments), whereas prior period amounts have not been restated.

The Notes to the Financial Statements from pages 214 to 356 form an integral part of these Financial Statements.

STATEMENT OF FINANCIAL POSITION

As at 31st December	Note	2018* Rs 000	Bank 2017 Rs 000	Change %	2018* Rs 000	Group 2017 Rs 000	Change %
ASSETS							
Cash & cash equivalents	21	19,051,955	22,334,315	(14.7)	19,218,254	22,612,939	(15.0)
Balances with Central Bank of Sri Lanka	22	36,557,776	41,100,364	(11.1)	36,557,776	41,100,364	(11.1)
Placements with banks	23	8,746,926	3,159,326	176.9	8,746,926	3,225,025	171.2
Reverse repurchase agreements		500,124	1,200,762	(58.3)	2,258,852	2,392,852	(5.6)
Derivative financial instruments	24	1,171,037	496,918	135.7	1,171,037	496,918	135.7
Financial assets recognised through profit or loss - measured at fair value	25	27,720,246	20,502,507	35.2	27,720,246	20,502,507	35.2
Financial assets at amortised cost							
Loans to & receivables from banks	26	1,644,405	2,084,507	(21.1)	1,644,405	2,084,507	(21.1)
Loans to & receivables from other customers	27	648,369,233	560,798,940	15.6	675,894,019	586,370,704	15.3
Debt & other instruments	28	121,105,392	49,352,443	145.4	121,109,711	49,352,443	145.4
Financial assets - fair value through other comprehensive income	29	27,517,305	-	100.0	27,517,361	-	100.0
Financial assets - available for sale	29	-	77,095,719	(100.0)	-	77,095,775	(100.0)
Financial assets - held to maturity	30	-	-	-	-	12,428	(100.0)
Investment in subsidiaries	31	2,320,429	1,356,075	71.1	-	-	-
Property, plant & equipment	32	7,917,993	7,269,942	8.9	13,601,798	12,631,442	7.7
Intangible assets	33	1,137,422	946,845	20.1	1,225,519	996,703	23.0
Current tax receivables	39	-	-	-	23,360	6,425	263.6
Deferred tax assets	34	989,343	-	100.0	989,416	401	246,637.2
Other assets	35	9,475,345	7,403,463	28.0	10,106,537	7,835,236	29.0
Total Assets		914,224,931	795,102,126	15.0	947,785,217	826,716,669	14.6
LIABILITIES							
Due to banks	36	8,901,463	4,743,748	87.6	8,964,857	4,820,287	86.0
Derivative financial instruments	24	2,952,319	103,947	2,740.2	2,952,319	103,947	2,740.2
Securities sold under repurchase agreements		13,732,205	4,386,335	213.1	13,709,472	4,231,946	224.0
Due to other customers	37	690,378,552	625,814,313	10.3	699,661,040	634,641,381	10.2
Debt issued & other borrowed funds	38	89,948,406	76,098,240	18.2	106,373,545	91,257,152	16.6
Dividend payable		97,462	99,259	(1.8)	97,462	99,259	(1.8)
Current tax liabilities	39	9,540,868	5,527,323	72.6	9,682,482	5,630,670	72.0
Deferred tax liabilities	34	-	1,353,339	(100.0)	1,536,772	2,776,681	(44.7)
Other liabilities	40	12,398,522	11,742,147	5.6	12,812,534	12,612,529	1.6
Other provisions	41	1,885,824	1,583,558	19.1	1,944,080	1,634,367	19.0
Total Liabilities		829,835,621	731,452,209	13.5	857,734,563	757,808,219	13.2

As at 31st December	Note	2018* Rs 000	Bank 2017 Rs 000	Change %	2018* Rs 000	Group 2017 Rs 000	Change %
EQUITY							
Stated capital	42	32,795,952	16,307,722	101.1	32,795,952	16,307,722	101.1
Reserves							
Statutory reserve	43	3,470,000	2,860,000	21.3	3,609,000	2,973,000	21.4
Other reserves	44	42,479,716	38,409,796	10.6	45,163,821	41,093,901	9.9
Retained earnings	45	5,643,642	6,072,399	(7.1)	8,481,881	8,533,827	(0.6)
Total equity attributable to equity holders of the Bank		84,389,310	63,649,917	32.6	90,050,654	68,908,450	30.7
Non-controlling interest		-	-	-	-	-	-
Total Equity		84,389,310	63,649,917	32.6	90,050,654	68,908,450	30.7
Total Liabilities & Equity		914,224,931	795,102,126	15.0	947,785,217	826,716,669	14.6
Commitments & contingencies	46	394,293,261	383,506,087	2.8	390,900,220	384,063,090	1.8
Net asset value per share (Rs)		300.42	293.02	2.5	320.58	317.23	1.1

* The amounts for the year ended 31st December 2018 have been prepared in accordance with Sri Lanka Accounting Standard - SLFRS 9 (Financial Instruments), whereas prior period amounts have not been restated.

The Notes to the Financial Statements from pages 214 to 356 form an integral part of these Financial Statements.

I certify that these Financial Statements are presented in compliance with the requirements of the Companies Act No. 07 of 2007.



AJANTHA DE VAS GUNASEKARA

Group Chief Financial Officer

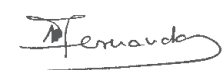
The Board of Directors is responsible for these Financial Statements.

Approved and signed for and on behalf of the Board,



PROF MALIK RANASINGHE

Deputy Chairman



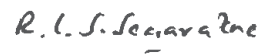
NANDA FERNANDO

Managing Director



SANJIVA SENANAYAKE

Senior Independent Director



LASANTHA SENARATNE

Company Secretary

14th February, 2019

Colombo, Sri Lanka

STATEMENT OF CASH FLOWS

For the year ended 31st December	Note	Bank		Group	
		2018 Rs 000	2017 Rs 000	2018 Rs 000	2017 Rs 000
Cash flows from operating activities					
Interest receipts		94,333,041	77,912,746	100,134,619	82,159,492
Net commission receipts		9,960,781	8,399,739	10,269,581	8,665,731
Interest payments		(58,238,335)	(45,140,391)	(61,411,866)	(47,368,065)
Receipts from other operating activities		7,785,830	2,751,304	8,249,233	3,134,241
Cash payments to employees		(8,361,984)	(7,225,299)	(9,182,598)	(7,878,011)
Cash payments to other operating activities		(9,146,817)	(8,059,690)	(9,675,962)	(7,803,256)
Taxes on financial services		(4,208,283)	(4,012,679)	(4,471,580)	(4,243,167)
Operating profit before changes in operating assets & liabilities (Note a)		32,124,233	24,625,730	33,911,427	26,666,965
(Increase)/decrease in operating assets					
Balance with Central Bank of Sri Lanka		4,542,588	(7,375,508)	4,542,588	(7,375,508)
Loans to & receivables from banks		426,436	556,851	426,436	556,851
Loans to & receivables from other customers		(91,409,142)	(105,885,580)	(94,205,196)	(115,099,374)
Other assets		(1,408,371)	(558,772)	(1,612,193)	(555,561)
		(87,848,489)	(113,263,009)	(90,848,365)	(122,473,592)
Increase/(decrease) in operating liabilities					
Due to banks		3,189,074	(2,036,206)	3,189,074	(2,036,206)
Re-purchase agreements		9,347,548	(5,731,639)	9,479,204	(5,821,920)
Due to other customers		63,790,564	110,113,834	64,193,794	115,854,015
Other liabilities		(1,791,473)	1,642,950	(1,825,522)	1,600,415
		74,535,713	103,988,939	75,036,550	109,596,304
Net cash generated from operating activities before income tax		18,811,457	15,351,660	18,099,612	13,789,677
Income tax paid	39.1	(4,146,502)	(3,450,721)	(4,296,298)	(3,590,160)
Net cash generated from operating activities		14,664,955	11,900,939	13,803,314	10,199,517
Cash flows from investing activities					
Net cash flow from placements with banks (Maturity more than three months)		-	976,185	-	976,185
Net cash flow from reverse repurchase agreements		700,000	32,637,001	133,362	32,214,250
Net cash flow from financial assets - FVPL		(7,316,413)	17,974,208	(7,316,413)	17,974,208
Net cash flow from financial assets - held to maturity		-	-	-	4,480
Net cash flow from debt & other instruments		(71,941,671)	(10,572,524)	(71,933,587)	(10,572,524)
Net cash flow from financial assets - FVOCI/AFS		48,939,843	(61,171,398)	48,939,843	(61,171,398)
Dividend received from financial assets		80,407	77,294	80,647	77,474
Dividend received from subsidiaries		29,241	-	-	-
Investment in subsidiaries		(900,000)	(100,000)	-	-
Purchase of property, plant & equipment		(1,322,678)	(742,213)	(2,119,108)	(1,640,617)
Purchase of intangible assets		(516,985)	(782,912)	(609,189)	(789,884)
Proceeds from disposal of property plant & equipment		12,813	7,657	46,668	12,897
Net cash used in investing activities		(32,235,443)	(21,696,702)	(32,777,777)	(22,914,929)
Cash flows from financing activities					
Net increase in debentures	53	2,500,000	4,500,000	2,500,000	5,500,000
Increase/(decrease) in other borrowed funds	53	4,427,774	(318,808)	5,666,873	1,758,093
Rights issue	42	12,532,052	7,602,778	12,532,052	7,602,778
Dividend paid		(642,249)	(1,128,395)	(642,249)	(1,128,395)
Net cash generated from financing activities		18,817,577	10,655,575	20,056,676	13,732,476
Net cash generated during the year		1,247,089	859,812	1,082,213	1,017,064
Cash & cash equivalents at the beginning of the year		25,377,229	24,517,417	25,645,013	24,627,949
Cash & cash equivalents at the end of the year (Note b)		26,624,318	25,377,229	26,727,226	25,645,013

The Notes to the Financial Statements from pages 214 to 356 form an integral part of these Financial Statements.

NOTE (a) RECONCILIATION OF OPERATING PROFIT BEFORE CHANGES IN OPERATING ASSETS AND LIABILITIES

For the year ended 31st December	Note	Bank		Group	
		2018* Rs 000	2017 Rs 000	2018* Rs 000	2017 Rs 000
Profit before income tax		18,349,999	16,605,925	19,121,365	17,510,228
Net interest income accrued on impaired loans & receivables	8.1	(1,325,572)	(467,827)	(1,335,335)	(469,245)
Net trading loss / (gain)	10				
Forward exchange contract revaluation loss / (gain)		2,174,253	(346,710)	2,174,253	(346,710)
Net gain on derecognition		(63,910)	(24,118)	(63,910)	(24,118)
Dividend income		(4,314)	(5,943)	(4,314)	(5,943)
Net mark to market loss-government & equity securities		162,585	36,809	162,585	36,809
Net gain on financial assets	11				
Dividend income from financial assets FVOCI/AFS		(150,058)	(145,012)	(150,298)	(145,192)
Net gain on derecognition - financial assets FVOCI		(9,682)	-	(9,682)	-
Net gain on derecognition-debt & other instruments		(786)	-	(786)	-
Other operating income	12				
Dividend income from subsidiaries		(91,990)	(90,977)	-	-
(Profit) / loss on disposal of property, plant & equipment		(522)	9,829	(1,287)	8,128
Net impairment charge	13	11,222,809	2,375,793	12,138,710	2,633,673
Personnel expenses					
Provision for gratuity & pension	14	480,246	337,199	497,781	350,383
Other non - cash personnel expenses		291,009	268,061	291,009	268,061
Other operating expenses	15				
Depreciation of property, plant & equipment		777,000	719,548	1,106,881	1,014,533
Amortisation of intangible assets		322,898	173,415	343,492	182,317
Accrual for interest & commission income		(2,233,608)	(1,000,074)	(2,320,663)	(1,036,521)
Accrual for interest expense		1,642,156	6,120,926	1,548,521	6,244,065
Other accruals & non-cash income/expenses		581,720	58,886	413,105	446,497
Operating profit before changes in operating assets / liabilities		32,124,233	24,625,730	33,911,427	26,666,965

NOTE (b) RECONCILIATION OF CASH & CASH EQUIVALENTS

As at 31st December	Note	Bank		Group	
		2018* Rs 000	2017 Rs 000	2018* Rs 000	2017 Rs 000
Local currency in hand	21	11,815,990	11,664,978	11,975,847	11,937,788
Foreign currency in hand	21	3,195,258	2,967,552	3,195,258	2,967,552
Balances with local banks	21	135,845	319,606	142,290	325,420
Balances with foreign banks	21	3,798,032	5,329,492	3,798,032	5,329,492
Money at call & short notice	21	125,030	2,052,687	125,030	2,052,687
Placements less than three months	23	8,749,121	3,159,326	8,749,121	3,225,025
Unfavourable balances with local & foreign banks	36	(1,194,958)	(116,412)	(1,258,352)	(192,951)
Cash & cash equivalents at the end of the year		26,624,318	25,377,229	26,727,226	25,645,013

* The amounts for the year ended 31st December 2018 have been prepared in accordance with Sri Lanka Accounting Standard - SLFRS 9 (Financial Instruments), whereas prior period amounts have not been restated.

The Notes to the Financial Statements from pages 214 to 356 form an integral part of these Financial Statements.

STATEMENT OF CHANGES IN EQUITY

Bank	Stated Capital (Note 42) Rs 000	Statutory Reserve Fund (Note 43) Rs 000	Other Reserves			Retained Earnings (Note 45) Rs 000	Total Equity Rs 000
			Revaluation Reserve (Note 44.1) Rs 000	Available for Sale Reserve (Note 44.2) Rs 000	FVOCI Reserve (Note 44.3) Rs 000		
Balance as at 1st January 2017	6,471,200	2,250,000	2,404,631	1,271,319	n/a	27,694,235	44,488,834
Total comprehensive income for the year 2017							
Profit for the year	-	-	-	-	n/a	-	12,104,120
Other comprehensive income	-	-	4,419	1,028,402	n/a	-	(457,031)
Total comprehensive income for the year 2017			4,419	1,028,402	n/a	-	11,647,089
Transactions with equity holders, recognised directly in equity, contributions by and distributions to equity holders							
Rights issue	7,602,778	-	-	-	n/a	-	7,602,778
Interim dividend for 2016: scrip	2,233,744	-	-	-	n/a	-	(2,477,734)
Final dividend for 2016 : cash	-	-	-	-	n/a	-	(884,405)
Unclaimed dividend adjustments	-	-	-	-	n/a	6,790	-
Total contributions by and distributions to equity holders	9,836,522	-	-	-	n/a	6,790	(3,362,139)
Transfer to reserves during the year	-	610,000	-	-	n/a	6,000,000	(6,610,000)
Balance as at 31st December 2017	16,307,722	2,860,000	2,409,050	2,299,721	n/a	33,701,025	63,649,917
Balance as at 31st December 2017	16,307,722	2,860,000	2,409,050	2,299,721	n/a	33,701,025	63,649,917
Impact of adopting SLFRS 9 (Note 6)	-	-	-	(2,299,721)	2,299,721	-	(2,126,111)
Restated balance under SLFRS 9 as at 1st January 2018	16,307,722	2,860,000	2,409,050	n/a	2,299,721	33,701,025	61,523,806
Total comprehensive income for the year 2018							
Profit for the year	-	-	-	n/a	-	-	12,142,817
Other comprehensive income	-	-	-	n/a	(1,138,956)	-	(37,036)
Total comprehensive income for the year 2018							11,804,781
Transactions with equity holders, recognised directly in equity, contributions by and distributions to equity holders							
Rights issue	12,532,052	-	-	n/a	-	-	12,532,052
Final dividend for 2017 : scrip	3,956,178	-	-	n/a	-	-	(4,598,427)
Unclaimed dividend adjustments	-	-	-	n/a	-	8,876	-
Total contributions by and distributions to equity holders	16,488,230	-	-	n/a	-	8,876	(4,598,427)
Transfer to reserves during the year	-	610,000	-	n/a	-	5,200,000	(5,810,000)
Balance as at 31st December 2018	32,795,952	3,470,000	2,409,050	n/a	1,160,765	38,909,901	84,389,310

The Notes to the Financial Statements from pages 214 to 356 form an integral part of these Financial Statements

Group	Stated Capital (Note 42) Rs 000	Statutory Reserve Fund (Note 43) Rs 000	Other Reserves			Retained Earnings (Note 45) Rs 000	Shareholders' Fund Rs 000	Non Controlling Interest Rs 000	Total Equity Rs 000
			Revaluation Reserve (Note 44.1) Rs 000	Available for Sale Reserve (Note 44.2) Rs 000	FVOCI Reserve (Note 44.3) Rs 000				
Balance as at 1st January 2017	6,471,200	2,336,422	5,653,471	1,271,319	n/a	27,694,236	49,742,077	-	49,742,077
Total comprehensive income for the year 2017									
Profit for the year	-	-	-	-	n/a	-	12,682,500	-	12,682,500
Other comprehensive income	-	-	(560,317)	1,028,402	n/a	-	(465,385)	-	2,700
Total comprehensive income for the year 2017	-	-	(560,317)	1,028,402	n/a	-	12,217,115	-	12,685,200
Transactions with equity holders, recognised directly in equity, contributions by and distributions to equity holders									
Rights issue	7,602,778	-	-	-	n/a	-	7,602,778	-	7,602,778
Interim dividend for 2016 : scrip	2,233,744	-	-	-	n/a	-	(2,471,734)	-	(243,990)
Final dividend for 2016 : cash	-	-	-	-	n/a	-	(884,405)	-	(884,405)
Unclaimed dividend adjustments	-	-	-	-	n/a	6,790	-	-	6,790
Total contributions by and distributions to equity holders	9,836,522	-	-	-	n/a	6,790	6,481,173	-	6,481,173
Transfer to reserves during the year	-	636,578	-	-	n/a	6,000,000	(6,636,578)	-	-
Balance as at 31st December 2017	16,307,722	2,973,000	5,093,154	2,299,721	n/a	33,701,026	68,908,450	-	68,908,450
Balance as at 31st December 2017	16,307,722	2,973,000	5,093,154	2,299,721	n/a	33,701,026	68,908,450	-	68,908,450
Impact of adopting SLFRS 9 (Note 6)	-	-	-	(2,299,721)	2,299,721	-	(2,188,464)	-	(2,188,464)
Restated balance under SLFRS 9 as at 1st January 2018	16,307,722	2,973,000	5,093,154	n/a	2,299,721	33,701,026	66,719,986	-	66,719,986
Total comprehensive income for the year 2018									
Profit for the year	-	-	-	n/a	-	-	12,605,869	-	12,605,869
Other comprehensive income	-	-	-	n/a	(1,138,956)	-	(34,924)	-	(1,173,880)
Total comprehensive income for the year 2018	-	-	-	n/a	(1,138,956)	-	12,570,945	-	11,431,989
Transactions with equity holders, recognised directly in equity, contributions by and distributions to equity holders									
Rights issue	12,532,052	-	-	n/a	-	-	12,532,052	-	12,532,052
Final dividend for 2017 : scrip	3,956,178	-	-	n/a	-	-	(4,598,427)	-	(642,249)
Unclaimed dividend adjustments	-	-	-	n/a	-	8,876	-	-	8,876
Total contributions by and distributions to equity holders	16,488,230	-	-	n/a	-	8,876	11,898,679	-	11,898,679
Transfer to reserves during the year	-	636,000	-	n/a	-	5,200,000	(5,836,000)	-	-
Balance as at 31st December 2018	32,795,952	3,609,000	5,093,154	n/a	1,160,765	38,909,902	84,811,881	-	90,050,654

The Notes to the Financial Statements from pages 214 to 356 form an integral part of these Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

1. REPORTING ENTITY

1.1 General

Sampath Bank PLC (The Bank), is a domiciled, public limited liability company incorporated in Sri Lanka on 10th March 1986 under the Companies Act No. 17 of 1982. It is a Licensed Commercial Bank registered under the Banking Act No. 30 of 1988 (Banking Act) and amendments thereto. The Bank was re-registered with the Registrar General of Companies as per the requirements of the Companies Act No.7 of 2007 (Companies Act) on 28th April 2008 under the name of Sampath Bank PLC. The registered office of the Bank is located at No. 110, Sir James Peiris Mawatha, Colombo 02.

The shares of the Bank have a primary listing on the Colombo Stock Exchange. The staff strength of the Bank as at 31st December 2018 was 4,189 (2017: 4,011).

1.2 Consolidated Financial Statements

The Consolidated Financial Statements of the Bank as at and for the year ended 31st December 2018 comprise the Bank (Parent Company) and its Subsidiaries (together referred to as the "Group" and individually as "Group entities"). The Subsidiaries of the Bank as at 31st December 2018 were Sampath Centre Ltd, SC Securities (Pvt) Ltd, Siyapatha Finance PLC and Sampath Information Technology Solutions Ltd.

Sampath Bank PLC is the ultimate parent of the Group.

The Financial Statements of all companies in the Group have a common financial year which ends on 31st December.

1.3 Principal Activities and Nature of Operations

1.3.1 Bank

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

1.3.2 Subsidiaries

Ownership of subsidiaries as of 31st December 2018 and 31st December 2017 is given in Note 31.1 to the Financial Statements. There were no significant changes in the nature of the principal activities of the Group during the financial year under review.

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 and in compliance with the requirements of the Companies Act No. 7 of 2007. The presentation of the Financial Statements is also in compliance with the requirements of

the Banking Act No. 30 of 1988 and amendments thereto.

2.2 Responsibility for Financial Statements

The Board of Directors is responsible for the preparation and presentation of Financial Statements of the Group and the Bank as per Sri Lanka Accounting Standards and the provisions of the Companies Act No. 7 of 2007.

2.3 Approval of Financial Statements by Directors

The Financial Statements of the Group as at and for the year ended 31st December 2018 were authorised for issue by the Board of Directors in accordance with the resolution of the Directors on 14th February 2019.

2.4 Basis of Measurement

The Financial Statements of the Group have been prepared on the historical cost basis, except for the following material items in the Statement of Financial Position:

- Derivative financial instruments are measured at fair value (Note 24)
- Financial assets held at fair value through other comprehensive income (FVOCI) / Available for sale financial assets are measured at fair value (Note 29)
- Financial assets recognised through profit or loss (FVPL) are measured at fair value (Note 25)
- Land and buildings which are measured at cost at the time of acquisition subsequently measured at revalued amounts, which are the fair values at the date of revaluation (Note 32)
- Liabilities for defined benefit obligations are recognised at the present value of the defined benefit obligation less the fair value of the plan assets (Note 41)

2.5 Functional and Presentation Currency

The Financial Statements of the Group are presented in Sri Lankan Rupees (Rs), which is the currency of the primary economic environment in which Sampath Bank PLC operates. Financial information presented in Sri Lankan Rupees has been rounded to the nearest thousand 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 assets and liabilities of the Group presented in the Statement of Financial Position are grouped by nature and listed in an order that reflects their relative liquidity and maturity pattern. No adjustments have been made for inflationary factors affecting the Financial Statements.

An analysis on 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 the Note 52.

2.7 Materiality and Aggregation

In compliance with Sri Lanka Accounting Standard - LKAS 1 (Presentation of Financial Statements), each material class of similar items is presented separately in the Financial Statements. Items of dissimilar nature or functions too are presented separately unless they are immaterial. Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and

settle the liability simultaneously. Income and expenses are not offset in the Statement of Profit or Loss unless required or permitted by an Accounting Standard.

2.8 Comparative Information

The comparative information is re-classified wherever necessary to conform to the current year's presentation. However, the Group has not restated comparative information for 2017 for financial instruments within the scope of SLFRS 9. Therefore, the comparative information for 2017 is reported under LKAS 39 and is not comparable to the information presented for 2018. Differences arising from the adoption of SLFRS 9 have been disclosed in Note 6.

2.9 Statement of Cash Flow

The cash flow statement has been prepared by using the direct method in accordance with the Sri Lanka Accounting Standard - LKAS 7 (Statement of Cash Flows), whereby gross cash receipts and gross cash payments of operating activities, finance activities and investing activities have been recognised. Cash and cash equivalents comprise short term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

Cash and cash equivalents include cash in hand, balances with banks, placements with banks (less than 3 months), money at call and short notice, net of unfavourable local & foreign bank balances.

2.10 Significant Accounting Judgments, Estimates and Assumptions

The preparation of Financial Statements of the Group in conformity with Sri Lanka Accounting Standards requires the management to make judgments, estimates

and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

The most significant areas of estimation, uncertainty and critical judgments in applying accounting policies that have most significant effect on the amounts recognised in the Financial Statements of the Group are as follows:

2.10.1 Going Concern

The Directors have made an assessment of the Group's ability to continue as a going concern and are satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, Board is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern and they do not intend either to liquidate or to cease operations of the Group. Therefore, the Financial Statements continue to be prepared on the going concern basis.

2.10.2 Impairment Losses on Loans and Advances

The measurement of impairment losses both under SLFRS 9 and LKAS 39 across all categories of financial assets requires judgement. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Group reviews its individually significant loans and advances

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at each reporting date to assess whether an impairment loss should be recorded in the Statement of Profit or Loss. In particular, management's judgment is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. Loans and advances that have been assessed individually and found to be not impaired and all individually insignificant loans and advances are then assessed collectively, by categorising them into groups of assets with similar risk characteristics, to determine the expected credit loss on such loans and advances.

The collective assessment under LKAS 39 takes account of data from the loan portfolio such as credit quality, portfolio size, concentration etc. as well as judgments based on current and future economic conditions. In addition to the above, from 1st January 2018, the expected credit loss calculation under SLFRS 9 requires management to make additional judgements and estimates with regard to the following.

- The Group's criteria for assessing if there has been a significant increase in credit risk and so impairment for financial assets should be measured on a LTECL basis
- Development of ECL models, including various formulas and the choice of inputs
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL model

It has been the Group's policy to regularly review its models in the context of actual loss experience and adjust when necessary. The above assumptions and judgments

are discussed in detail under Note 4.4.6 to the Financial Statements.

2.10.3 Impairment of Other Financial Assets

The Group reviews its debt securities classified as FVOCI / amortised cost, at each reporting date to assess whether they are impaired. Objective evidence that a debt security held at FVOCI / amortised cost is impaired includes among other things significant financial difficulty of the issuer, a breach of contract such as a default or delinquency in interest or principal payments etc.

From 1st January 2018, with the adoption of SLFRS 9 equity instruments classified as FVOCI are not subjective for impairment assessment.

2.10.4 Fair Value of Financial Instruments

The determination of fair values of financial assets and financial liabilities recorded on the Statement of Financial Position for which there is no observable market price are determined using a variety of valuation techniques that include the use of mathematical models. The valuation of financial instruments is described in more detail in Note 4.4.10.

The Group measures fair value using the fair value hierarchy that reflects the significance of input used in making measurements. The fair value hierarchy is given in Note 50.4 and 50.6.

2.10.5 Financial Assets and Liabilities Classification

The Group's accounting policies provide scope for assets and liabilities to be classified, at inception into different accounting categories. The classification of financial instruments is given in Note 20, 'Analysis of Financial Instruments by Measurement Basis'.

2.10.6 Taxation

The Group is subject to income tax and judgment is required to determine the total provision for current, deferred and other taxes due to the uncertainties that exist with respect to the interpretation of the applicable tax laws, at the time of preparation of these Financial Statements.

The details of deferred tax computation is given in Note 34 to the Financial Statements.

2.10.7 Defined Benefit Plans

The cost of the defined benefit plans and the present value of their obligations are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and possible future pension increases if any. Due to the long term nature of these plans, such estimates are subject to significant uncertainty. All assumptions are reviewed at each reporting date.

In determining the appropriate discount rate, management considers the interest rates of Sri Lanka government bonds with maturities corresponding to the expected duration of the defined benefit obligation. The mortality rate is based on publicly available mortality tables. Future salary increases and pension increases are based on expected future inflation rate and expected future salary increase rates of the Group.

2.10.8 Fair Value of Property, Plant and Equipment

The 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 engages independent valuation

specialists to determine fair value of freehold lands and buildings in terms of the Sri Lanka Accounting Standard –SLFRS 13, (Fair Value Measurement). The details of freehold land and buildings, including methods of valuation are given in Note 32.3 and 32.4 to the Financial Statements.

2.10.9 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 and hence they are subject to uncertainty.

2.10.10 Commitments and Contingencies

All discernible risks are accounted for in determining the amount of all known liabilities. Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be reliably measured. Contingent liabilities are not recognised in the Statement of Financial Position but are disclosed unless they are remote. Details of commitments and contingencies are given in Note 46.

2.10.11 Classification of Investment

Properties

Management requires using its judgment to determine whether a property qualifies as an investment property. The Group has developed criteria so it can exercise its judgment consistently. A property that is held to earn rentals or for capital appreciation or both and which generates cash flows largely independently of the other assets held by the Group are accounted

for as investment properties. On the other hand, a property that is used for operations or in the process of providing services or for administrative purposes and which do not directly generate cash flows as a standalone asset are accounted for as property, plant and equipment. The Group assesses on an annual basis, the accounting classification of its properties taking into consideration the current use of such properties. Currently the Group does not have any investment property.

3. NEW / AMENDMENTS TO ACCOUNTING STANDARDS EFFECTIVE FROM 1ST JANUARY 2018

The Group applied SLFRS 9, SLFRS 7R and SLFRS 15 which are effective for annual periods beginning on or after 1st January 2018, for the first time. The Group has not adopted early any other standard, interpretation or amendment that has been issued but is not yet effective.

3.1 SLFRS 9: Financial Instruments

SLFRS 9 replaces LKAS 39 for annual periods on or after 1st January 2018. SLFRS 9 requires an entity to restate prior periods if and only if the restatement is possible without the use of hindsight. The Group has not restated comparative information for 2017 for financial instruments within the scope of SLFRS 9. Therefore, the comparative information for 2017 is reported under LKAS 39 and is not comparable to the information presented for 2018. Differences arising from the adoption of SLFRS 9 have been recognised directly in retained earnings as of 1st January 2018 and are disclosed in Note 6.

3.1.1 Changes to Classification and Measurement

To determine their classification and measurement category, SLFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics.

The LKAS 39 measurement categories of financial assets [fair value through profit or loss (FVPL), available for sale (AFS), held-to-maturity and loans and receivables (L&R)] have been replaced by:

- Debt and other instruments at amortised cost
- Debt instruments at fair value through other comprehensive income (FVOCI), with gains or losses recycled to profit or loss on derecognition
- Equity instruments at FVOCI, with no recycling of gains or losses to profit or loss on derecognition
- Financial assets at FVPL

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

Under SLFRS 9, embedded derivatives are no longer separated from a host financial asset. Instead, financial assets are classified based on the business model and their contractual terms, as explained in Note 4.4.3. The accounting for

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derivatives embedded in financial liabilities and in non-financial host contracts has not been changed. The Group's accounting policies for embedded derivatives are set out in Note 4.4.3.2 (a).

The Group's classification of its financial assets and liabilities is explained in Note 4.4.3. The Group did not have any quantitative impact from the adoption of classification principles of SLFRS 9 as at 1st January 2018.

3.1.2 Changes to the Impairment Calculation

The adoption of SLFRS 9 has fundamentally changed the Group's accounting for loan loss impairment by replacing LKAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. SLFRS 9 requires the Group to record an impairment for ECLs for all loans and debt & other financial instruments not held at FVPL, together with loan commitments and financial guarantee contracts. The impairment is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination in which case the impairment will be based on the ECLs associated with the probability of default over the entire lifetime of the loan.

Details of the Group's impairment method are disclosed in Note 4.4.6. The quantitative impact of applying expected credit loss approach in SLFRS 9 as at 1st January 2018 is disclosed in Note 6.

3.2 SLFRS 7R: Financial Instruments - Disclosures

To reflect the differences between SLFRS 9 and LKAS 39, SLFRS 7 Financial Instruments: Disclosures

was updated and the Group has adopted it, together with SLFRS 9, for the year beginning 1st January 2018. Changes including transition disclosures, detailed qualitative and quantitative information about the ECL calculations such as the assumptions and inputs used are set out in Notes 6, 4.4.6 and 51.2 respectively.

3.3 SLFRS 15 - Revenue from Contracts with Customers

SLFRS 15 became effective for financial periods beginning on or after 1st January 2018. The core principle of SLFRS 15 is that an entity have to recognise revenue to depict the transfer of promised goods or services to customers. This core principle is delivered in a five-step model framework as disclosed below.

- Identify the contract(s) with a customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contract
- Recognise revenue when (or as) the entity satisfies a performance obligation.

Application of this guidance will depend on the facts and circumstances present in a contract with a customer and will require the exercise of judgment.

The Group did not have any material impact on its fee and commission income with the adoption of SLFRS 15 for the year beginning 1st January 2018.

4. GENERAL ACCOUNTING POLICIES

4.1 Basis of Consolidation

The Group's Financial Statements comprise consolidation of the Financial Statements of the Bank and its subsidiaries in terms of the Sri Lanka Accounting Standard - 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.

4.2 Business Combinations and Goodwill

Business combinations are accounted for using the acquisition method as per the requirements of Sri Lanka Accounting Standard - SLFRS 3 (Business Combinations).

The Group measures goodwill as the fair value of the consideration transferred including the recognised amount of any non-controlling interest in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss. When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss, if controlling power is acquired.

The changes in parent's ownership interest in a subsidiary that do not result in the parent losing control of the subsidiary are equity transactions. The Group elects on a transaction-by-transaction basis whether to measure non-controlling interest at its fair value, or at its proportionate share of the recognised amount of the identifiable net assets, at the acquisition date.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

4.3 Foreign Currency Transactions and Balances

All foreign currency transactions are translated into the functional currency, which is Sri Lankan Rupees, using the exchange rates prevailing at the dates of the transactions were affected.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to Sri Lankan Rupees using the spot foreign exchange rate ruling at that date and all differences arising on non-trading activities are taken to 'Other operating income' in the Statement of Profit or Loss. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the rates of exchange prevailing at the end of the reporting period.

Non-monetary items in a foreign currency that are measured in terms of historical cost are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items in foreign currency measured at fair value are translated using the exchange rates at the date when the fair value was determined.

Foreign exchange differences arising on the settlement or reporting of monetary items at rates different from those which were initially recorded are dealt with in the Statement of Profit or Loss. However

foreign currency differences arising on equity instruments classified as fair value through other comprehensive income, financial liabilities designated as a hedge of a net investment in a foreign operation, or qualifying cash flow hedges are recognised in other comprehensive income.

Forward exchange contracts are valued at the forward market rates ruling on the reporting date. Resulting net unrealised gains or losses are dealt within the Statement of Profit or Loss under 'Net trading gain / loss'.

4.4 Financial Instruments - Initial Recognition, Classification and Subsequent Measurement

4.4.1 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 Group 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 Group recognises balances due to customers when funds are transferred to the Group.

4.4.2 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 4.4.3.1(a) and 4.4.3.1(b). Financial instruments are initially measured at their fair value.

Except in the case of financial assets and financial liabilities recorded at FVPL, transaction costs are added to, or subtracted from, this amount. Trade receivables are measured at the transaction price. When the fair value of financial instruments at initial recognition differs from the transaction price, the Group accounts for the Day 1 profit or loss, as described below.

4.4.2.1 'Day 1' Profit or Loss

When the transaction price differs from the fair value of other observable current market transactions in the same instrument, or based on a valuation technique whose variables include only data from observable markets, the Group recognises the difference between the transaction price and fair value (a 'Day 1' profit or loss) in the Statement of Profit or Loss over the tenor of the financial instrument using the effective interest rate method. In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognised in the Statement of Profit or Loss when the inputs become observable, or when the instrument is derecognised.

4.4.3 Measurement Categories of Financial Assets and Liabilities

From 1st January 2018, the Group classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

- Amortised cost, as explained in Note 4.4.3.1
- FVOCI, as explained in Note 4.4.3.4 and 4.4.3.5
- FVPL

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The Group classifies and measures its derivative and trading portfolio at FVPL as explained in Notes 4.4.3.2 and 4.4.3.3. The Group may designate financial instruments at FVPL, if so doing eliminates or significantly reduces measurement or recognition inconsistencies, as explained in Note 4.4.3.7.

Before 1st January 2018, the Group classified its financial assets as loans and receivables (amortised cost), FVPL, available-for-sale or held-to-maturity (amortised cost), as explained in Notes 4.4.3.9 and 4.4.3.10. Financial liabilities, other than loan commitments and financial guarantees, are measured at amortised cost or at FVPL when they are held for trading and derivative instruments or the fair value designation is applied, as explained in Note 4.4.3.7.

4.4.3.1 Due from banks, loans and advances to customers, other loans and receivables

Before 1st January 2018, Due from bank, loans and advances to customers and other loans and receivables included non-derivative financial assets with fixed or determinable payments that were not quoted in an active market, other than those:

- That the Group intended to sell immediately or in the near term
- That the Group, upon initial recognition, designated as FVPL or as available-for-sale
- For which the Group may not recover substantially all of its initial investment, other than because of credit deterioration, which were designated as available-for-sale.

From 1st January 2018, the Group only measures due from

banks, loans and advances to customers and debt & other financial instruments at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective of collecting 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.

4.4.3.1 (a) Business model assessment

The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

The Group's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of

the assets managed or on the contractual cash flows collected)

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

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

4.4.3.1 (b) The SPPI test

As a second step of its classification process the Group 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 amortisation of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Group applies judgement and considers relevant factors such as the currency in which the financial asset is denominated and the period for which the interest rate is set. In contrast, contractual terms that introduce a more than de minimis exposure to risks or

volatility in the contractual cash flows that are unrelated to a basic lending arrangement, do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

4.4.3.2 *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 Group enters into derivative transactions with various counterparties. These include interest rate swaps, cross-currency swaps, forward foreign exchange contracts etc. 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 24. Changes in the fair value of derivatives are included in net trading income unless hedge accounting is applied. The Group has not applied hedge accounting

for any of its derivatives during the years ended 31st December 2018 and 2017.

4.4.3.2 (a) *Embedded derivatives*

An embedded derivative is a component of a hybrid instrument that also includes a non-derivative host contract with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. An embedded derivative causes some or all of the cash flows that otherwise would be required by the contract to be modified according to 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. A derivative that is attached to a financial instrument, but is contractually transferable independently of that instrument, or has a different counterparty from that instrument, is not an embedded derivative, but a separate financial instrument. Under LKAS 39, derivatives embedded in financial assets, liabilities and non-financial host contracts, were treated as separate derivatives and recorded at fair value if they met the definition of a derivative (as defined above), their economic characteristics and risks were not closely related to those of the host contract, and the host contract was not itself held for trading or designated at FVPL. The embedded derivatives separated from the host were carried at fair value in the trading portfolio with changes in fair value recognised in the income statement.

From 1st January 2018, with the introduction of SLFRS 9, the Group accounts in this way for derivatives embedded in financial liabilities and non-financial host contracts. Derivatives embedded in financial

assets are no longer separated. Instead, they are classified based on the business model and SPPI assessments as outlined in Note 4.4.3.1.

4.4.3.3 *Financial assets or financial liabilities held for trading*

The Group 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 trading income. Interest income from financial assets held for trading is recorded under net interest income while dividend income is recorded in net trading income when the right to payment has been established. Included in this classification are debt securities and equity investments that have been acquired principally for the purpose of selling or repurchasing in the near term. The Group does not have any financial liabilities classified as held for trading as at 31st December 2018.

4.4.3.4 *Debt instruments at FVOCI (Policy applicable from 1st January 2018)*

The Group applies this new category under SLFRS 9 for debt instruments 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

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These instruments largely comprise government securities that had previously been classified as available-for-sale under LKAS 39.

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Interest income and foreign exchange gains and losses are recognised in profit or loss in the same manner as for financial assets measured at amortised cost.

The ECL calculation for Debt instruments at FVOCI is explained in Note 4.4.6.5. Where the Group holds more than one investment in the same security, they are deemed to be disposed of on a first-in first-out basis. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to profit or loss.

4.4.3.5 Equity instruments at FVOCI (Policy applicable from 1st January 2018)

Upon initial recognition, the Group occasionally elects to classify irrevocably some of its equity investments at FVOCI when they meet the definition of equity under LKAS 32 Financial Instruments: Presentation and are not held for trading. Such classification is determined on an instrument-by-instrument basis.

Gains and losses on these equity instruments are never recycled to profit. Dividends are recognised in profit or loss as other operating income when the right of the payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment.

4.4.3.6 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 of funds and costs that are an integral part of the EIR. The Group does not have compound financial instruments which contains both liability and equity components and require separation as at the date of the issue.

4.4.3.7 Financial assets and financial liabilities at fair value through profit or loss

Financial assets and financial liabilities in this category are those that are not held for trading and have been either designated by management upon initial recognition or are mandatorily required to be measured at fair value under SLFRS 9. Management only designates an instrument at FVPL upon initial recognition when one of the following criteria are met. Such designation is determined on an instrument-by-instrument basis:

- The designation eliminates, or significantly reduces, the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis

Or

- The liabilities (and assets until 1st January 2018 under LKAS 39) are part of a group of financial liabilities (or financial assets, or both under LKAS 39), which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy

Or

- The liabilities (and assets until 1st January 2018 under LKAS 39) containing one or more embedded derivatives, unless they do not significantly modify the cash flows that would otherwise be required by the contract, or it is clear with little or no analysis when a similar instrument is first considered that separation of the embedded derivative(s) is prohibited

Financial assets and financial liabilities at FVPL are recorded in the statement of financial position at fair value. Changes in fair value are recorded in profit or loss with the exception of movements in fair value of liabilities designated at FVPL due to changes in the Group's own credit risk. Such changes in fair value are recorded in the "Own credit reserve" through OCI and do not get recycled to the profit or loss. Interest earned or incurred on instruments designated at FVPL is accrued in interest income or interest expense, respectively, using the EIR, taking into account any discount/premium and qualifying transaction costs being integral parts of the instrument.

4.4.3.8 Financial guarantees, letters of credit and undrawn loan commitments

The Group issues financial guarantees, letters of credit and loan commitments. Financial guarantees are initially recognised in the financial statements at fair value, being the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement, and – under LKAS 39 – the best estimate of expenditure required to settle any financial obligation arising

as a result of the guarantee, or – under SLFRS 9 – the ECL provision.

The premium received is recognised in the income statement under 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 Group is required to provide a loan with pre-specified terms to the customer. Similar to financial guarantee contracts, under LKAS 39, a provision was made if they were an onerous contract but, from 1st January 2018, these contracts are within 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 46.

4.4.3.9 Available-for-sale financial investments (Policy applicable before 1st January 2018)

Available for sale financial assets include equity and debt securities. Equity investments classified as 'Available for sale' are those which are neither classified as 'Held for trading' nor 'designated at fair value through profit or loss' under the classification principles set out in LKAS 39. Debt securities in this category are intended to be held for an indefinite period of time and may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, available for sale financial investments are subsequently measured at fair value. Unrealised gains and losses are recognised directly in equity through 'Other comprehensive income / expense' in the 'Available for sale reserve'. When the investment is disposed of, the cumulative gain or loss previously recognised in equity is recognised in the Statement of Profit or Loss under 'Net gain on financial assets'. Where the Group holds more than one investment in the same security, they are deemed to be disposed of on a first-in first-out basis. Interest earned whilst holding 'Available for sale financial investments' is reported as 'Interest income' using the effective interest rate. Dividend earned whilst holding 'Available for sale financial investments' are recognised in the Statement of Profit or Loss as 'Net gain on financial assets' when the right to receive the payment has been established. The losses arising from impairment of such investments are recognised in the Statement of Profit or Loss under 'Impairment charge for loans and other losses' and removed from the 'Available for sale reserve'.

Details of 'Financial assets - available for sale' are given in Note 29 to the Financial Statements.

4.4.3.10 Held-to-maturity financial investments (Policy applicable before 1st January 2018)

Held to maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities, which the Group has the intention and ability to hold to maturity. After the initial recognition, held to maturity financial investments are subsequently measured at amortised cost using the effective interest rate, less impairment. The

amortisation is included in 'Interest income' in the Statement of Profit or Loss. The losses arising from impairment of such investments are recognised in the Statement of Profit or Loss.

Details of 'Financial investments - held to maturity' are given in Note 30 to the Financial Statements.

4.4.4 Reclassification of financial assets and liabilities

From 1st January 2018, the Group does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Group may acquire, dispose of, or terminates a business line (change in business model). When the Group reclassifies its financial assets it applies the reclassification prospectively from the reclassification date without restating any previously recognised gains, losses (including impairment gains or losses) or interest. Financial liabilities are never reclassified.

When a financial asset is reclassified out of the amortised cost measurement category and into the fair value through profit or loss measurement category, its fair value is measured at the reclassification date. Any gain or loss arising from a difference between the previous amortised cost of the financial asset and fair value is recognised in profit or loss.

When a financial asset is reclassified out of the fair value through profit or loss measurement category and into the amortised cost measurement category, its fair value at the reclassification date becomes its new gross carrying amount.

When a financial asset is reclassified out of the amortised cost measurement category

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and into the fair value through other comprehensive income measurement category, its fair value is measured at the reclassification date. Any gain or loss arising from a difference between the previous amortised cost of the financial asset and fair value is recognised in other comprehensive income. The effective interest rate and the measurement of expected credit losses are not adjusted as a result of the reclassification.

When a financial asset is reclassified out of the fair value through other comprehensive income measurement category and into the amortised cost measurement category, the financial asset is reclassified at its fair value at the reclassification date. However, the cumulative gain or loss previously recognised in other comprehensive income is removed from equity and adjusted against the fair value of the financial asset at the reclassification date. As a result, the financial asset is measured at the reclassification date as if it had always been measured at amortised cost. The effective interest rate and the measurement of expected credit losses are not adjusted as a result of the reclassification.

When a financial asset is reclassified out of the fair value through profit or loss measurement category and into the fair value through other comprehensive income measurement category, the financial asset continues to be measured at fair value.

When a financial asset is reclassified out of the fair value through other comprehensive income measurement category and into the fair value through profit or loss measurement category, the financial asset continues to be measured

at fair value. The cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment at the reclassification date.

The Group did not reclassify any of its financial assets or liabilities in 2018.

4.4.5 Derecognition of financial assets and liabilities

4.4.5.1 *Derecognition due to substantial modification of terms and conditions*

The Group 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 credit impaired at the date of inception.

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

- Change in currency of the loan
- Introduction of an equity feature
- Change in counterparty
- If the modification is such that the instrument would no longer meet the SPPI criterion

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Group records a modification gain or loss, to the extent that an impairment loss has not already been recorded.

4.4.5.2 *Derecognition other than for substantial modification*

4.4.5.2 (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 Group also derecognises the financial asset if it has both transferred the financial asset and the transfer qualifies for derecognition.

The Group has transferred the financial asset if, and only if, either:

- The Group 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 Group 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 Group 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 Group cannot sell or pledge the original asset other than as security to the eventual recipients
- The Group has to remit any cash flows it collects on behalf of the eventual recipients without material delay. In addition, the Group 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 Group has transferred substantially all the risks and rewards of the asset
- Or
- The Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

The Group 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 Group 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 Group's continuing involvement, in which case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights

and obligations that the Group 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 Group could be required to pay.

4.4.5.2 (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.

4.4.6 Impairment allowance for financial assets

4.4.6.1 Overview of the ECL principles

As described in Note 3.1.2, the adoption of SLFRS 9 has fundamentally changed the Group's loan loss impairment method by replacing LKAS 39's incurred loss approach with a forward-looking ECL approach. From 1st January 2018, the Group has been recording the impairment for expected credit losses for all loans and debt & other financial instruments not held at FVPL, together with loan commitments and financial guarantee contracts. Equity instruments are not subject to impairment under SLFRS 9.

The ECL impairment 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 impairment is based on the 12 months' expected credit loss (12mECL). The Group's policies for determining if there has been a significant increase in credit risk are set out in Note 4.4.6.1 (b).

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

Both LTECLs and 12mECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments. The policy for grouping financial assets measured on a collective basis is explained in Note 4.4.6.4. The details of individual assessment of ECLs are given in Note 4.4.6.3.

The Group has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. This is further explained in Note 4.4.6.1(b). Based on the above process, the Group categorise its loans into 'Stage 1', 'Stage 2', 'Stage 3' and 'originated credit impaired', as described below:

- Stage 1: When loans are first recognised, the Group recognises an impairment based on 12mECLs. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.

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- Stage 2: When a loan has shown a significant increase in credit risk since origination, the Group records an impairment for the LTECLs. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.
- Stage 3: Loans considered credit-impaired [as outlined in Note 4.4.6.1(a)]. The Group records an impairment for the LTECLs.
- Originated credit impaired: Originated credit impaired assets are financial assets that are credit impaired on initial recognition. They are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit-adjusted EIR. ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses.

For financial assets for which the Group 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.

4.4.6.1 (a) Definition of default and cure

The Group considers a financial instrument as 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.

As a part of a qualitative assessment of whether an individually significant customer is in default, the Group also considers a variety of instances that may indicate unlikelihood to

pay. When such events occur, the Group carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate.

Such events include:

- Internal rating of the borrower indicating default or near-default
- The borrower requesting emergency funding
- The borrower having past due liabilities to public creditors or employees
- The borrower is deceased
- A material decrease in the underlying collateral value where the recovery of the loan is expected from the sale of the collateral
- A material decrease in the borrower's turnover or the loss of a major customer
- A covenant breach not waived by the Group
- The debtor (or any legal entity within the debtor's group) filing for bankruptcy application/ protection
- Debtor's listed debt or equity suspended at the primary exchange because of rumours or facts about financial difficulties

It is the Group's policy to consider a financial instrument as 'cured' and therefore re-classified out of Stage 3 when none of the default criteria have been present and the borrower is no longer considered as non performing in accordance with the Directives of the Central Bank.

Once cured, the decision whether to classify an asset as Stage 2 or Stage 1 largely depends on the days

past due, at the time of the cure. The Group's criterion for 'cure' for rescheduled / restructured loans is more stringent than ordinary loans and is explained in Note 4.4.6.11.

4.4.6.1 (b) Significant increase in credit risk

The Group continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Group assesses whether there has been a significant increase in credit risk since initial recognition. The Group considers an exposure to have a significantly increased credit risk when it is past due for more than 30 days.

The Group also applies a secondary qualitative method for triggering a significant increase in credit risk, such as restructuring or rescheduling of an assets while the asset is less than 30 days past due. In certain cases, the Group may also consider that events explained in Note 4.4.6.1(a) are a significant increase in credit risk as opposed to a default, for customers who are considered as individually significant.

4.4.6.2 The calculation of ECL

The Group calculates ECL based on three probability-weighted scenarios to measure the expected cash shortfall (the base case, best case and the worst case), discounted at an approximation to the EIR. Each of these is associated with different loss rates. The assessment of multiple scenarios 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.

Key elements of the ECL calculations are outlined below:

- PD - The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio. The concept of PDs is further explained in Note 4.4.6.4 (a).
- EAD – The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments. The EAD is further explained in Note 4.4.6.4 (b).
- LGD – The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD. The LGD is further explained in Note 4.4.6.4 (c).

With the exception of credit cards and other revolving facilities, for which the treatment is separately set out in Note 4.4.6.6, the maximum period for which the credit losses are determined is the contractual life of a financial instrument unless the Group has the legal right to call it earlier.

4.4.6.3 Calculation of ECLs for individually significant loans

The Group first assesses ECLs individually for financial assets that are individually significant to the Group. In the event the Group determines that such assets are not impaired (Not in stage 3), it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. However, assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment. The criteria used to determine whether individually significant customer is in default is discussed in Note 4.4.6.1 (a).

If the asset is impaired, the amount of the loss is measured by discounting the expected future cash flows of a financial asset at its original effective interest rate and comparing the resultant present value with the financial asset's current carrying amount. The impairment on individually significant accounts are reviewed more regularly when circumstances require. This normally encompasses re-assessment of the enforceability of any collateral held and the timing and amount of actual and anticipated receipts. Individually assessed impairment is only released when there is reasonable and objective evidence of a reduction in the established loss estimate. Interest on impaired assets continues to be recognised through the unwinding of the discount.

When ECLs are determined for individually significant financial assets, following factors are considered:

- Aggregate exposure to the customer including any undrawn exposures;
- The viability of the customer's business model and their capacity to trade successfully out of financial difficulties and generate sufficient cash flows to service debt obligations;
- The amount and timing of expected receipts and recoveries;
- The extent of other creditors' commitments ranking ahead of, or pari-passu with the Bank and the likelihood of other creditors continuing to support the company;
- The complexity of determining the aggregate amount and ranking of all creditor claims and the extent to which legal and insurance uncertainties are evident;
- The realisable value of security (or other credit mitigants) and likelihood of successful repossession;
- The likely deduction of any costs involved in recovery of amounts outstanding;
- The ability of the borrower to obtain and make payments in the currency of the loan if not denominated in local currency; and
- The likely dividend available on liquidation or bankruptcy

4.4.6.4 Grouping financial assets measured on a collective basis

The Group calculates ECLs either on a collective or an individual basis. Asset classes where the Group calculates ECL on an individual basis include:

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- All customers whose exposure is more than or equal to the internal threshold for classifying them as individually significant. However, if the customer is determined to be in stage I or stage II such customers are moved back to collective ECL calculation.
- The treasury, trading and interbank relationships (such as Due from banks, debt instruments at amortised cost/ FVOCI)

For all other asset classes, the Group calculates ECL on a collective basis. The Group categorises these exposures into smaller homogeneous portfolios, based on a combination of internal and external characteristics of the loans, as described below:

- Product type
- Type of collateral
- Industry of the borrower
- Whether the loan is restructured / rescheduled

4.4.6.4 (a) The internal rating and PD estimation process

The Bank's Credit Risk Department operates its internal rating models. The Bank runs separate models for its key portfolios in which its customers are rated from A+ to D using internal grades. The models incorporate both qualitative and quantitative information and, in addition to information specific to the borrower, utilise supplemental external information that could affect the borrower's behaviour. Although these PDs are used for regulatory purposes, the same is not used for PD estimation under SLFRS 9.

PD estimation for loans and advances to other customers under SLFRS 9 is largely based on the Days Past Due (DPD) of the customers which is common for most Banks in the country at present.

Accordingly, exposures are categorised among 5 groups based on the DPD as follows.

- Zero days past due
- 1 – 30 days past due
- 31 - 60 days past due
- 61 – 90 days past due
- Above 90 days past due

The Bank is in the process of developing its internal risk rating system to suit the requirements of SLFRS 9 with the help of an external consultant.

The movement of the customers in to bad DPD categories are tracked at each account level over the periods and it is used to estimate the amount of loans that will eventually be written off.

However, for loans to and receivables from to banks and debt & other financial instruments classified as amortised cost / FVOCI, the Group relies on external credit ratings in determining their respective PDs.

4.4.6.4 (b) Exposure at default

The exposure at default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation, addressing both the client's ability to increase its exposure while approaching default and potential early repayments too.

To calculate the EAD for a Stage 1 loan, the Group assesses the possible default events within 12

months. However, if a Stage 1 loan that is expected to default within the 12 months from the balance sheet date is also expected to cure and subsequently default again, then all linked default events are taken into account. For Stage 2 and Stage 3 financial assets and credit impaired financial assets at origination, events over the lifetime of the instruments are considered. The Group determines EADs by modelling the range of possible exposure outcomes at various points in time, corresponding to the multiple scenarios. The SLFRS 9 PDs are then assigned to each economic scenario based on the outcome of Group's models.

4.4.6.4 (c) Loss given default

LGD values are assessed at least annually for each material collateral type. The Group segregates its customer loan book based on following major types of collaterals when calculating the LGD.

- Secured against cash / deposits held within the bank
- Secured against immovable property
- Secured against motor vehicles and other movable properties
- Secured against gold
- Secured against listed shares
- Secured against lease receivables

These LGD rates take into account the expected EAD in comparison to the amount expected to be recovered or realised from any collateral held. Historically collected loss data is used for LGD calculation and involves a wider set of transaction characteristics (e.g., product type, collateral type) as well as borrower characteristics. Further recent data and forward-looking

economic scenarios are used in order to determine the LGD for each collateral type. The LGD rates, where possible, are calibrated through back testing against recent recoveries.

For financial investments other than loans and receivables, the Group uses the LGD rates specified by the regulator in the Basel III guidelines when calculating the ECL as per SLFRS 9.

4.4.6.5 Debt instruments measured at FVOCI

The ECLs for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the impairment 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.

4.4.6.6 Credit cards and other revolving facilities

The Bank's product offering includes a variety of corporate and retail overdrafts and credit cards facilities, in which the Bank has the right to cancel and/or reduce the facilities with a very short notice. The Bank does not limit its exposure to credit losses to the contractual notice period, but, instead calculates ECL over a period of 12 months to reflect the Bank's expectations of the customer behaviour, its likelihood of default and the Bank's future risk mitigation procedures, which could include reducing or cancelling the facilities.

4.4.6.7 Forward looking information

In its ECL models, the Bank relies on a broad range of forward looking information as economic inputs, such as:

- GDP growth
- Unemployment rates
- Interest rates
- Exchange rate
- Inflation rate
- World GDP growth

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. To ensure completeness and accuracy, the Group obtains the above data from third party sources (Central Bank, World Bank and International Monetary Fund etc). The Bank's internal Research Unit reviews the inputs used and the weights attributed to multiple scenarios.

4.4.6.8 Collateral valuation

To mitigate its credit risks on financial assets, the Group 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 such as netting agreements. The Group'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, unless repossessed, is not recorded on the Group'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 to fall in line with the CBSL directives.

To the extent possible, the Group uses active market data for valuing financial assets held as collateral. Other financial assets which do not have readily determinable market values are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as independent valuation specialists.

4.4.6.9 Collateral repossessed

The Group's accounting policy under SLFRS 9 remains the same as it was under LKAS 39. The Group's policy is to determine whether a repossessed asset can be best used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to the relevant asset category at the lower of the repossessed value or the carrying value of the original secured asset.

4.4.6.10 Write-offs

The Group's accounting policy under SLFRS 9 remains the same as it was under LKAS 39. Financial assets are written off either partially or in their entirety only when the Group has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated impairment, the difference is first treated as an addition to the impairment that is then applied against the gross carrying amount. Any subsequent recoveries are credited to the statement of profit or loss.

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4.4.6.11 Rescheduled and restructured loans

The Bank sometimes makes concessions or modifications to the original terms of loans in response to the borrower's financial difficulties, rather than taking possession of the collateral. The Bank considers a loan as rescheduled / restructured, when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and the Bank would not have agreed to them if the borrower had been financially healthy. Indicators of financial difficulties include defaults on covenants, or significant concerns raised by the Credit Risk Department. Rescheduling / restructure 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 / restructured loans to ensure that future payments are likely to occur.

From 1st January 2018, rescheduled /restructured loans are at a minimum classified as stage 2 at the date of the modification of the loan. The Bank also consider whether such assets should be classified as Stage 3. Once an asset has been classified as stage 3, it will remain in stage 3 until it becomes performing (less than 30 days past due) but still be subjective for LTECL. Details of restructured / rescheduled loans are disclosed in Note 51.2.1(f).

If modifications are substantial, the loan is derecognised, as explained in Note 4.4.5.1.

4.4.6.12 Impairment of Financial Assets carried at Amortised Cost (policy applicable prior to 1st January 2018)

For financial assets carried at amortised cost, such as amounts due from banks, loans and advances taken by customers, held to maturity investments etc., the Group first assesses individually whether incurred credit losses exists for financial assets that are individually significant or collectively for financial assets that are not individually significant.

In the event the Group determines that no incurred credit loss exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. However, assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

4.4.6.12 (a) Individually Assessed Financial Assets

The criteria used to determine whether there is objective evidence of impairment is similar to those explained under Note 4.4.6.1 (a).

If there is objective evidence of impairment, the amount of the loss is measured by discounting the expected future cash flows by the original effective interest rate and comparing the resultant present value with the loan's current carrying amount. The incurred loss impairment on individually significant accounts are reviewed more regularly when circumstances require. Interest on impaired assets continues to be recognised through the unwinding of the discount.

4.4.6.12 (b) Collectively Assessed Financial Assets

The collective impairment is determined after taking into account:

- Historical loss experience in portfolios of similar credit risk; and
- Management's experienced judgment as to whether current economic and credit conditions are such that the actual level of inherent losses at the reporting date is like to be greater or less than that suggested by historical experience.

Statistical methods are used to determine the amount of incurred losses on a collective basis for homogeneous groups of financial assets. Losses in these groups of financial assets are recorded on an individual basis when individual financial assets are written off, at which point they are removed from the group.

Two alternative methods are used to calculate historical loss experience on a collective basis:

When the group of financial assets by nature long term, the Group uses migration analysis method. Under this methodology the movements in number of customers into bad categories over the periods are used to estimate the amount of financial assets that will eventually be written off as a result of the events occurring before the reporting date which the Group is not able to identify on an individual financial asset basis and that can be reliably estimated.

When the group of financial assets by nature short term, the Group uses net flow rate method. Under

this methodology the movement in the outstanding balance of customers into bad categories over the periods are used to estimate the amount of financial assets that will eventually be written off as a result of the events occurring before the reporting date which the Group is not able to identify on an individual loan basis and that can be reliably estimated.

Under both methodologies, loans are grouped into ranges according to the number of days in arrears and statistical analysis is used to estimate the likelihood that loans in each range will progress through the various stages of delinquency and ultimately prove irrecoverable. Current economic conditions and portfolio risk factors are also evaluated when calculating the appropriate level of impairment required to cover inherent loss.

4.4.6.13 Impairment of Financial Assets - Available for Sale (Policy applicable prior to 1st January 2018)

For available for sale financial assets, the Group assesses at each reporting date whether there is objective evidence that an asset is impaired. In the case of debt instruments classified as available for sale, the Group assesses individually whether there is objective evidence of impairment based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the Statement of Profit or Loss. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose

of measuring the impairment loss. If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to a credit event occurring after the impairment loss was recognised, the impairment loss is reversed through the Statement of Profit or Loss.

In the case of equity investments classified as available for sale, objective evidence would also include a 'significant' or 'prolonged' decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss is removed from equity and recognised in the Statement of Profit or Loss. However, any subsequent increase in the fair value of an impaired available for sale equity security is recognised in other comprehensive income.

The Group writes-off certain available for sale financial investments when they are determined to be uncollectible.

4.4.7 Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount presented in the Statement of Financial Position only when the Group has a legal right to set off the recognised amounts and it intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted under LKASs / SLFRSs or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

4.4.8 Hedge Accounting

The Group designates certain derivatives as either:

- Hedges of fair value of recognised assets, liabilities or firm commitments (fair value hedge);
- Hedges of highly probable future cash flows attributable to a recognised asset or liability, or a forecast transaction (cash flow hedge); or
- Hedges of net investments in foreign operations (net investment hedges)

Hedge accounting is used for derivatives designated in this way provided certain criteria are met. The Group documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The Group did not designate any derivative as a hedging instrument during the years ended 31st December 2017 and 2018.

4.4.9 Amortised Cost Measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method

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of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

4.4.10 Fair Value Measurement

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability (exit price) in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk. When available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument (Level 01 valuation). A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price - i.e. the fair value of the consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability (Level 01 valuation) nor based on a valuation technique that uses only data from observable markets (Level 02 valuation), then

the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but not later than when the valuation is wholly supported by observable market data or the transaction is closed out.

Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group entity and the counterparty where appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties; to the extent that the Group believes a third-party market participant would take them into account in pricing a transaction.

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

4.5 Finance and Operating Leases

The determination of whether an arrangement is a lease, or it 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 and the arrangement conveys a right to use the asset.

4.5.1 Finance Lease

Agreements which transfer to counterparties substantially all the risks and rewards incidental to the ownership of assets, but not necessarily legal title, are classified as finance leases. When the Group is the lessor under finance leases the amounts due under the leases, after deduction of unearned interest income, are included in Note 26, 'Loans to & receivables from banks and Note 27, 'Loans to & receivables from other customers', as appropriate. Interest income receivable is recognised in 'Net interest income' over the periods of the leases so as to give a constant rate of return on the net investment in the leases.

When the Group is a lessee under finance leases, the leased assets are capitalised and included in 'Property, plant and equipment' and the corresponding liability to the lessor is included in 'Other liabilities'. A finance lease and its corresponding liability are recognised initially at the fair value of the asset or if lower, the present value of the minimum lease payments. Finance charges payable are recognised in 'Interest expenses' over the period of the lease based on the interest rate implicit in the lease so as to give a constant rate of interest on the remaining balance of the liability.

4.5.2 Operating Lease

All other leases are classified as operating leases. When acting as lessor, the Group includes the assets subject to operating leases in 'Property, plant and equipment' and accounts for them accordingly. Impairment losses are recognised

to the extent that residual values are not fully recoverable and the carrying value of the assets is thereby impaired.

When the Group is the lessee, leased assets are not recognised on the Statement of Financial Position.

Rentals payable and receivable under operating leases are accounted for on a straight-line basis over the periods of the leases and are included in 'Other operating expenses' and 'Other operating income', respectively.

4.6 Fiduciary Assets

The Group provides fiduciary services that result in the holding of assets on behalf of its customers. Assets held in fiduciary capacity are not reported in the Financial Statements, as they are not assets of the Group.

4.7 Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

The amount recognised is the best estimate of the consideration required to settle the present obligation at the reporting date, taking in to account the risks and uncertainties surrounding the obligation at that date. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is determined based on the present value of those cash flows. A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting

its obligations under the contract. The provision is measured as the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract.

Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract. The expense relating to any provision is presented in the Statement of Profit or Loss net of any reimbursement.

4.8 Operational Risk Events

Provisions for operational risk events are recognised for losses incurred by the Group which do not relate directly to the amounts of principal outstanding for loans and advances. The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation as at the reporting date, taking into account the risks and uncertainties that surround the events and circumstances that affect the provision.

4.9 Recognition of Income

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Specific recognition criteria that must be met before revenue is recognised is discussed under Note 8 - Net Interest Income, Note 9 - Net Fee and Commission Income, Note 10 - Net Trading Gain / Loss and Note 11 - Net Gain on Financial Assets.

4.10 Other Taxes

4.10.1 Withholding Tax (WHT) on Dividend

Dividend distributed out of taxable profit of the local subsidiaries attracts WHT at source and is

not available to set off against the tax liability of the Bank. Thus, the WHT deducted at source, on the dividends distributed by the subsidiaries is charged to the Consolidated Statement of Profit or Loss as a consolidation adjustment.

WHT that arise from the distribution of dividend by the Bank are recognised at the same time as the liability to pay the related dividend is recognised.

4.10.2 Economic Service Charge (ESC)

As per provisions of the Economic Service Charge (ESC) Act No. 13 of 2006 and subsequent amendments thereto, ESC is payable on liable gross turnover of the Bank at 0.5% and is deductible from income tax payable.

4.11 Regulatory Provisions

4.11.1 Deposit Insurance and Liquidity Support Scheme

In terms of the Banking Act Direction No. 5 of 2010 "Insurance of Deposit Liabilities" issued on 27th September 2010 and subsequent amendments there to, all Licensed Commercial Banks are required to insure their deposit liabilities in the Deposit Insurance Scheme operated by the Monetary Board in terms of Sri Lanka Deposit Insurance Scheme Regulations No. 1 of 2010 issued under Sections 32A to 32E of the Monetary Law Act with effect from 1st October 2010. The said scheme was renamed as the "Sri Lanka Deposit Insurance and Liquidity Support Scheme" as per the Sri Lanka Deposit Insurance and Liquidity Support Scheme Regulation No. 1 of 2013.

Deposits to be insured include demand, time and savings deposit liabilities and exclude the following:

NOTES TO THE FINANCIAL STATEMENTS

- deposit liabilities to member institutions
- deposit liabilities to government of Sri Lanka
- deposit liabilities to Directors, key management personnel and other related parties as defined in Banking Act Direction No. 11 of 2007 on Corporate Governance of Licensed Commercial Banks
- deposit liabilities held as collateral against any accommodation granted
- deposit liabilities falling within the meaning of abandoned property in terms of the Banking Act and dormant deposits in terms of the Finance Business Act, funds of which have been transferred to Central Bank of Sri Lanka.

The Bank's total capital ratio as at 31st December 2017 exceeded 14% and accordingly the Bank paid a premium of 0.10% during the year ended 31st December 2018.

4.11.2 Crop Insurance Levy

In terms of the Finance Act No. 12 of 2013, all institutions under the purview of Banking Act No. 30 of 1988, Finance Business Act No. 42 of 2011 and Regulation of Insurance Industry Act No. 43 of 2000 are required to pay 1% of the profit after tax as Crop Insurance Levy to the National Insurance Trust Fund effective from 1st April 2013.

5. STANDARDS ISSUED BUT NOT YET EFFECTIVE AS AT 31ST DECEMBER 2018

The following Sri Lanka Accounting Standard has been issued by the Institute of Chartered Accountants of Sri Lanka which is not yet effective as at 31st December 2018. Accordingly, this accounting standard has not been applied in the preparation of the Financial Statements for the year ended 31st December 2018.

5.1 SLFRS 16 – Leases

SLFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('Lessee') and the supplier ('Lessor'). SLFRS 16 will replace Sri Lanka Accounting Standard – LKAS 17 (Leases) and related interpretations. SLFRS 16 introduces a single accounting model for the lessee, eliminating the present classification of leases in LKAS 17 as either operating leases or finance leases.

The new Standard requires a lessee to:

- recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value
- present depreciation of lease assets separately, from interest on lease liabilities in the statement of profit or loss.

SLFRS – 16 substantially carries forward the lessor accounting requirement in LKAS – 17. Accordingly, a lessor continues to classify its leases as operating lease or finance lease, and to account for those two types of leases differently.

SLFRS -16 will become effective on 1st January 2019. The Group has no material impact on the implementation of the above Standard.

6 TRANSITION DISCLOSURES

The following notes set out the impact of adopting Sri Lanka Accounting Standard - SLFRS 9 (Financial Instruments) at transition date, 1st January 2018 on the Statement of Financial Position, and retained earnings including the effect of replacing incurred credit loss calculations under Sri Lanka Accounting Standard - LKAS 39 (Financial Instruments - recognition and measurement) with expected credit loss (ECL) calculations under SLFRS 9.

Reclassification:

These adjustments reflect the movement of balances between categories on the Statement of Financial Position with no impact to shareholders' equity. There is no change to the carrying value of the balances as a result of the reclassification.

Re-measurement:

These adjustments, which include expected credit loss, result in a change to the carrying value of the item on the Statement of Financial Position with an impact to shareholders' equity net of tax.

Bank

As at 1st January 2018

	Note	LKAS 39 Measurement Category	Amount Rs 000	Reclassification Rs 000	Re-Measurement ECL Rs 000	Other Rs 000	SLFRS 9 Amount Rs 000	Category
Financial assets								
Cash & cash equivalents	21.2	L&R	22,334,315	-	(7,848)	-	22,326,467	AC
Balances with Central Bank of Sri Lanka		L&R	41,100,364	-	-	-	41,100,364	AC
Placements with banks	23.2	L&R	3,159,326	-	(15,353)	-	3,143,973	AC
Reverse repurchase agreements		L&R	1,200,762	-	-	-	1,200,762	AC
Derivative financial instruments		HFT	496,918	-	-	-	496,918	FVPL
Financial assets recognised through profit or loss - measured at fair value		HFT	20,502,507	-	-	-	20,502,507	FVPL
Loans to & receivables from banks	26.2	L&R	2,084,507	-	(13,702)	-	2,070,805	AC
Loans to & receivables from other customers	27.3	L&R	560,798,940	-	(1,852,928)	-	558,946,012	AC
Other loans & receivables		L&R	49,352,443	(49,352,443)	-	-	n/a	
To: Debt & other instruments	A			(49,352,443)				
Debt & other instruments	28.4		n/a	49,352,443	(274,016)		49,078,427	AC
From: Other loans & receivables	A			49,352,443				
From: Financial assets - held to maturity	B			-	-	-	-	
Financial assets - available for sale		AFS	77,095,719	(77,095,719)	-	-	n/a	
To: Financial assets - FVOCI	C			(77,095,719)			-	
Financial assets - FVOCI			n/a	77,095,719	-	-	77,095,719	FVOCI
From: Financial asset - AFS	C			77,095,719				
Financial assets - held to maturity		HTM	-	-			n/a	
To: Debt & other instruments	B			-				
Other financial assets		L&R	4,123,185	-	-	-	4,123,185	AC
			782,248,986	-	(2,163,847)	-	780,085,139	
Non - financial assets								
Investment in subsidiaries		n/a	1,356,075	-	-	-	1,356,075	n/a
PPE & intangible assets		n/a	8,216,787	-	-	-	8,216,787	n/a
Other non-financial assets		n/a	3,280,278	-	-	-	3,280,278	n/a
			12,853,140	-	-	-	12,853,140	
Total Assets			795,102,126	-	(2,163,847)	-	792,938,279	

NOTES TO THE FINANCIAL STATEMENTS

6 TRANSITION DISCLOSURES CONTD.

Bank

As at 1st January 2018

	Note	LKAS 39 Measurement Category	Amount Rs 000	Reclassification Rs 000	Re-Measurement		SLFRS 9	
					ECL Rs 000	Other Rs 000	Amount Rs 000	Category
Financial liabilities								
Due to banks		AC	4,743,748	-	-	-	4,743,748	AC
Derivative financial instruments		HFT	103,947	-	-	-	103,947	FVPL
Securities sold under repurchase agreements		AC	4,386,335	-	-	-	4,386,335	AC
Due to other customers		AC	625,814,313	-	-	-	625,814,313	AC
Debt issued & other borrowed funds		AC	76,098,240	-	-	-	76,098,240	AC
Dividend payable		AC	99,259	-	-	-	99,259	AC
Other financial liabilities	D	AC	8,262,267	-	789,085	-	9,051,352	AC
			719,508,109	-	789,085	-	720,297,194	
Non-financial liabilities								
Current tax liabilities		n/a	5,527,323	-	-	-	5,527,323	n/a
Deferred tax liabilities	E	n/a	1,353,339	-	-	(826,821)	526,518	n/a
Other provisions		n/a	1,583,558	-	-	-	1,583,558	n/a
Other non-financial liabilities		n/a	3,479,880	-	-	-	3,479,880	n/a
			11,944,100	-	-	(826,821)	11,117,279	
Total Liabilities			731,452,209	-	789,085	(826,821)	731,414,473	

Bank

As at 1st January 2018

	Note	LKAS 39 Measurement Category	Amount Rs 000	Reclassification Rs 000	Re-Measurement		SLFRS 9 Amount Rs 000
					ECL Rs 000	Other Rs 000	
Equity							
Stated capital		n/a	16,307,722	-	-	-	16,307,722
Reserves							
Statutory reserve		n/a	2,860,000	-	-	-	2,860,000
Other reserves		n/a	38,409,796	-	-	-	38,409,796
Retained earnings	F	n/a	6,072,399	-	-	(2,126,111)	3,946,288
Total Equity			63,649,917	-	-	(2,126,111)	61,523,806

Group

As at 1st January 2018

	Note	LKAS 39 Measurement Category	Amount Rs 000	Reclassification Rs 000	Re-Measurement ECL Rs 000	Other Rs 000	SLFRS 9 Amount Rs 000	Category
Financial assets								
Cash & cash equivalents	21.2	L&R	22,612,939	-	(7,856)	-	22,605,083	AC
Balances with Central Bank of Sri Lanka		L&R	41,100,364	-	-	-	41,100,364	AC
Placements with banks	23.2	L&R	3,225,025	-	(15,373)	-	3,209,652	AC
Reverse repurchase agreements		L&R	2,392,852	-	-	-	2,392,852	AC
Derivative financial instruments		HFT	496,918	-	-	-	496,918	FVPL
Financial assets recognised through profit or loss - measured at fair value		HFT	20,502,507	-	-	-	20,502,507	FVPL
Loans to & receivables from banks	26.2	L&R	2,084,507	-	(13,702)	-	2,070,805	AC
Loans to & receivables from other customers	27.3	L&R	586,370,704	-	(1,931,577)	-	584,439,127	AC
Other loans & receivables		L&R	49,352,443	(49,352,443)	-	-	n/a	
To: Debt & other instruments	A			(49,352,443)				
Debt & other instruments	28.4		n/a	49,364,871	(274,016)	-	49,090,855	AC
From: Other loans & receivables	A			49,352,443				
From: Financial assets - held to maturity	B			12,428				
Financial assets - available for sale		AFS	77,095,775	(77,095,775)	-	-	n/a	
To: Financial assets - FVOCI	C			(77,095,775)				
Financial assets - FVOCI			n/a	77,095,775	-	-	77,095,775	FVOCI
From: Financial asset - AFS	C			77,095,775				
Financial assets - held to maturity		HTM	12,428	(12,428)	-	-	n/a	
To: Debt & other instruments	B			(12,428)				
Other financial assets		L&R	4,285,587	-	(7,925)	-	4,277,662	AC
			809,532,049	-	(2,250,449)	-	807,281,600	
Non-financial assets								
Investment in subsidiaries		n/a	-	-	-	-	-	n/a
PPE & intangible assets		n/a	13,628,145	-	-	-	13,628,145	n/a
Other non-financial assets		n/a	3,556,475	-	-	-	3,556,475	n/a
			17,184,620	-	-	-	17,184,620	
Total Assets			826,716,669	-	(2,250,449)	-	824,466,220	

NOTES TO THE FINANCIAL STATEMENTS

6 TRANSITION DISCLOSURES CONTD.

Group

As at 1st January 2018

	Note	LKAS 39 Measurement		Reclassification	Re-Measurement		SLFRS 9	
		Category	Amount		ECL	Other	Amount	Category
			Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	
Financial liabilities								
Due to banks		AC	4,820,287	-	-	-	4,820,287	AC
Derivative financial instruments		HFT	103,947	-	-	-	103,947	FVPL
Securities sold under repurchase agreements		AC	4,231,946	-	-	-	4,231,946	AC
Due to other customers		AC	634,641,381	-	-	-	634,641,381	AC
Debt issued & other borrowed funds		AC	91,257,152	-	-	-	91,257,152	AC
Dividend payable		AC	99,259	-	-	-	99,259	AC
Other financial liabilities	D	AC	8,780,888	-	789,085	-	9,569,973	AC
			743,934,860	-	789,085	-	744,723,945	
Non-financial liabilities								
Current tax liabilities		n/a	5,630,670	-	-	-	5,630,670	n/a
Deferred tax liabilities	E	n/a	2,776,681	-	-	(851,070)	1,925,611	n/a
Other provisions		n/a	1,634,367	-	-	-	1,634,367	n/a
Other non-financial liabilities		n/a	3,831,641	-	-	-	3,831,641	n/a
			13,873,359	-	-	(851,070)	13,022,289	
Total Liabilities			757,808,219	-	789,085	(851,070)	757,746,234	

Group

As at 1st January 2018

	Note	LKAS 39 Measurement		Reclassification	Re-Measurement		SLFRS 9 Amount
		Category	Amount		ECL	Other	
			Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Equity							
Stated capital		n/a	16,307,722	-	-	-	16,307,722
Reserves							
Statutory reserve		n/a	2,973,000	-	-	-	2,973,000
Other reserves		n/a	41,093,901	-	-	-	41,093,901
Retained earnings	F	n/a	8,533,827	-	-	(2,188,464)	6,345,363
Total Equity			68,908,450	-	-	(2,188,464)	66,719,986

L&R - Loans & Receivables, HFT - Held for Trading, AFS - Available for Sale, HTM - Held to Maturity, FVPL - Fair Value through P&L, FVOCI - Fair Value through Other Comprehensive Income, n/a - Not Applicable.

- As at 1 January 2018, financial assets previously classified as other loans and receivables have been reclassified as debt & other instruments at amortised cost. These assets met the "Solely Payments of Principal and Interest" (SPPI) criterion. They were not actively traded and held with the intention to collect cash flows and without the intention to sell.
- As at 1 January 2018, the Group elected to classify its previous held to maturity portfolios as debt & other instruments measured at amortised cost since these assets met the "Solely Payments of Principal and Interest" (SPPI) criterion.
- Financial assets previously classified under available for sale category have been reclassified as financial assets fair value through other comprehensive income (FVOCI) upon adoption of SLFRS 9.
- The carrying value of other financial liabilities changed under SLFRS 9 due to recognition of ECL provisions for financial guarantees, letter of credits, acceptances and other undrawn loan commitments (Note 46.2).
- The impact of SLFRS 9 remeasurements on deferred tax is set out below under note F.

F. The Impact on Retained Earnings by Transition to SLFRS 9 is as follows,

	Bank Rs 000	Group Rs 000
Closing balance under LKAS 39 as at 31st December 2017	6,072,399	8,533,827
Re-measurement adjustments on adoption of SLFRS 9		
Recognition of SLFRS 9 ECLs for loans and investments	(2,952,932)	(3,039,534)
Deferred tax on above	826,821	851,070
Total change in equity due to adoption of SLFRS 9	(2,126,111)	(2,188,464)
Opening balance under SLFRS 9 as at 1st January 2018	3,946,288	6,345,363

The following table reconciles the aggregate opening credit loss provision under LKAS 39 to the impairment on ECL under SLFRS 9.

Bank

	Note	Loan Loss Provision under LKAS 39 as at 31st December 2017 Rs 000	Re-measurement Rs 000	ECL Impairment under SLFRS 9 as at 1st January 2018 Rs 000
Cash & cash equivalents	21.2	-	7,848	7,848
Placements with banks	23.2	-	15,353	15,353
Financial assets at amortised cost				
Loans to & receivables from banks	26.2	-	13,702	13,702
Loans to & receivables from other customers	27.3	8,643,307	1,852,928	10,496,235
Debt & other instruments	28.4	-	274,016	274,016
Credit related commitments & contingencies	46.2	-	789,085	789,085
		8,643,307	2,952,932	11,596,239

Group

	Note	Loan Loss Provision under LKAS 39 as at 31st December 2017 Rs 000	Re-measurement Rs 000	ECL Impairment under SLFRS 9 as at 1st January 2018 Rs 000
Cash & cash equivalents	21.2	-	7,856	7,856
Placements with banks	23.2	-	15,373	15,373
Financial assets at amortised cost				
Loans to & receivables from banks	26.2	-	13,702	13,702
Loans to & receivables from other customers	27.3	9,316,243	1,931,577	11,247,820
Debt & other instruments	28.4	-	274,016	274,016
Other financial assets		-	7,925	7,925
Credit related commitments & contingencies	46.2	-	789,085	789,085
		9,316,243	3,039,534	12,355,777

Impact on Capital Adequacy Ratio

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, 1st January 2018. The Bank has charged only 25% of the first day impact (Rs 531.5 Mn) against the Retained Earnings of the Bank for the purpose of calculating Capital Adequacy Ratio as at 31st December 2018. Due to this adjustment, the total Tier I capital ratio and total Capital Ratio were decreased by 0.08%.

NOTES TO THE FINANCIAL STATEMENTS

7 GROSS INCOME

For the year ended 31st December	Bank		Group	
	2018 Rs 000	2017 Rs 000	2018 Rs 000	2017 Rs 000
Interest income (Note 8.1)	97,934,195	79,624,760	103,832,591	83,909,371
Fee & commission income (Note 9.1)	11,605,802	9,504,988	11,918,205	9,776,971
Net trading (loss) / gain (Note 10)	(2,268,614)	339,962	(2,268,614)	339,962
Net gain from financial assets (Note 11)	160,526	145,012	160,766	145,192
Other operating income (Note 12)	7,878,342	2,975,063	8,240,887	3,268,724
	115,310,251	92,589,785	121,883,835	97,440,220

8 NET INTEREST INCOME

ACCOUNTING POLICY

Recognition of Interest Income

Under both SLFRS 9 and LKAS 39, interest income is recorded using the effective interest rate (EIR) method for all financial instruments measured at amortised cost and financial instruments designated at FVPL. Interest income on interest bearing financial assets measured at FVOCI under SLFRS 9, similarly to interest bearing financial assets classified as available-for-sale or held to maturity under LKAS 39 is also recorded by using the EIR method. 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.

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 Group recognises interest income using a rate of return that represents the best estimate of a constant rate of return over the expected life of the loan. Hence, it recognises the effect of potentially different interest rates charged at various stages, and other characteristics of the product life cycle (including prepayments, penalty interest and charges).

If expectations regarding the cash flows on the financial asset are revised for reasons other than credit risk, the adjustment is booked as a positive or negative adjustment to the carrying amount of the asset in the statement of financial position with an increase or reduction in interest income. The adjustment is subsequently amortised through Interest and similar income in the income statement.

When a financial asset becomes credit-impaired [as set out in Note 4.4.6.1(a)] and is, therefore, regarded as 'Stage 3', the Group calculates interest income by applying the effective interest rate to the net amortised cost of the financial asset. If the financial asset cures and is no longer credit-impaired, the Group reverts to calculating interest income on a gross basis.

Interest income on all trading assets and financial assets mandatorily required to be measured at FVPL is recognised using the contractual interest rate under net interest income.

8.1 Interest Income

For the year ended 31st December	Bank		Group	
	2018 Rs 000	2017 Rs 000	2018 Rs 000	2017 Rs 000
Placements with banks	201,789	272,610	202,772	274,346
Financial assets recognised through profit or loss - measured at fair value	2,193,623	5,250,735	2,193,623	5,250,735
Reverse repurchase agreements	61,413	311,833	194,788	437,791
Financial assets at amortised cost				
Loans to & receivables from banks & other customers	83,493,724	67,895,051	89,247,316	72,048,822
Debt & other instruments	8,024,919	2,868,552	8,025,602	2,868,552
Interest income accrued on impaired loans & receivables (Note 27.3)	1,325,572	467,827	1,335,335	469,245
Financial assets - fair value through other comprehensive income	2,633,155	n/a	2,633,155	n/a
Financial assets - held to maturity	n/a	-	n/a	1,728
Financial assets - available for sale	n/a	2,558,152	n/a	2,558,152
	97,934,195	79,624,760	103,832,591	83,909,371

8.2 Interest Expense

For the year ended 31st December	Bank		Group	
	2018 Rs 000	2017 Rs 000	2018 Rs 000	2017 Rs 000
Securities sold under repurchase agreements (Note 8.3)	599,736	764,116	572,252	751,216
Due to other customers	52,339,233	45,290,985	53,401,944	45,947,475
Term borrowings	2,110,358	1,757,441	3,779,296	3,138,385
Refinance borrowings	526,745	415,810	526,745	415,810
Redeemable debentures (Note 38.1)	4,131,467	2,905,372	4,679,757	3,359,244
Finance leases	172,952	127,593	393	-
	59,880,491	51,261,317	62,960,387	53,612,130
Net interest income	38,053,704	28,363,443	40,872,204	30,297,241

8.3 Net Interest Income from Sri Lanka Government Securities

For the year ended 31st December	Bank		Group	
	2018 Rs 000	2017 Rs 000	2018 Rs 000	2017 Rs 000
Interest income	12,009,537	10,072,260	12,143,595	10,199,946
Interest expense (Note 8.2)	(599,736)	(764,116)	(572,252)	(751,216)
Net interest income	11,409,801	9,308,144	11,571,343	9,448,730

8.4 Notional Tax Credit for Withholding Tax on Government Securities on Secondary Market Transactions

Section 137 of the Inland Revenue Act No. 10 of 2006 provided that a company which derives interest income from the secondary market transactions in government securities be entitled to a notional tax credit (being one ninth of the net interest income) provided such interest income forms part of the statutory income of the company for that year of assessment.

Accordingly, net interest income earned from secondary market transactions in government securities up to 31st March 2018 by the Bank & its subsidiaries has been grossed up in the Financial Statements and the resulting notional tax credit amounted to Rs 43.38 Mn (for the year 2017: Rs 233.18 Mn) and Rs 47.90 Mn (for the year 2017: Rs 247.24 Mn) for the Bank and the Group respectively. The Bank discontinued this practice after 31st March 2018, since similar provision is not available under the new Inland Revenue Act No. 24 of 2017.

NOTES TO THE FINANCIAL STATEMENTS

9 NET FEE AND COMMISSION INCOME

ACCOUNTING POLICY

Fee Income Earned from Services that are Provided over a Certain Period of Time

Fees earned for the provision of services over a period of time are accrued over that period. These fees include professional fees, trade service fees, commission income and asset management fees etc. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate of the loan. When it is unlikely that a loan will be drawn down, the loan commitment fees are recognised over the commitment period on a straight line basis.

Fee Income from Providing Transaction Services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of an acquisition of shares or other securities or the purchase or sale of businesses, are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised as the related services are performed.

Expenses on Account of Customer Loyalty Programmes

Award credits under customer loyalty programmes are accounted for as a separately identifiable component of the transaction in which they are granted. The fair value of the consideration received in respect of the initial sale is allocated between the award credits and the other components of the sale. Expense incurred for customer loyalty programmes is accounted under 'Fee and commission expense'.

Other Fee and Commission Expense

Other fee and commission expense relates mainly to transactions and services fees which are expensed as the services are received. Fee and commission expenses are recognised on an accrual basis.

9.1 Fee and Commission Income

For the year ended 31st December	Bank		Group	
	2018 Rs 000	2017 Rs 000	2018 Rs 000	2017 Rs 000
Trade related services	1,720,792	1,616,459	1,720,792	1,616,459
Foreign remittance related services	296,268	256,307	296,268	256,307
Credit & debit card services	4,516,289	3,344,987	4,516,289	3,344,987
Other banking & financial services	5,072,453	4,287,235	5,384,856	4,559,218
	11,605,802	9,504,988	11,918,205	9,776,971

9.2 Fee and Commission Expense

For the year ended 31st December	Bank		Group	
	2018 Rs 000	2017 Rs 000	2018 Rs 000	2017 Rs 000
Credit & debit card services	1,485,266	1,192,598	1,485,266	1,192,598
Other banking & financial services	201,729	156,764	205,332	162,755
	1,686,995	1,349,362	1,690,598	1,355,353
Net fee & commission income	9,918,807	8,155,626	10,227,607	8,421,618

10 NET TRADING (LOSS) / GAIN

ACCOUNTING POLICY

Net trading loss / gain includes all gains and losses from changes in fair value, related derecognition gains / losses and dividend from financial assets measured at fair value through profit or loss. Dividend income is recognised when the Group's right to receive the payment is established. This category also includes foreign exchange differences arising from derivative contracts which are not designated as hedging instruments.

Bank & Group

For the year ended 31st December	2018 Rs 000	2017 Rs 000
Forward exchange contract revaluation (loss)/gain		
Inter bank	(2,048,985)	313,411
Others	(125,268)	33,299
Net mark to market loss-government securities & equity securities	(162,585)	(36,809)
Net gain on derecognition	63,910	24,118
Dividend income	4,314	5,943
	(2,268,614)	339,962

11 NET GAIN ON FINANCIAL ASSETS

ACCOUNTING POLICY

Net gain on financial assets include derecognition gain / loss and dividend income from financial assets through other comprehensive income (2017: from available for sale financial assets) and financial assets measured at amortised cost. Dividend income is recognised when the Group's right to receive the payment is established.

For the year ended 31st December	Bank		Group	
	2018* Rs 000	2017 Rs 000	2018* Rs 000	2017 Rs 000
Dividend income from financial assets FVOCI	150,058	n/a	150,298	n/a
Net gain on derecognition-financial assets FVOCI	9,682	n/a	9,682	n/a
Net gain on derecognition-debt & other instruments	786	-	786	-
Dividend income from financial assets AFS	n/a	145,012	n/a	145,192
	160,526	145,012	160,766	145,192

* The amounts for the year ended 31st December 2018 have been prepared in accordance with Sri Lanka Accounting Standard - SLFRS 9 (Financial Instruments), whereas prior period amounts have not been restated.

NOTES TO THE FINANCIAL STATEMENTS

12 OTHER OPERATING INCOME

For the year ended 31st December	Bank		Group	
	2018 Rs 000	2017 Rs 000	2018 Rs 000	2017 Rs 000
Exchange income				
Inter bank	(499,228)	902,571	(499,228)	902,571
Others	8,164,328	1,883,095	8,166,274	1,878,231
Dividend income from subsidiaries	91,990	90,977	-	-
Profit/(loss) on disposal of property, plant & equipment	522	(9,829)	1,287	(8,128)
Rental & other income	120,730	108,249	572,554	496,050
	7,878,342	2,975,063	8,240,887	3,268,724

- 12.1 Exchange income represents both revaluation gain / (loss) on the Bank's net open position and realised exchange gain / (loss) on foreign exchange contracts including the Bank's currency notes operation. Loss on forward exchange contracts amounting to Rs 2,174.2 Mn (2017 : gain of Rs 346.7 Mn) is reported under Note 10, 'Net trading (loss)/gain' as required by the Sri Lanka Accounting Standard SLFRS 9 (Financial Instruments). Accordingly total exchange income of the Bank / Group for the year ended 31st December 2018 amounted to Rs 5,490.8 Mn and Rs 5,492.8 Mn respectively (2017 : Bank Rs 3,132.4 Mn and Group Rs 3,127.5 Mn).

13 IMPAIRMENT CHARGE / (REVERSAL)

For the year ended 31st December	Bank		Group	
	2018* Rs 000	2017 Rs 000	2018* Rs 000	2017 Rs 000
Cash & cash equivalents (Note 21.2)	10,352	n/a	10,347	n/a
Placements with banks (Note 23.2)	(13,158)	n/a	(13,178)	n/a
Financial assets at amortised cost				
Loans to & receivables from banks (Note 26.2)	(4,414)	n/a	(4,414)	n/a
Loans to & receivables from other customers (Note 27.3)	10,559,504	2,312,833	11,410,250	2,551,876
Debt & other instruments (Note 28.4)	277,128	n/a	277,128	n/a
Investment in subsidiaries (Note 31.1)	(1,605)	62,799	-	-
Property plant & equipment (Note 32.3)	-	161	-	161
Others	-	-	63,575	81,636
Credit related commitments & contingencies (Note 46.2)	395,002	n/a	395,002	n/a
	11,222,809	2,375,793	12,138,710	2,633,673

* The amounts for the year ended 31st December 2018 have been prepared in accordance with Sri Lanka Accounting Standard - SLFRS 9 (Financial Instruments), whereas prior period amounts have not been restated.

14 PERSONNEL EXPENSES

ACCOUNTING POLICY

Short Term Employee Benefits

Short term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Defined Contribution Plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee services in the current and prior periods, as defined in the Sri Lanka Accounting Standard - LKAS 19 (Employee Benefits).

The contribution payable by the employer to a defined contribution plan is in proportion to the services rendered to the Group by the employees and is recorded as an expense under 'Personnel expenses' as and when they become due. Unpaid contributions are recorded as a liability under 'Other liabilities' in Note 40.

The Group contributes 3% of the salary of each employee to the Employees' Trust Fund. Further, the Subsidiary companies contribute 12% on the salary of each employee to the Employees' Provident Fund. The above expenses are identified as contributions to "Defined Contribution Plans" as defined in the Sri Lanka Accounting Standard - LKAS 19 (Employee Benefits).

Defined Benefit Plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. Accordingly, the pension fund, staff gratuity and the Employees' Provident Fund of the Bank were considered as defined benefit plans as per Sri Lanka Accounting Standard - LKAS 19 (Employee Benefits).

Pension Fund

The Bank has a pension fund for all members who joined the Bank for permanent employment before 1st June 2003. A member is eligible for a monthly pension after attainment of 55 years of age and completion of 10 years uninterrupted service. The Bank measures the present value of the pension obligation, which is a defined benefit plan with the advice of an independent professional actuary using the Projected Unit Credit (PUC) method as required by Sri Lanka Accounting Standard - LKAS 19 (Employee Benefits). An actuarial valuation is carried out at every year end to ascertain the full liability under the Fund.

The Bank's obligation in respect of defined benefit pension plan is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods and discounting that benefit to determine its present value, then deducting the fair value of any plan assets to determine the net amount to be shown in the Statement of Financial Position. The value of any defined benefit asset is restricted to the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Bank. An economic benefit is available to the Bank if it is realisable during the life of the plan, or on settlement of the plan liabilities.

The Bank determines the net interest expense / (income) on the net defined benefit liability / (asset) by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability / (asset) at the beginning of the annual period. The discount rate is the yield at the reporting date on government bonds (30 years) that have maturity dates approximating to the terms of the Bank's obligations.

The increase in the pension fund liabilities attributable to the services provided by employees, who are members of the Fund, during the year ended 31st December 2018 (current service cost) has been recognised in the Statement of Profit or Loss under 'Personnel expenses' together with the net interest income / expense.

NOTES TO THE FINANCIAL STATEMENTS

14 PERSONNEL EXPENSES CONTD.

The Bank recognises the total actuarial gain / loss that arise in calculating the Bank's obligation in respect of a plan in other comprehensive income during the period in which it occurs.

The demographic assumptions underlying the valuation are retirement age (55 yrs), early withdrawals from service and retirement on medical grounds, death before and after retirement etc.

The assets of the fund are held separately from those of the Bank's assets and are administered independently.

The Subsidiaries do not operate pension funds.

Gratuity

In compliance with the Gratuity Act No. 12 of 1983, provision is made in the accounts from the first year of service, for gratuity payable to employees who joined the Bank on or after 1st June 2003, as they are not in pensionable service of the Bank.

Provision is not made in the accounts for gratuity payable to employees who joined prior to 1st June 2003 and completed five or more years of continuous service, as the Bank has its own non-contributory pension scheme in force. However, if employees who are eligible for pension resign before retirement age, the Bank is liable to pay gratuity to such employees.

An actuarial valuation is carried out at every year end to ascertain the full liability under gratuity.

The gratuity liability is not externally funded. All Subsidiary companies too carry out actuarial valuations to ascertain their respective gratuity liabilities.

The Group determines the interest expense on this defined benefit liability by applying the discount rate used to measure the defined benefit liability at the beginning of the annual period to the defined benefit liability at the beginning of the annual period. The discount rate is the yield at the reporting date on government bonds (10 years) that have maturity dates approximating to the terms of the Group's obligations.

The increase in gratuity liabilities attributable to the services provided by employees during the year ended 31st December 2018 (current service cost) has been recognised in the Statement of Profit or Loss under 'Personnel expenses' together with the net interest expense. The Group recognises the total actuarial gain / loss that arise in calculating the Group's obligation in respect of gratuity in other comprehensive income during the period in which it occurs.

The demographic assumptions underlying the valuation are retirement age (55 yrs), early withdrawals from service and retirement on medical grounds etc.

Employees' Provident Fund - Bank

Employees' Provident Fund is an approved private provident fund which has been set up to meet the provident fund liabilities of the Bank to which the Bank and employees contribute 12% and 8% respectively on the salary of each employee. Employees who are members of the fund, entitle to receive interest at a guaranteed rate of National Savings Bank one year fixed deposit rate (net of income tax) on their balance even if the fund earns a lower return from its investment in a given financial year. Accordingly, this obligation was treated as a defined benefit liability and an actuarial valuation was conducted to value the Bank's obligation on the same.

Unutilised Accumulated Leave

The Bank's liability towards the accumulated leave which is expected to be utilised beyond one year from the end of the reporting period is treated as other long-term employee benefits. The Bank's net obligation towards unutilised accumulated leave is calculated by discounting the amount of future benefit that employees have earned in return for their service in the current and prior periods to determine the present value of such benefits. The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating to the terms of the Bank's obligation. The calculation is performed using the Projected Unit Credit method. Net change in liability for unutilised accumulated leave including any actuarial gain / (loss) is recognised in the Statement of Profit or Loss under 'Personnel expenses' in the period in which they arise.

The Group's net obligation to pension fund, gratuity, EPF interest guarantee and unutilised accumulated annual leave is disclosed under Note 41 to the Financial Statements.

Share Based Payment Transactions

The Group does not have any share based payment transactions in force as at 31st December 2018.

For the year ended 31st December	Bank		Group	
	2018 Rs 000	2017 Rs 000	2018 Rs 000	2017 Rs 000
Salaries & bonus	6,988,145	6,443,339	7,665,514	6,988,135
Contributions to EPF & ETF	689,771	607,797	750,677	661,565
Provision for gratuity & pension	480,246	337,199	497,781	350,383
Others	678,210	647,673	760,549	701,821
	8,836,372	8,036,008	9,674,521	8,701,904

15 OTHER OPERATING EXPENSES

ACCOUNTING POLICY

Depreciation of Property, Plant and Equipment

The Group provides depreciation from the date the assets are available for use up to the date of disposal, at the following rates, on a straight line basis, over the periods appropriate to the estimated useful lives, based on the pattern in which the asset's future economic benefits are expected to be consumed by the Group.

Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term.

Freehold lands are not depreciated.

Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale or the date that the asset is derecognised. Depreciation does not cease when the asset becomes idle or is retired from active use unless the asset is fully depreciated.

Asset Category	Depreciation Rate per Annum (%)	
	2018	2017
Freehold buildings	2.00 - 6.67	2.00 - 6.67
Improvements to leasehold properties	20.00	20.00 - 25.00
Computer equipment - Freehold	15.00 - 25.00	15.00 - 25.00
Computer equipment - Leasehold	16.67 - 33.33	25.00
Motor vehicles	12.50 - 20.00	12.50 - 20.00
Office equipment	2.50 - 25.00	2.50 - 25.00
Fixtures & fittings	12.50 - 20.00	12.50 - 20.00

Amortisation of Intangible Assets

Intangible assets, except for goodwill, are amortised on a straight line basis in the Statement of Profit or Loss from the date when the asset is available for use, over the best estimate of its useful economic life, based on a pattern in which the asset's economic benefits are consumed by the Group. The Group assumes that there is no residual value for its intangible assets.

Asset Category	Amortisation Rate per Annum (%)	
	2018	2017
Computer software	10.00 - 25.00	10.00 - 25.00
Licenses	5.00 - 20.00	5.00 - 20.00

Changes in Estimates

Depreciation / amortisation methods, useful lives and residual values are reassessed at each reporting date and adjusted if appropriate. During the year ended 31st December 2018, the Group conducted an operational efficiency review and estimates were revised accordingly.

NOTES TO THE FINANCIAL STATEMENTS

15 OTHER OPERATING EXPENSES CONTD.

For the year ended 31st December	Bank		Group	
	2018 Rs 000	2017 Rs 000	2018 Rs 000	2017 Rs 000
Directors' fees & expenses	64,398	59,696	110,008	90,667
Auditors' remuneration (Note 15.1)	30,788	29,434	37,493	36,044
Professional & legal expenses	120,395	111,965	150,436	130,925
Depreciation of property, plant & equipment (Note 32)	777,000	719,548	1,106,881	1,014,533
Amortisation of intangible assets (Note 33)	322,898	173,415	343,492	182,317
Deposit insurance premium	606,197	661,192	618,190	669,227
Donations	3,838	2,417	4,838	2,417
Operating lease expenses	1,198,933	1,093,430	962,122	916,459
Office administration & establishment expenses	3,448,844	3,132,404	3,675,612	3,228,713
Others expenses (Note 15.2)	3,897,253	2,898,978	4,140,376	3,046,241
	10,470,544	8,882,479	11,149,448	9,317,543

15.1 Auditors' Remuneration

For the year ended 31st December	Bank		Group	
	2018 Rs 000	2017 Rs 000	2018 Rs 000	2017 Rs 000
Audit fees	10,843	10,843	13,733	13,874
Audit related fees & expenses	9,355	8,464	10,799	9,925
Non-audit expenses	10,590	10,127	12,961	12,245
	30,788	29,434	37,493	36,044

- 15.2 Other expenses include advertising and business promotion expenses, credit card related expenses and other overhead expenses incurred on day to day operations of the Bank / Group.

16 TAXES ON FINANCIAL SERVICES

ACCOUNTING POLICY

Value Added Tax (VAT)

VAT on financial services is calculated in accordance with Value Added Tax (VAT) Act No. 14 of 2002 and subsequent amendments thereto. The base for the computation of value added tax on financial services is the accounting profit before VAT and income tax adjusted for the economic depreciation and emoluments payable to employees including cash benefits, non-cash benefits & provisions relating to terminal benefits.

Nation Building Tax (NBT)

NBT on financial services is calculated in accordance with Nation Building Tax (NBT) Act No. 09 of 2009 and subsequent amendments thereto with effect from 1st January 2014. NBT on financial services is calculated based on the value addition used for the purpose of VAT on financial services.

Debt Repayment Levy (DRL)

According to the Finance Act No. 35 of 2018, every financial institution shall pay 7% on the value addition attributable to the supply of financial services by such institution as DRL, with effect from 1st October 2018. DRL is calculated based on the value addition used for the purpose of VAT on financial services.

For the year ended 31st December	Bank		Group	
	2018 Rs 000	2017 Rs 000	2018 Rs 000	2017 Rs 000
Value added tax	3,811,809	3,599,030	4,037,464	3,800,159
Nation building tax	527,251	479,871	559,264	509,230
Debt repayment levy	523,981	-	552,078	-
	4,863,041	4,078,901	5,148,806	4,309,389

17 INCOME TAX EXPENSE

ACCOUNTING POLICY

As per Sri Lanka Accounting Standard - LKAS 12 (Income Taxes), tax expense is the aggregate amount included in determination of profit or loss for the period in respect of current and deferred taxation. Income tax expense is recognised in the Statement of Profit or Loss, except to the extent it relates to items recognised directly in equity or other comprehensive income in which case it is recognised in equity or in other comprehensive income.

Current Taxation

Current tax assets and liabilities consist of amounts expected to be recovered from or paid to the Commissioner General of Inland Revenue in respect of the current year, using the tax rates and tax laws enacted or substantively enacted on the reporting date and any adjustment to tax payable in respect of prior years.

Accordingly, provision for taxation is based on the profit for the year adjusted for taxation purposes in accordance with the provisions of the Inland Revenue Act No. 10 of 2006 (prior to 31st March 2018) and the Inland Revenue Act No. 24 of 2017 (after 01st April 2018) and the amendments thereto at the rates specified in Note 17.1.1 & 17.1.2 to the Financial Statements.

Deferred Taxation

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 for all Group entities. Deferred tax liabilities are recognised for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of taxable temporary differences associated with investments in Subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carried forward unused tax credits and unused tax losses (if any), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward unused tax credits and unused tax losses can be utilised except:

- Where the deferred tax asset relating to the deductible temporary differences arising from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

NOTES TO THE FINANCIAL STATEMENTS

17 INCOME TAX EXPENSE CONTD.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is probable that sufficient taxable profit will be available to allow the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Current and deferred tax assets and liabilities are offset only to the extent that they relate to income taxes imposed by the same taxation authority, there is a legal right and intentions to settle on a net basis and it is allowed under the tax law of the relevant jurisdiction. Details of current tax liabilities / (receivables) and deferred tax liabilities / (assets) are given in Note 39 and 34 to the Financial Statements respectively.

For the year ended 31st December	Bank		Group	
	2018 Rs 000	2017 Rs 000	2018 Rs 000	2017 Rs 000
Current tax expense				
Current tax based on profit for the year	8,425,713	5,596,868	8,600,997	5,775,580
Over provision in respect of previous years (Note 39.1)	(265,666)	(935,121)	(269,822)	(937,061)
Current tax expense (Note 17.1)	8,160,047	4,661,747	8,331,175	4,838,519
Deferred tax expense				
Deferred tax (reversal) / charge (Note 34.1)	(1,952,865)	(159,942)	(1,815,679)	(10,791)
Income tax expense	6,207,182	4,501,805	6,515,496	4,827,728
Effective tax rate	33.8%	27.1%	34.1%	27.6%

17.1 Reconciliation of the Accounting Profit to Current Tax Expense

For the year ended 31st December	Bank				Group			
	2018 %	Rs 000	2017 %	Rs 000	2018 %	Rs 000	2017 %	Rs 000
Profit before tax		18,349,999		16,605,925		19,121,365		17,510,228
Tax effect on accounting profit before tax	28.0	5,138,000	28.0	4,649,659	28.0	5,353,982	28.0	4,902,864
Tax effect on turnover liable for income tax	-	-	-	-	-	6,652	-	5,608
Tax effect on								
Disallowable expenses	22.2	4,088,920	17.0	2,826,602	22.3	4,257,619	17.0	2,979,576
Tax deductible expenses	(2.8)	(519,026)	(6.2)	(1,033,391)	(2.9)	(566,502)	(7.1)	(1,236,274)
Exempt income	(1.5)	(282,181)	(5.1)	(846,002)	(1.5)	(282,181)	(4.8)	(846,002)
Income from other sources	-	-	-	-	-	1,302	-	2,058
Elimination of profit liable for turnover based tax	-	-	-	-	(0.2)	(41,217)	(0.2)	(31,530)
Tax losses	-	-	-	-	(0.7)	(128,658)	-	(720)
Current tax based on profit for the year	45.9	8,425,713	33.7	5,596,868	45.0	8,600,997	33.0	5,775,580
Over provision in respect of previous years (Note 39.1)	(1.4)	(265,666)	(5.6)	(935,121)	(1.4)	(269,822)	(5.4)	(937,061)
	44.5	8,160,047	28.1	4,661,747	43.6	8,331,175	27.6	4,838,519

17.1.1 Applicable Income Tax Rates

Company	2018	2017
Sampath Bank PLC	28%	28%
Siyapatha Finance PLC	28%	28%
S C Securities (Pvt) Ltd	28%	28%
Sampath Information Technology Solutions Ltd	28%	28%

17.1.2 Income Tax on Sampath Centre Ltd

Sampath Centre Ltd is a company approved under BOI Law and the company was exempted from income tax for a period of seven years commencing from the first year of assessment. The first year of assessment is the year in which the company commenced making profits in relation to its transactions in that year, or any year of assessment not later than five years from the date of its first commercial operations, whichever is earlier. Accordingly, Sampath Centre Ltd is liable for income tax at the rate of 2.0% of the rental income commencing from the year of assessment 2006 / 2007. Income other than rental income is liable for tax of 28%.

18 EARNINGS PER SHARE

ACCOUNTING POLICY

The Group presents basic and diluted Earnings per Share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary equity share holders of the Bank by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting both the profit attributable to the ordinary equity share holders and the weighted average number of ordinary shares outstanding, for the effects of all dilutive potential ordinary shares, if any.

18.1 Earnings per Share: Basic / Diluted

	Bank		Group	
	2018	2017	2018	2017
Amount used as the numerator				
Profit after tax for the year attributable to equity holders (Rs)	12,142,817,150	12,104,120,350	12,605,868,595	12,682,500,228
No. of ordinary shares used as the denominator				
Weighted average number of ordinary shares (Note 18.1.1)	269,072,907	215,896,655	269,072,907	215,896,655
Basic / diluted earnings per ordinary share (Rs)	45.13	56.06	46.85	58.74

NOTES TO THE FINANCIAL STATEMENTS

18 EARNINGS PER SHARE CONTD.

18.1.1 Weighted Average Number of Ordinary Shares for Basic / Diluted EPS

Bank & Group

	Outstanding No. of Shares		Weighted Average No. of Shares	
	2018	2017	2018	2017
Number of shares in issue as at 1st January	217,222,236	176,981,069	217,222,236	176,981,069
Add:				
Number of shares issued due to final scrip dividend 2016	-	9,209,419	-	9,209,419
Number of shares issued under rights issue 2017	-	31,031,748	-	9,203,251
Number of shares issued due to final scrip dividend 2017	13,551,804	-	13,551,804	13,551,804
Number of shares issued under rights issue 2018	50,128,208	-	38,298,867	6,951,112
Number of shares in issue / weighted average number of shares as at 31st December	280,902,248	217,222,236	269,072,907	215,896,655

There have been no transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of these financial statements authorised for issue, which would require the restatement of EPS.

19 DIVIDEND PAID AND PROPOSED

ACCOUNTING POLICY

Provision for final dividend and interim dividend (scrip) are recognised at the time the dividend is recommended and declared by the Board of Directors, and approved by the shareholders. However, interim cash dividend is recognised when the Board approves such dividend in accordance with the Companies Act No. 7 of 2007.

	2018			2017		
	Gross Dividend Rs 000	Dividend Tax Rs 000	Net Dividend Rs 000	Gross Dividend Rs 000	Dividend Tax Rs 000	Net Dividend Rs 000
Final dividend paid for the years 2017 & 2016 respectively						
Out of dividend received - free of tax	10,933	-	10,933	-	-	-
Out of normal profit	4,587,494	642,249	3,945,245	884,405	88,441	795,964
Scrip / cash dividend paid	4,598,427	642,249	3,956,178	884,405	88,441	795,964
Dividend per Ordinary Share (Rs)	17.20		14.80	4.75		4.28
Interim dividend paid for the year 2016						
Out of dividend received - free of tax	-	-	-	37,832	-	37,832
Out of normal profit	-	-	-	2,439,902	243,990	2,195,912
Scrip dividend paid	-	-	-	2,477,734	243,990	2,233,744
Dividend per Ordinary Share (Rs)	-	-	-	14.00		12.62
Final dividend proposed for the years 2018 & 2017 (Note 19.1) respectively						
Out of dividend received - free of tax	40,016	-	40,016	10,933	-	10,933
Out of normal profit	4,524,646	633,450	3,891,196	4,587,494	642,249	3,945,245
Scrip / cash dividend payable	4,564,662	633,450	3,931,212	4,598,427	642,249	3,956,178
Dividend per Ordinary Share (Rs)	16.25		13.99	17.20		14.80

Note 19.1

The Board of Directors of the Bank has recommended the payment of a final dividend of Rs 16.25 per share for the year ended 31st December 2018, a distribution of approximately Rs 4,564.7 Mn. This will be paid Rs 5.00 in the form of cash dividend and the balance Rs 11.25 in the form of scrip dividend.

Note 19.2

In accordance with Sri Lanka Accounting Standard - LKAS 10 (Events after the Reporting Period), above proposed final dividend has not been recognised as a liability as at the year end. Necessary disclosures have been made under Note 49 to the Financial Statements, "Events after the reporting period" as required by the said standard.

NOTES TO THE FINANCIAL STATEMENTS

20 ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS

Financial instruments are measured on an ongoing basis either at fair value or at amortised cost. The Accounting Policies describe how each category of financial instrument is measured and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of the financial instruments by category as defined in Sri Lanka Accounting Standard - SLFRS 9 (Financial Instruments) [2017: as per Sri Lanka Accounting Standard - LKAS 39 (Financial Instruments - Recognition and Measurement)] under the headings of the Statement of Financial Position.

20.1 Analysis of Financial Instruments by Measurement Basis - Bank

	Note	As at 31st December 2018			Total Rs 000
		Fair value through Profit or Loss Rs 000	Amortised Cost Rs 000	Fair value through Other Comprehensive Income Rs 000	
Financial Assets					
Cash & cash equivalents	21	-	19,051,955	-	19,051,955
Balances with Central Bank of Sri Lanka	22	-	36,557,776	-	36,557,776
Placements with banks	23	-	8,746,926	-	8,746,926
Reverse repurchase agreements		-	500,124	-	500,124
Derivative financial instruments	24	1,171,037	-	-	1,171,037
Financial assets recognised through profit or loss - measured at fair value	25	27,720,246	-	-	27,720,246
Financial assets at amortised cost					
Loans to & receivables from banks	26	-	1,644,405	-	1,644,405
Loans to & receivables from other customers	27	-	648,369,233	-	648,369,233
Debt & other instruments	28	-	121,105,392	-	121,105,392
Financial assets - fair value through other comprehensive income	29	-	-	27,517,305	27,517,305
Other assets		-	5,434,982	-	5,434,982
Total Financial Assets		28,891,283	841,410,793	27,517,305	897,819,381
Financial Liabilities					
Due to banks	36	-	8,901,463	-	8,901,463
Derivative financial instruments	24	2,952,319	-	-	2,952,319
Securities sold under repurchase agreements		-	13,732,205	-	13,732,205
Due to other customers	37	-	690,378,552	-	690,378,552
Debt issued & other borrowed funds	38	-	89,948,406	-	89,948,406
Dividend payable		-	97,462	-	97,462
Other liabilities		-	8,390,901	-	8,390,901
Total Financial Liabilities		2,952,319	811,448,989	-	814,401,308

20.2 Analysis of Financial Instruments by Measurement Basis - Bank

	Note	As at 31st December 2017				Total Rs 000
		Held for Trading Rs 000	Amortised Cost Rs 000	Held to Maturity Rs 000	Available for Sale Rs 000	
Financial Assets						
Cash & cash equivalents	21	-	22,334,315	-	-	22,334,315
Balances with Central Bank of Sri Lanka	22	-	41,100,364	-	-	41,100,364
Placements with banks	23	-	3,159,326	-	-	3,159,326
Reverse repurchase agreements		-	1,200,762	-	-	1,200,762
Derivative financial instruments	24	496,918	-	-	-	496,918
Financial assets - held for trading	25	20,502,507	-	-	-	20,502,507
Loans to & receivables from banks	26	-	2,084,507	-	-	2,084,507
Loans to & receivables from other customers	27	-	560,798,940	-	-	560,798,940
Other loans & receivables	28	-	49,352,443	-	-	49,352,443
Financial assets - available for sale	29	-	-	-	77,095,719	77,095,719
Financial assets - held to maturity	30	-	-	-	-	-
Other assets		-	4,123,185	-	-	4,123,185
Total Financial Assets		20,999,425	684,153,842	-	77,095,719	782,248,986
Financial Liabilities						
Due to banks	36	-	4,743,748			4,743,748
Derivative financial instruments	24	103,947	-			103,947
Securities sold under repurchase agreements		-	4,386,335			4,386,335
Due to other customers	37	-	625,814,313			625,814,313
Debt issued & other borrowed funds	38	-	76,098,240			76,098,240
Dividend payable		-	99,259			99,259
Other liabilities		-	8,262,267			8,262,267
Total Financial Liabilities		103,947	719,404,162			719,508,109

NOTES TO THE FINANCIAL STATEMENTS

20 ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS CONTD.

20.3 Analysis of Financial Instruments by Measurement Basis - Group

	Note	As at 31st December 2018			Total Rs 000
		Fair value through Profit or Loss	Amortised Cost	Fair value through Other Comprehensive Income	
		Rs 000	Rs 000	Rs 000	
Financial Assets					
Cash & cash equivalents	21	-	19,218,254	-	19,218,254
Balances with Central Bank of Sri Lanka	22	-	36,557,776	-	36,557,776
Placements with banks	23	-	8,746,926	-	8,746,926
Reverse repurchase agreements		-	2,258,852	-	2,258,852
Derivative financial instruments	24	1,171,037	-	-	1,171,037
Financial assets recognised through profit or loss - measured at fair value	25	27,720,246	-	-	27,720,246
Financial assets at amortised cost					
Loans to & receivables from banks	26	-	1,644,405	-	1,644,405
Loans to & receivables from other customers	27	-	675,894,019	-	675,894,019
Debt & other instruments	28	-	121,109,711	-	121,109,711
Financial assets - fair value through other comprehensive income	29	-	-	27,517,361	27,517,361
Other assets		-	5,845,058	-	5,845,058
Total Financial Assets		28,891,283	871,275,001	27,517,361	927,683,645
Financial Liabilities					
Due to banks	36	-	8,964,857	-	8,964,857
Derivative financial instruments	24	2,952,319	-	-	2,952,319
Securities sold under repurchase agreements		-	13,709,472	-	13,709,472
Due to other customers	37	-	699,661,040	-	699,661,040
Debt issued & other borrowed funds	38	-	106,373,545	-	106,373,545
Dividend payable		-	97,462	-	97,462
Other liabilities		-	8,523,975	-	8,523,975
Total Financial Liabilities		2,952,319	837,330,351	-	840,282,670

20.4 Analysis of Financial Instruments by Measurement Basis - Group

	Note	As at 31st December 2017				Total Rs 000
		Held for Trading Rs 000	Amortised Cost Rs 000	Held to Maturity Rs 000	Available for Sale Rs 000	
Financial Assets						
Cash & cash equivalents	21	-	22,612,939	-	-	22,612,939
Balances with Central Bank of Sri Lanka	22	-	41,100,364	-	-	41,100,364
Placements with banks	23	-	3,225,025	-	-	3,225,025
Reverse repurchase agreements		-	2,392,852	-	-	2,392,852
Derivative financial instruments	24	496,918	-	-	-	496,918
Financial assets - held for trading	25	20,502,507	-	-	-	20,502,507
Loans to & receivables from banks	26	-	2,084,507	-	-	2,084,507
Loans to & receivables from other customers	27	-	586,370,704	-	-	586,370,704
Other loans & receivables	28	-	49,352,443	-	-	49,352,443
Financial assets - available for sale	29	-	-	-	77,095,775	77,095,775
Financial assets - held to maturity	30	-	-	12,428	-	12,428
Other assets		-	4,285,587	-	-	4,285,587
Total Financial Assets		20,999,425	711,424,421	12,428	77,095,775	809,532,049
Financial Liabilities						
Due to banks	36	-	4,820,287	-	-	4,820,287
Derivative financial instruments	24	103,947	-	-	-	103,947
Securities sold under repurchase agreements		-	4,231,946	-	-	4,231,946
Due to other customers	37	-	634,641,381	-	-	634,641,381
Debt issued & other borrowed funds	38	-	91,257,152	-	-	91,257,152
Dividend payable		-	99,259	-	-	99,259
Other liabilities		-	8,780,888	-	-	8,780,888
Total Financial Liabilities		103,947	743,830,913	-	-	743,934,860

NOTES TO THE FINANCIAL STATEMENTS

21 CASH AND CASH EQUIVALENTS

ACCOUNTING POLICY

Cash and cash equivalents comprise cash in hand, balances with banks, money at call and short notice that are subject to an insignificant risk of changes in their value. Cash and cash equivalents are carried at amortised cost in the Statement of Financial Position.

For the purpose of the Statement of Cash Flows, cash and cash equivalents consist of cash and short term deposits as defined above, placements with banks [less than 3 months] (Note 23), net of unfavourable balances with local & foreign banks (Note 36).

As at 31st December	Bank		Group	
	2018* Rs 000	2017 Rs 000	2018* Rs 000	2017 Rs 000
Local currency in hand	11,815,990	11,664,978	11,975,847	11,937,788
Foreign currency in hand	3,195,258	2,967,552	3,195,258	2,967,552
Balances with local banks	135,845	319,606	142,290	325,420
Balances with foreign banks	3,798,032	5,329,492	3,798,032	5,329,492
Money at call & short notice	125,030	2,052,687	125,030	2,052,687
Gross cash & cash equivalents	19,070,155	22,334,315	19,236,457	22,612,939
Impairment for expected credit losses (Note 21.2)	(18,200)	n/a	(18,203)	n/a
Net cash & cash equivalents	19,051,955	22,334,315	19,218,254	22,612,939

* The amounts for the year ended 31st December 2018 have been prepared in accordance with Sri Lanka Accounting Standard - SLFRS 9 (Financial Instruments), whereas prior period amounts have not been restated.

21.1 Analysis of Cash and Cash Equivalents based on Exposure to Credit Risk

Bank

As at 31st December 2018

	Stage 1 Rs 000	Stage 2 Rs 000	Stage 3 Rs 000	Total Rs 000
Balances with local banks	135,845	-	-	135,845
Balances with foreign banks	3,559,136	238,896	-	3,798,032
Money at call & short notice	-	125,030	-	125,030
	3,694,981	363,926	-	4,058,907
Impairment for expected credit losses	(1,015)	(17,185)	-	(18,200)
	3,693,966	346,741	-	4,040,707

Group

As at 31st December 2018

	Stage 1 Rs 000	Stage 2 Rs 000	Stage 3 Rs 000	Total Rs 000
Balances with local banks	142,290	-	-	142,290
Balances with foreign banks	3,559,136	238,896	-	3,798,032
Money at call & short notice	-	125,030	-	125,030
	3,701,426	363,926	-	4,065,352
Impairment for expected credit losses	(1,018)	(17,185)	-	(18,203)
	3,700,408	346,741	-	4,047,149

21.2 Impairment for Expected Credit Losses - Cash and Cash Equivalents

	Bank 2018 Rs 000	Group 2018 Rs 000
Balance as at 1st January	7,848	7,856
Net charge for the year (Note 13)	10,352	10,347
Amounts written off during the year	-	-
Other adjustments including exchange rate differences	-	-
Balance as at 31st December	18,200	18,203

22 BALANCES WITH CENTRAL BANK OF SRI LANKA

ACCOUNTING POLICY

As required by the provisions of Section 93 of the Monetary Law Act, a cash balance is maintained with the Central Bank of Sri Lanka. As at 31st December 2018, the minimum cash reserve requirement was 6% (2017: 7.5%) of the rupee deposit liabilities. There is no reserve requirement for foreign currency deposit liabilities of the Domestic Banking Unit (DBU) and the deposit liabilities of the Foreign Currency Banking Unit (FCBU).

Balance with Central Bank of Sri Lanka are carried at amortised cost in the Statement of Financial Position.

Bank & Group

As at 31st December	2018 Rs 000	2017 Rs 000
Statutory reserve requirement	36,557,776	41,100,364
	36,557,776	41,100,364

23 PLACEMENTS WITH BANKS

As at 31st December	Bank		Group	
	2018* Rs 000	2017 Rs 000	2018* Rs 000	2017 Rs 000
Maturity less than three months				
Placements - in Sri Lanka	1,831,347	76,750	1,831,347	142,449
Placements - out side Sri Lanka	6,917,774	3,082,576	6,917,774	3,082,576
Gross placements with banks	8,749,121	3,159,326	8,749,121	3,225,025
Impairment for expected credit losses (Note 23.2)	(2,195)	n/a	(2,195)	n/a
Net placements with banks	8,746,926	3,159,326	8,746,926	3,225,025

* The amounts for the year ended 31st December 2018 have been prepared in accordance with Sri Lanka Accounting Standard - SLFRS 9 (Financial Instruments), whereas prior period amounts have not been restated.

NOTES TO THE FINANCIAL STATEMENTS

23 PLACEMENTS WITH BANKS CONTD.

23.1 Analysis of Placements with Banks based on Exposure to Credit Risk

Bank & Group

As at 31st December 2018

	Stage 1 Rs 000	Stage 2 Rs 000	Stage 3 Rs 000	Total Rs 000
Placements - in Sri Lanka	1,831,347	-	-	1,831,347
Placements - out side Sri Lanka	6,917,774	-	-	6,917,774
	8,749,121	-	-	8,749,121
Impairment for expected credit losses	(2,195)	-	-	(2,195)
	8,746,926	-	-	8,746,926

23.2 Impairment for Expected Credit Losses - Placements with Banks

	Bank 2018 Rs 000	Group 2018 Rs 000
Balance as at 1st January	15,353	15,373
Net reversal for the year (Note 13)	(13,158)	(13,178)
Amounts written off during the year	-	-
Other adjustments including exchange rate differences	-	-
Balance as at 31st December	2,195	2,195

24 DERIVATIVE FINANCIAL INSTRUMENTS

ACCOUNTING POLICY

Derivatives are financial instruments that derive their value in response to changes in interest rates, financial instrument prices, commodity prices, foreign exchange rates etc. Derivatives are categorised as trading unless they are designated as hedging instruments.

The table below shows the fair values of derivative financial instruments of the Bank / Group, recorded as assets or liabilities, together with their notional amounts. The notional amounts indicate the volume of transactions outstanding at the year end and are indicative of neither the market risk nor the credit risk.

Bank & Group

As at 31st December	Assets Rs 000	2018 Liabilities Rs 000	Notional Amount Rs 000	Assets Rs 000	2017 Liabilities Rs 000	Notional Amount Rs 000
Forward exchange contracts						
Sales	5,627	441,476	14,930,010	68,278	35,093	10,552,488
Purchases	41,469	6,601	5,810,937	24,973	13,318	4,869,342
Currency SWAPS						
Sales	1,465	2,496,753	38,015,333	367,245	6,708	29,964,055
Purchases	1,122,476	7,489	30,077,067	36,422	48,828	15,822,929
	1,171,037	2,952,319	88,833,347	496,918	103,947	61,208,814

25 FINANCIAL ASSETS RECOGNISED THROUGH PROFIT OR LOSS - MEASURED AT FAIR VALUE

Bank & Group

As at 31st December	2018 Rs 000	2017 Rs 000
Government securities - treasury bills (Note 25.1)	27,647,228	20,413,198
Quoted equity securities (Note 25.2)	73,018	89,309
	27,720,246	20,502,507

25.1 Government Securities - Treasury Bills

Bank & Group

As at 31st December	2018 Rs 000	2017 Rs 000
Amortised cost	27,760,459	20,383,081
Gain from mark to market valuation as at 1st January	30,117	54,572
Movement during the year	(143,348)	(24,455)
(Loss) / gain from mark to market valuation as at 31st December	(113,231)	30,117
Market value	27,647,228	20,413,198

25.2 Quoted Equity Securities

Bank & Group

As at 31st December	2018			2017		
	No. of Ordinary Shares	Cost of Investment Rs 000	Market Value Rs 000	No. of Ordinary Shares	Cost of Investment Rs 000	Market Value Rs 000
Name of the Company						
Banks, Finance & Insurance						
National Development Bank PLC	644,595	114,383	68,843	622,884	111,437	84,961
		114,383	68,843		111,437	84,961
Diversified Holdings						
Vallibel One PLC	245,600	6,140	4,175	245,600	6,140	4,348
		6,140	4,175		6,140	4,348
Total		120,523	73,018		117,577	89,309
Loss from mark to market valuation as at 1st January		(28,268)			(15,914)	
Movement during the year		(19,237)			(12,354)	
Loss from mark to market valuation as at 31st December		(47,505)			(28,268)	
Market value		73,018			89,309	

The Bank pledges assets that are in its Statement of Financial Position in day to day transaction which are conducted under the usual terms and conditions applying such agreements. The Bank has pledged the investments in government securities held for trading purposes against securities sold under repurchase agreements. Market value of the pledged and unencumbered securities are separately given in Note 25.3.

NOTES TO THE FINANCIAL STATEMENTS

25 FINANCIAL ASSETS RECOGNISED THROUGH PROFIT OR LOSS - MEASURED AT FAIR VALUE CONTD.

25.3 Analysis of Financial Assets Recognised through Profit or Loss - Measured at Fair Value

As at 31st December	Bank		Group	
	2018 Rs 000	2017 Rs 000	2018 Rs 000	2017 Rs 000
By collateralisation				
Pledged as collateral	1,341,243	591,886	1,326,371	524,850
Unencumbered	26,379,003	19,910,621	26,393,875	19,977,657
Gross Total	27,720,246	20,502,507	27,720,246	20,502,507
By currency				
Sri Lankan Rupee	27,720,246	20,502,507	27,720,246	20,502,507
Other currency	-	-	-	-
Gross Total	27,720,246	20,502,507	27,720,246	20,502,507

26 LOANS TO AND RECEIVABLES FROM BANKS

Bank & Group

As at 31st December	2018* Rs 000	2017 Rs 000
Gross loans to & receivables from banks	1,653,693	2,084,507
Impairment for expected credit losses (Note 26.2)	(9,288)	n/a
Net loans to & receivables from banks	1,644,405	2,084,507

* The amounts for the year ended 31st December 2018 have been prepared in accordance with Sri Lanka Accounting Standard - SLFRS 9 (Financial Instruments), whereas prior period amounts have not been restated.

26.1 Analysis of Loans to and Receivables from Banks based on Exposure to Credit Risk

Bank & Group

As at 31st December 2018

	Stage 1 Rs 000	Stage 2 Rs 000	Stage 3 Rs 000	Total Rs 000
Leasing	7,827	-	-	7,827
Term loans	488,304	935,374	-	1,423,678
Overdrafts	222,188	-	-	222,188
Gross loans to & receivables from banks	718,319	935,374	-	1,653,693
Impairment for expected credit losses	(1,275)	(8,013)	-	(9,288)
Net loans to & receivables from banks	717,044	927,361	-	1,644,405

26.2 Impairment for Expected Credit Losses - Loans to and Receivables from Banks

Bank & Group

	2018 Rs 000
Balance as at 1st January	13,702
Net reversal for the year (Note 13)	(4,414)
Amounts written off during the year	-
Other adjustments including exchange rate differences	-
Balance as at 31st December	9,288

27 LOANS TO & RECEIVABLES FROM OTHER CUSTOMERS

As at 31st December	Bank		Group	
	2018* Rs 000	2017 Rs 000	2018* Rs 000	2017 Rs 000
Gross loans & receivables (Note 27.1)	668,654,790	569,442,247	697,771,969	595,686,947
Impairment for expected credit losses (Note 27.3)	(20,285,557)	(8,643,307)	(21,877,950)	(9,316,243)
Net loans & receivables	648,369,233	560,798,940	675,894,019	586,370,704

* The amounts for the year ended 31st December 2018 have been prepared in accordance with Sri Lanka Accounting Standard - SLFRS 9 (Financial Instruments), whereas prior period amounts have not been restated.

27.1 Gross Loans to & Receivables from Other Customers by Product:

As at 31st December	Bank				Group			
	2018 Rs 000	%	2017 Rs 000	%	2018 Rs 000	%	2017 Rs 000	%
Bills of exchange	4,501,884	0.67	3,240,461	0.57	4,501,884	0.64	3,240,461	0.55
Leasing (Note 27.5)	23,761,162	3.55	20,890,560	3.67	50,117,010	7.18	41,141,068	6.91
Housing loans	38,000,952	5.68	32,275,877	5.67	38,000,952	5.45	32,275,877	5.42
Export loans	24,087,418	3.60	24,237,483	4.26	24,087,418	3.45	24,237,483	4.07
Import loans	79,986,170	11.97	59,859,744	10.51	78,657,321	11.27	59,830,438	10.05
Refinance loans	11,823,708	1.77	8,162,888	1.43	11,823,708	1.69	8,162,888	1.37
Term loans	321,312,357	48.06	265,959,814	46.70	323,077,184	46.31	269,431,823	45.21
Hire purchase (Note 27.6)	65,187	0.01	208,596	0.04	177,932	0.03	530,795	0.09
Loans against investment fund account (IFA)	203,496	0.03	400,026	0.07	203,496	0.03	400,417	0.07
Overdraft	100,250,702	14.99	103,118,503	18.10	100,173,686	14.36	103,047,002	17.30
Staff loans	7,222,389	1.08	6,094,953	1.07	7,370,093	1.06	6,189,519	1.04
Pawning	24,933,516	3.73	19,665,969	3.45	24,933,516	3.57	19,665,969	3.30
Credit cards	14,403,079	2.15	11,050,973	1.94	14,403,079	2.06	11,050,973	1.86
Money market loans	13,348,788	2.00	10,186,376	1.79	13,348,788	1.91	10,186,376	1.71
Factoring	4,546,580	0.68	3,911,169	0.69	6,497,089	0.93	5,970,574	1.00
Others	207,402	0.03	178,855	0.04	398,813	0.06	325,284	0.05
Gross loans & receivables	668,654,790	100.00	569,442,247	100.00	697,771,969	100.00	595,686,947	100.00

NOTES TO THE FINANCIAL STATEMENTS

27 LOANS TO & RECEIVABLES FROM OTHER CUSTOMERS CONTD.

27.2 Analysis of Loans to and Receivables from Other Customers Based on the Exposure to Credit Risk

Bank

As at 31st December 2018

	Stage 1 Rs 000	Stage 2 Rs 000	Stage 3 Rs 000	Total Rs 000
Individually impaired loans	-	-	26,774,679	26,774,679
Loans subjected to collective impairment				
Term loans	250,792,267	40,905,683	9,294,555	300,992,505
Overdrafts	86,094,718	12,444,188	3,034,961	101,573,867
Import loans	72,403,269	4,662,834	875,639	77,941,742
Others	148,300,958	9,829,577	3,241,462	161,371,997
Gross loans to & receivables from other customers	557,591,212	67,842,282	43,221,296	668,654,790
Impairment for expected credit losses	(2,901,724)	(2,097,246)	(15,286,587)	(20,285,557)
Net loans to & receivables from other customers	554,689,488	65,745,036	27,934,709	648,369,233

Group

As at 31st December 2018

	Stage 1 Rs 000	Stage 2 Rs 000	Stage 3 Rs 000	Total Rs 000
Individually impaired loans	-	-	29,024,300	29,024,300
Loans subjected to collective impairment				
Term loans	250,509,439	42,188,098	10,002,182	302,699,719
Overdrafts	86,017,702	12,444,188	3,034,961	101,496,851
Import loans	71,074,419	4,662,834	875,639	76,612,892
Others	164,998,689	16,669,085	6,270,433	187,938,207
Gross loans to & receivables from other customers	572,600,249	75,964,205	49,207,515	697,771,969
Impairment for expected credit losses	(2,967,544)	(2,206,593)	(16,703,813)	(21,877,950)
Net loans to & receivables from other customers	569,632,705	73,757,612	32,503,702	675,894,019

27.3 Impairment for Credit Losses-Loans to and Receivables from Other Customers

	Individual Rs 000	Bank Collective Rs 000	Total Rs 000	Individual Rs 000	Group Collective Rs 000	Total Rs 000
Balance as at 1st January 2017	3,385,046	4,341,320	7,726,366	3,473,520	4,688,157	8,161,677
Net charge to profit or loss (Note 13)	1,357,566	955,267	2,312,833	1,429,271	1,122,605	2,551,876
Write-off during the year	(1,047,867)	(67,809)	(1,115,676)	(1,047,867)	(67,809)	(1,115,676)
Interest income accrued on impaired loans & receivables (Note 8.1)	(467,827)	-	(467,827)	(469,245)	-	(469,245)
Other movements	194,156	(6,545)	187,611	194,156	(6,545)	187,611
Balance as at 31st December 2017	3,421,074	5,222,233	8,643,307	3,579,835	5,736,408	9,316,243
Impact on adoption of SLFRS 9 as at 1st January 2018 (Note 6)	-	1,852,928	1,852,928	-	1,931,577	1,931,577
Balance as at 1st January 2018 (SLFRS 9)	3,421,074	7,075,161	10,496,235	3,579,835	7,667,985	11,247,820
Net charge to profit or loss (Note 13)	6,154,919	4,404,585	10,559,504	6,594,247	4,816,003	11,410,250
Write-off during the year	(123,521)	(155,494)	(279,015)	(123,696)	(155,494)	(279,190)
Interest income accrued on impaired loans & receivables (Note 8.1)	(1,325,572)	-	(1,325,572)	(1,335,335)	-	(1,335,335)
Other movements	798,368	36,037	834,405	798,368	36,037	834,405
Balance as at 31st December 2018	8,925,268	11,360,289	20,285,557	9,513,419	12,364,531	21,877,950

27.4 Movement in Impairment for Expected Credit Losses Based on Exposure to Credit Risk

A further analysis of the impairment for expected credit losses, based on the staging of the underlying loans is given below.

Bank

	Stage 1 Rs 000	Stage 2 Rs 000	Stage 3 Rs 000	Total Rs 000
Balance as at 1st January 2018	2,393,760	1,459,207	6,643,268	10,496,235
Net charge to profit or loss (Note 13)	507,964	638,039	9,413,501	10,559,504
Write-off during the year	-	-	(279,015)	(279,015)
Interest income accrued on impaired loans & receivables (Note 8.1)	-	-	(1,325,572)	(1,325,572)
Other movements	-	-	834,405	834,405
Balance as at 31st December 2018	2,901,724	2,097,246	15,286,587	20,285,557

Group

	Stage 1 Rs 000	Stage 2 Rs 000	Stage 3 Rs 000	Total Rs 000
Balance as at 1st January 2018	2,479,203	1,542,646	7,225,971	11,247,820
Net charge to profit or loss (Note 13)	488,341	663,947	10,257,962	11,410,250
Write-off during the year	-	-	(279,190)	(279,190)
Interest income accrued on impaired loans & receivables (Note 8.1)	-	-	(1,335,335)	(1,335,335)
Other movements	-	-	834,405	834,405
Balance as at 31st December 2018	2,967,544	2,206,593	16,703,813	21,877,950

NOTES TO THE FINANCIAL STATEMENTS

27 LOANS TO & RECEIVABLES FROM OTHER CUSTOMERS CONTD.

27.5 Leasing

As at 31st December	Bank		Group	
	2018 Rs 000	2017 Rs 000	2018 Rs 000	2017 Rs 000
Total lease rentals receivable	29,173,062	25,336,431	64,363,446	52,474,737
Unearned lease interest income	(5,411,900)	(4,445,871)	(14,246,436)	(11,333,669)
Gross lease receivable	23,761,162	20,890,560	50,117,010	41,141,068
Impairment for expected credit losses	(315,688)	(372,386)	(1,065,259)	(749,558)
Net lease receivable	23,445,474	20,518,174	49,051,751	40,391,510
Gross lease receivable within one year (Note 27.5.1)	9,116,778	7,614,872	18,296,126	14,078,786
Gross lease receivable after one year (Note 27.5.2)	14,644,384	13,275,688	31,820,884	27,062,282
	23,761,162	20,890,560	50,117,010	41,141,068

27.5.1 Lease Receivable within One Year

As at 31st December	Bank		Group	
	2018 Rs 000	2017 Rs 000	2018 Rs 000	2017 Rs 000
Total lease rentals receivable within one year from reporting date	11,799,069	9,827,350	24,936,944	19,388,045
Unearned lease interest income	(2,682,291)	(2,212,478)	(6,640,818)	(5,309,259)
Gross lease receivable within one year (Note 27.5)	9,116,778	7,614,872	18,296,126	14,078,786
Impairment for expected credit losses	(121,124)	(139,053)	(470,661)	(331,080)
Net lease receivable within one year	8,995,654	7,475,819	17,825,465	13,747,706

27.5.2 Lease Receivable after One Year

As at 31st December	Bank		Group	
	2018 Rs 000	2017 Rs 000	2018 Rs 000	2017 Rs 000
Total lease rentals receivable after one year from reporting date	17,373,993	15,509,081	39,426,502	33,086,692
Unearned lease interest income	(2,729,609)	(2,233,393)	(7,605,618)	(6,024,410)
Gross lease receivable after one year (Note 27.5)	14,644,384	13,275,688	31,820,884	27,062,282
Impairment for expected credit losses	(194,564)	(233,333)	(594,598)	(418,478)
Net lease receivable after one year	14,449,820	13,042,355	31,226,286	26,643,804

27.6 Hire Purchase

As at 31st December	Bank		Group	
	2018 Rs 000	2017 Rs 000	2018 Rs 000	2017 Rs 000
Total hire purchase rentals receivable	71,147	233,933	186,898	583,697
Unearned hire purchase interest income	(5,960)	(25,337)	(8,966)	(52,902)
Gross hire purchase receivable	65,187	208,596	177,932	530,795
Impairment for expected credit losses	(866)	(12,294)	(65,306)	(82,750)
Net hire purchase receivable	64,321	196,302	112,626	448,045
Gross hire purchase receivable within one year (Note 27.6.1)	54,951	125,696	162,964	386,000
Gross hire purchase receivable after one year (Note 27.6.2)	10,236	82,900	14,968	144,795
	65,187	208,596	177,932	530,795

27.6.1 Hire Purchase Receivable within One Year

As at 31st December	Bank		Group	
	2018 Rs 000	2017 Rs 000	2018 Rs 000	2017 Rs 000
Total hire purchase rentals receivable within one year from reporting date	60,275	144,319	170,657	428,685
Unearned hire purchase interest income	(5,324)	(18,623)	(7,693)	(42,685)
Gross hire purchase receivable within one year (Note 27.6)	54,951	125,696	162,964	386,000
Impairment for expected credit losses	(730)	(7,408)	(63,022)	(69,800)
Net hire purchase receivable within one year	54,221	118,288	99,942	316,200

27.6.2 Hire Purchase Receivable after One Year

As at 31st December	Bank		Group	
	2018 Rs 000	2017 Rs 000	2018 Rs 000	2017 Rs 000
Total hire purchase rentals receivable after one year from reporting date	10,872	89,614	16,241	155,012
Unearned hire purchase interest income	(636)	(6,714)	(1,273)	(10,217)
Gross hire purchase receivable after one year (Note 27.6)	10,236	82,900	14,968	144,795
Impairment for expected credit losses	(136)	(4,886)	(2,284)	(12,950)
Net hire purchase receivable after one year	10,100	78,014	12,684	131,845

27.7 Loans to and Receivables from Other Customers - by Currency

As at 31st December	Bank		Group	
	2018 Rs 000	2017 Rs 000	2018 Rs 000	2017 Rs 000
Sri Lankan Rupee	579,364,125	497,566,860	608,481,304	523,811,560
United States Dollar	84,106,682	67,740,371	84,106,682	67,740,371
Euro	3,717,801	2,747,877	3,717,801	2,747,877
Great Britain Pounds	1,354,721	947,625	1,354,721	947,625
Australian Dollar	99,756	439,514	99,756	439,514
Japanese Yen	6,332	-	6,332	-
Singapore Dollar	5,373	-	5,373	-
Gross loans to & receivables from other customers	668,654,790	569,442,247	697,771,969	595,686,947

NOTES TO THE FINANCIAL STATEMENTS

27 LOANS TO & RECEIVABLES FROM OTHER CUSTOMERS CONTD.

27.8 Loans to and Receivables from Other Customers - by Product and Currency

As at 31st December	Bank				Group			
	2018 Rs 000	%	2017 Rs 000	%	2018 Rs 000	%	2017 Rs 000	%
By Product - LKR								
Bills of exchange	1,542,158	0.23	583,061	0.10	1,542,158	0.22	583,061	0.10
Leasing	23,761,162	3.55	20,890,560	3.67	50,117,010	7.18	41,141,068	6.91
Housing loans	36,971,911	5.53	31,665,910	5.56	36,971,911	5.30	31,665,910	5.32
Export loans	2,499,757	0.37	970,206	0.17	2,499,757	0.36	970,206	0.16
Import loans	74,195,127	11.10	55,112,266	9.68	72,866,278	10.44	55,082,960	9.25
Refinance loans	11,823,708	1.77	8,162,888	1.43	11,823,708	1.69	8,162,888	1.37
Term loans	267,611,030	40.03	228,209,145	40.07	269,375,857	38.61	231,681,154	38.87
Hire purchase	65,187	0.01	208,596	0.04	177,932	0.03	530,795	0.09
Loans against investment fund account (IFA)	203,496	0.03	400,026	0.07	203,496	0.03	400,417	0.07
Overdraft	96,155,118	14.38	100,361,862	17.62	96,078,102	13.77	100,290,361	16.84
Staff loans	7,222,389	1.08	6,094,953	1.07	7,370,093	1.06	6,189,519	1.04
Pawning	24,933,516	3.73	19,665,969	3.45	24,933,516	3.57	19,665,969	3.30
Credit cards	14,403,079	2.15	11,050,973	1.94	14,403,079	2.06	11,050,973	1.86
Money market loans	13,348,788	2.00	10,186,376	1.79	13,348,788	1.91	10,186,376	1.71
Factoring	4,546,580	0.68	3,911,169	0.69	6,497,089	0.93	5,970,574	1.00
Others	81,119	0.01	92,900	0.02	272,530	0.04	239,329	0.04
Sub total	579,364,125	86.65	497,566,860	87.37	608,481,304	87.20	523,811,560	87.93
By Product - Foreign Currency								
Bills of exchange	2,959,726	0.44	2,657,400	0.47	2,959,726	0.42	2,657,400	0.45
Housing loans	1,029,041	0.15	609,967	0.11	1,029,041	0.15	609,967	0.10
Export loans	21,587,661	3.23	23,267,277	4.09	21,587,661	3.09	23,267,277	3.91
Import loans	5,791,043	0.87	4,747,478	0.83	5,791,043	0.83	4,747,478	0.80
Term loans	53,701,327	8.03	37,750,669	6.63	53,701,327	7.70	37,750,669	6.34
Overdraft	4,095,584	0.61	2,756,641	0.48	4,095,584	0.59	2,756,641	0.46
Others	126,283	0.02	85,955	0.02	126,283	0.02	85,955	0.01
Sub total	89,290,665	13.35	71,875,387	12.63	89,290,665	12.80	71,875,387	12.07
Gross loans & receivables	668,654,790	100.00	569,442,247	100.00	697,771,969	100.00	595,686,947	100.00

27.9 Loans to and Receivables from Other Customers - By Industry

As at 31st December	Bank				Group			
	2018 Rs 000	%	2017 Rs 000	%	2018 Rs 000	%	2017 Rs 000	%
Agriculture & related (Note 27.9.1)	44,282,265	6.62	45,989,887	8.08	46,763,491	6.70	47,743,634	8.01
Manufacturing	107,841,045	16.13	92,609,937	16.26	111,154,219	15.93	94,763,251	15.91
Tourism	62,383,331	9.33	43,942,733	7.72	63,752,766	9.14	44,566,727	7.48
Transport	12,799,959	1.91	8,515,303	1.50	14,858,306	2.13	8,612,594	1.45
Construction & infrastructure	130,015,902	19.44	115,054,951	20.20	132,193,611	18.95	116,172,024	19.50
Traders	143,810,273	21.51	138,835,049	24.38	149,802,963	21.47	144,031,352	24.18
Financial & business services	48,997,820	7.33	31,529,987	5.54	43,773,236	6.27	30,527,001	5.12
Government	15,701,425	2.35	9,778,500	1.72	15,701,425	2.25	9,778,500	1.64
Other services	21,672,844	3.24	20,627,760	3.62	32,772,705	4.70	34,350,664	5.77
Consumers	81,149,926	12.14	62,558,140	10.98	86,999,247	12.46	65,141,200	10.94
Gross loans & receivables	668,654,790	100.00	569,442,247	100.00	697,771,969	100.00	595,686,947	100.00

27.9.1 As per the requirement of Central Bank of Sri Lanka (CBSL), a minimum of 10% of the loans and receivables shall be granted to the agriculture sector. The Bank has complied with the said requirement as at 31st December 2018 and 31st December 2017. The computation method used to derive the industry-wise exposure in Note 27.9 above is different from the method used for CBSL minimum lending requirement calculation to agriculture sector.

28 DEBT AND OTHER INSTRUMENTS

As at 31st December	Bank		Group	
	2018* Rs 000	2017 Rs 000	2018* Rs 000	2017 Rs 000
Debentures - quoted (Note 28.1)	4,809,322	6,397,209	4,809,322	6,397,209
Sri Lanka Development Bonds	54,850,893	40,888,766	54,850,893	40,888,766
Leased backed trust certificates (Note 28.2)	4,729,122	2,066,468	4,729,122	2,066,468
Government debt securities - treasury bills & bonds	57,267,199	n/a	57,271,518	n/a
Gross debt & other instruments	121,656,536	49,352,443	121,660,855	49,352,443
Impairment for expected credit losses (Note 28.4)	(551,144)	n/a	(551,144)	n/a
Net debt & other instruments	121,105,392	49,352,443	121,109,711	49,352,443

* The amounts for the year ended 31st December 2018 have been prepared in accordance with Sri Lanka Accounting Standard - SLFRS 9 (Financial Instruments), whereas prior period amounts have not been restated.

NOTES TO THE FINANCIAL STATEMENTS

28 DEBT AND OTHER INSTRUMENTS CONTD.

28.1 Debentures - Quoted

Bank & Group

As at 31st December	2018 Amortised Cost Rs 000	2017 Amortised Cost Rs 000
Name of the Company		
Banks, Finance & Insurance		
Alliance Finance PLC	83,876	146,633
Central Finance Company PLC	217,923	291,148
Commercial Leasing & Finance PLC	495,159	495,159
DFCC Bank PLC	224,916	224,916
Housing Development Finance Corporation Bank of Sri Lanka	203,095	318,485
Lanka Orix Leasing Company PLC	511,342	511,342
Orient Finance PLC	400,595	418,745
Pan Asia Banking Corporation PLC	-	50,067
People's Leasing & Finance PLC	140,791	447,302
Singer Finance PLC	247,387	247,387
Softlogic Finance PLC	426,218	426,464
	2,951,302	3,577,648
Construction & Engineering		
Access Engineering PLC	303,707	303,707
MTD Walkers PLC	262,165	512,421
	565,872	816,128
Diversified Holdings		
Abans PLC	100,148	277,669
Hayleys PLC	507,691	507,685
Hemas Holdings PLC	12,698	12,662
Singer Sri Lanka PLC	103,074	617,378
	723,611	1,415,394
Others		
Kotagala Plantations PLC	58,644	78,146
Lion Brewery Ceylon PLC	509,893	509,893
	568,537	588,039
	4,809,322	6,397,209

28.2 Lease Backed Trust Certificates

Bank & Group

As at 31st December	2018 Amortised Cost Rs 000	2017 Amortised Cost Rs 000
People's Leasing & Finance PLC	238,058	997,723
Associated Motor Finance Company PLC	-	19,239
Commercial Credit & Finance PLC	-	24,341
Senkadagala Finance PLC	827,463	1,025,165
LB Finance Company Ltd	3,138,959	-
Trade Finance & Investment PLC	524,642	-
	4,729,122	2,066,468

28.3 Analysis of Debt and Other Instruments based on Exposure to Credit Risk

Bank

As at 31st December 2018

	Stage 1 Rs 000	Stage 2 Rs 000	Stage 3 Rs 000	Total Rs 000
Debentures - quoted	3,661,701	1,147,621	-	4,809,322
Sri Lanka development bonds	54,850,893	-	-	54,850,893
Leased backed trust certificates	4,729,122	-	-	4,729,122
Government treasury bills & bonds	57,267,199	-	-	57,267,199
	120,508,915	1,147,621	-	121,656,536
Impairment for expected credit losses	(501,273)	(49,871)	-	(551,144)
	120,007,642	1,097,750	-	121,105,392

Group

As at 31st December 2018

	Stage 1 Rs 000	Stage 2 Rs 000	Stage 3 Rs 000	Total Rs 000
Debentures - quoted	3,661,701	1,147,621	-	4,809,322
Sri Lanka development bonds	54,850,893	-	-	54,850,893
Leased backed trust certificates	4,729,122	-	-	4,729,122
Government treasury bills & bonds	57,271,518	-	-	57,271,518
	120,513,234	1,147,621	-	121,660,855
Impairment for expected credit losses	(501,273)	(49,871)	-	(551,144)
	120,011,961	1,097,750	-	121,109,711

28.4 Impairment for Expected Credit Losses - Debt and Other Instruments

Bank & Group

	2018 Rs 000
Balance as at 1st January	274,016
Net charge for the year (Note 13)	277,128
Amounts written off during the year	-
Other adjustments including exchange rate differences	-
Balance as at 31st December	551,144

28.5 Analysis of Debt and Other Instruments

As at 31st December	Bank		Group	
	2018 Rs 000	2017 Rs 000	2018 Rs 000	2017 Rs 000
By collateralisation				
Pledged as collateral	11,080,527	-	11,070,856	-
Unencumbered	110,024,865	49,352,443	110,038,855	49,352,443
Gross Total	121,105,392	49,352,443	121,109,711	49,352,443
By currency				
Sri Lankan Rupee	66,254,499	8,463,677	66,258,818	8,463,677
Other currency	54,850,893	40,888,766	54,850,893	40,888,766
Gross Total	121,105,392	49,352,443	121,109,711	49,352,443

NOTES TO THE FINANCIAL STATEMENTS

29 FINANCIAL ASSETS - FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME/AVAILABLE FOR SALE

As at 31st December	Bank		Group	
	2018* Rs 000	2017 Rs 000	2018* Rs 000	2017 Rs 000
Financial assets - fair value through other comprehensive income				
Government securities - treasury bills & bonds (Note 29.1)	25,047,854	n/a	25,047,854	n/a
Quoted equity security (Note 29.2)	2,432,869	n/a	2,432,869	n/a
Unquoted equity securities (Note 29.3)	36,582	n/a	36,638	n/a
	27,517,305	n/a	27,517,361	n/a
Financial assets - available for sale				
Government securities - treasury bills & bonds (Note 29.1)	n/a	74,405,289	n/a	74,405,289
Quoted equity security (Note 29.2)	n/a	2,659,822	n/a	2,659,822
Unquoted equity securities (Note 29.3)	n/a	30,608	n/a	30,664
	n/a	77,095,719	n/a	77,095,775

* The amounts for the year ended 31st December 2018 have been prepared in accordance with Sri Lanka Accounting Standard - SLFRS 9 (Financial Instruments), whereas prior period amounts have not been restated.

29.1 Government Securities - Treasury Bills

Bank & Group

As at 31st December	2018 Rs 000
Fair value through other comprehensive income	
Amortised cost	25,088,416
Gain from mark to market valuation as at 1st January	76,037
Movement during the year	(109,826)
Reclassified to profit or loss	(6,773)
Loss from mark to market valuation as at 31st December	(40,562)
Market value	25,047,854
As at 31st December	2017 Rs 000
Available for sale investments	
Amortised cost	74,329,252
Loss from mark to market valuation as at 1st January	(94,675)
Movement during the year	170,712
Gain from mark to market valuation as at 31st December	76,037
Market value	74,405,289

29.2 Quoted Equity Security

Quoted equity security represents the investment in ordinary shares of LankaBangla Finance Ltd in Bangladesh.

Bank & Group

	2018	
	No. of Ordinary Shares	Rs 000
Fair value through other comprehensive income		
Cost of the investment as at 1st January	30,143,437	518,153
Exchange gain		162,656
Scrip dividend received during the year	3,391,136	62,963
Rights shares	15,071,718	281,034
Cost of the investment as at 31st December	48,606,291	1,024,806
Gain from mark to market valuation as at 1st January		2,141,669
Movement during the year		(733,606)
Gain from mark to market valuation as at 31st December		1,408,063
Market value		2,432,869

	2017	
	No. of Ordinary Shares	Rs 000
Available for sale investments		
Cost of the investment as at 1st January	26,211,685	434,815
Exchange gain		10,766
Scrip dividend received during the year	3,931,752	72,572
Cost of the investment as at 31st December	30,143,437	518,153
Gain from mark to market valuation as at 1st January		1,294,745
Movement during the year		846,924
Gain from mark to market valuation as at 31st December		2,141,669
Market value		2,659,822

NOTES TO THE FINANCIAL STATEMENTS

29 FINANCIAL ASSETS - FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME/AVAILABLE FOR SALE CONTD.

29.3 Unquoted Equity Securities

As at 31st December 2018

	No. of Ordinary Shares	Bank Carrying Value Rs 000	Market Value Rs 000	No. of Ordinary Shares	Group Carrying Value Rs 000	Market Value Rs 000
Fair value through other comprehensive income						
Name of the Company						
LankaBangla Securities Ltd	293,485	1,199	1,199	293,485	1,199	1,199
Credit Information Bureau	1,700	170	170	1,800	226	226
SWIFT	33	12,963	12,963	33	12,963	12,963
Lanka Clear (Pvt) Ltd	2,000,000	20,000	20,000	2,000,000	20,000	20,000
Lanka Financial Services Bureau Ltd	225,000	2,250	2,250	225,000	2,250	2,250
Lanka Rating Agency Ltd	1,241,263	-	-	1,241,263	-	-
Total		36,582	36,582		36,638	36,638

Directors of the Bank assessed the fair values of the unquoted share investments held by the Bank as at 31st December 2018 and concluded that the carrying values as at that date is a reasonable approximation of the fair value.

As at 31st December 2017

	No. of Ordinary Shares	Bank Cost of Investment Rs 000	Market Value Rs 000	No. of Ordinary Shares	Group Cost of Investment Rs 000	Market Value Rs 000
Available for sale investments						
Name of the Company						
LankaBangla Securities Ltd	293,485	45,641	1,007	293,485	45,641	1,007
Credit Information Bureau	1,700	170	170	1,800	226	226
SWIFT	26	6,556	6,556	26	6,556	6,556
Fitch Rating Lanka Ltd	62,500	625	625	62,500	625	625
Lanka Clear (Pvt) Ltd	2,000,000	20,000	20,000	2,000,000	20,000	20,000
Lanka Financial Services Bureau Ltd	225,000	2,250	2,250	225,000	2,250	2,250
Lanka Rating Agency Ltd	1,241,263	15,516	-	1,241,263	15,516	-
Total		90,758	30,608		90,814	30,664
Impairment provision as at 1st January 2017		(59,009)			(59,009)	
Net charge to profit or loss		-			-	
Other movements during the year		(1,141)			(1,141)	
Impairment provision as at 31st December 2017		(60,150)			(60,150)	
Market value		30,608			30,664	

29.4 Analysis of Financial Assets - Fair Value through Other Comprehensive Income/Available for Sale

As at 31st December 2018

	Bank Rs 000	Group Rs 000
Fair value through other comprehensive income		
By collateralisation		
Pledged as collateral	2,265,768	2,265,768
Unencumbered	25,251,537	25,251,593
Gross total	27,517,305	27,517,361
By currency		
Sri Lankan Rupee	25,083,237	25,083,293
Other currency	2,434,068	2,434,068
Gross total	27,517,305	27,517,361

As at 31st December 2017

	Bank Rs 000	Group Rs 000
Available for sale investments		
By collateralisation		
Pledged as collateral	4,184,272	4,082,703
Unencumbered	72,911,447	73,013,072
Gross total	77,095,719	77,095,775
By currency		
Sri Lankan Rupee	74,434,890	74,434,946
Other currency	2,660,829	2,660,829
Gross total	77,095,719	77,095,775

30 FINANCIAL ASSETS HELD TO MATURITY

As at 31st December	Bank		Group	
	2018 Rs 000	2017 Rs 000	2018 Rs 000	2017 Rs 000
Government debt securities - treasury bills & bonds	n/a	-	n/a	12,428
	n/a	-	n/a	12,428

NOTES TO THE FINANCIAL STATEMENTS

31 INVESTMENT IN SUBSIDIARIES

ACCOUNTING POLICY

Subsidiaries are entities that are controlled by the Bank. The Bank is presumed to control an investee when it 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. At each reporting date, the Bank reassesses whether it controls an investee, if facts and circumstances indicate that there are changes to one or more elements of control mentioned above.

The Financial Statements of subsidiaries are fully consolidated from the date on which control is transferred to the Bank and continue to be consolidated until the date when such control ceases. The Financial Statements of the Bank's subsidiaries are prepared for the same reporting year as per the Bank, using consistent accounting policies.

The cost of acquisition of a subsidiary is measured as the fair value of the consideration, including contingent consideration, given on the date of transfer of title. The acquired identifiable assets, liabilities and contingent liabilities are measured at their fair values at the date of acquisition. Subsequent to the initial measurement, the Bank continues to recognise the investments in subsidiaries at cost.

The total assets and liabilities of the subsidiaries as at the reporting date are included in the Consolidated Statement of Financial Position. The total profit or loss for the year of the subsidiaries is included in the Consolidated Statement of Profit or Loss. The non-controlling interest is presented in the Consolidated Statement of Financial Position within equity, separately from the equity attributable to the equity holders of the Bank. Non-controlling interest in the profit or loss of the Group is disclosed in the Consolidated Statement of Comprehensive Income. Total comprehensive income is allocated to the owners of the parent and to the non-controlling interest even if this results in non-controlling interest having a deficit balance.

Intra-group balances and any income and expenses arising from intra-group transactions are eliminated when preparing the Consolidated Financial Statements. Unrealised losses are eliminated in the same way as unrealised gains, except that they are only eliminated to the extent that there is no evidence of impairment.

When a subsidiary is acquired or sold during the year, operating results of such subsidiary is included from the date of acquisition or to the date of disposal. Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in the Statement of Changes in Equity.

If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date the control is lost. Subsequently, it is accounted for as an equity-accounted investee or in accordance with the Group's accounting policy for financial instruments depending on the level of influence retained.

The Group did not acquire / dispose any subsidiaries during the year ended 31st December 2018.

There are no significant restrictions on the ability of the subsidiaries to transfer funds to the Bank in the form of cash dividends or repayment of loans and advances.

All subsidiaries of the Bank have been incorporated in Sri Lanka.

31.1 Bank

As at 31st December Subsidiary	Principal Activities	Ownership	2018		Ownership	2017	
			Cost Rs 000	Directors' Valuation Rs 000		Cost Rs 000	Directors' Valuation Rs 000
Siyapatha Finance PLC	Granting leasing, hire purchase, factoring & other loans facilities & accepting deposits	100%	1,348,666	3,619,120	100%	635,917	2,490,561
Sampath Centre Ltd	Renting of commercial property	100%	579,036	4,611,026	100%	579,036	3,880,909
S C Securities (Pvt) Ltd	Stock broking	100%	178,921	113,727	100%	178,921	112,947
Sampath Information Technology Solutions Ltd	Software development, renting of IT equipments, IT services outsourcing and documents management services	100%	279,000	290,317	100%	29,000	120,670
			2,385,623			1,422,874	
Impairment provision as at 1st January			(66,799)			(4,000)	
Movement during the year (Note 13)			1,605			(62,799)	
Impairment provision as at 31st December			(65,194)			(66,799)	
Net investment in subsidiaries			2,320,429			1,356,075	

Subsidiaries are not quoted in the Colombo Stock Exchange except Siyapatha Finance PLC.

The Directors' valuation of investments in subsidiaries has been carried out on net asset basis as at 31st December 2018 and accordingly the Bank has recognised an impairment reversal of Rs 1.6 Mn (2017 : charge of Rs 62.8 Mn) against the investment in S C Securities (Pvt) Ltd.

NOTES TO THE FINANCIAL STATEMENTS

32 PROPERTY, PLANT AND EQUIPMENT

ACCOUNTING POLICY

Recognition

Property, plant and equipment are tangible items that are held for use in the production or supply of services, for rental to others or for administrative purposes and are expected to be used during more than one period. The Group applies the requirements of the Sri Lanka Accounting Standard - LKAS 16 (Property, Plant and Equipment) in accounting for these assets. Property, plant and equipment are recognised if it is probable that future economic benefits associated with the asset will flow to the Group and the cost of the asset can be reliably measured.

Measurement

An item of property, plant and equipment that qualifies for recognition as an asset is initially measured at its cost. Cost includes expenditure that is directly attributable to the acquisition of the asset and cost incurred subsequently to add to, replace part of an item of property, plant & equipment. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of computer equipment. When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

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.

Revaluation Model

The Group applies the revaluation model to the entire class of freehold land and buildings. Such properties are carried at a revalued amount, being their fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Freehold land and buildings of the Group are revalued by independent professional valuers every three years or more frequently if the fair values are substantially different from carrying amounts, to ensure that the carrying amounts do not differ from the fair values as at the reporting date. The Group revalued its freehold lands and buildings as at 31st December 2017, the details of which are given in Note 32.3.

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 recognised as income to the extent of the previous write down. Any decrease in the carrying amount is recognised 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 revaluation reserve in respect of that asset.

The decrease recognised in other comprehensive income reduces the amount accumulated in equity under revaluation 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 Cost

The subsequent cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within that part will flow to the Group and its cost can be reliably measured. The costs of day to day servicing of property, plant and equipment are charged to the Statement of Profit or Loss as incurred.

Derecognition

The carrying amount of an item of property, plant and equipment is derecognised on 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. When replacement costs are recognised in the carrying amount of an item of property, plant and equipment, the remaining carrying amount of the replaced part is derecognised. Major inspection costs are capitalised. At each such capitalisation, the remaining carrying amount of the previous cost of inspection is derecognised.

Capital Work in Progress

These are expenses of capital nature directly incurred in the construction of buildings, major plant, machinery and system development, awaiting capitalisation. 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.

Borrowing Costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset have been capitalised as part of the cost of the asset in accordance with Sri Lanka Accounting Standard - LKAS 23 (Borrowing Costs). A qualifying asset is an asset which takes substantial period of time to get ready for its intended use or sale. Capitalisation of borrowing costs ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use are completed. Other borrowing costs are recognised in profit or loss in the period in which they are incurred.

There were no capitalised borrowing costs related to the acquisition of property, plant & equipment during the year.

Rates of depreciation for each category of property, plant and equipment is given in Note 15, 'Other operating expenses'.

32.1 Bank

	Freehold Land & Buildings Rs 000	Improvements to Lease Hold Properties Rs 000	Computer Equipment Rs 000	Office Equipment Rs 000	Fixtures & Fittings Rs 000	Motor Vehicles Rs 000	Leased Assets Rs 000	Capital Work-in Progress Rs 000	2018 Total Rs 000	2017 Total Rs 000
Cost / Valuation										
Balance as at 1st January	4,929,456	1,167,583	2,890,097	2,093,417	256,852	220,897	484,175	66,999	12,109,476	10,277,241
Additions & improvements	16,520	34,100	1,024,556	132,506	57,221	14	111,154	57,761	1,433,832	1,226,388
Disposals during the year	-	(12,318)	(90,035)	(20,999)	(3,575)	(118)	-	-	(127,045)	(154,293)
Written off during the year	-	-	(78,822)	(31,119)	(4,814)	(238)	-	-	(114,993)	(51,425)
Revaluation adjustment on accumulated depreciation	-	-	-	-	-	-	-	-	-	(10,915)
Revaluation surplus	-	-	-	-	-	-	-	-	-	822,480
Transfers / adjustments	124,760	-	-	-	-	-	-	(124,760)	-	-
Cost / valuation as at 31st										
December	5,070,736	1,189,365	3,745,796	2,173,805	305,684	220,555	595,329	-	13,301,270	12,109,476
Accumulated Depreciation										
Balance as at 1st January	27,778	988,752	1,939,560	1,473,167	163,139	129,840	117,298	-	4,839,534	4,305,724
Charge for the year	37,061	75,267	300,825	178,130	35,789	19,456	130,472	-	777,000	719,548
Disposals during the year	-	(12,289)	(89,192)	(20,210)	(3,448)	(11)	-	-	(125,150)	(136,810)
Written off during the year	-	-	(76,918)	(26,555)	(4,396)	(238)	-	-	(108,107)	(38,013)
Revaluation adjustment on accumulated depreciation	-	-	-	-	-	-	-	-	-	(10,915)
Accumulated depreciation as at 31st December										
	64,839	1,051,730	2,074,275	1,604,532	191,084	149,047	247,770	-	5,383,277	4,839,534
Net book value as at 31st										
December 2018	5,005,897	137,635	1,671,521	569,273	114,600	71,508	347,559	-	7,917,993	
Net book value as at 31st										
December 2017	4,901,678	178,831	950,537	620,250	93,713	91,057	366,877	66,999		7,269,942

NOTES TO THE FINANCIAL STATEMENTS

32 PROPERTY, PLANT AND EQUIPMENT CONTD.

32.1 (a) The carrying amount of Bank's revalued freehold land and buildings, if they were carried at cost less accumulated depreciation, would be as follows:

As at 31st December	2018			2017		
	Cost Rs 000	Accumulated Depreciation Rs 000	Cost Less Accumulated Depreciation Rs 000	Cost Rs 000	Accumulated Depreciation Rs 000	Cost Less Accumulated Depreciation Rs 000
Freehold lands	855,934	-	855,934	855,934	-	855,934
Freehold buildings	1,153,073	223,034	930,039	1,011,792	197,575	814,217
Total	2,009,007	223,034	1,785,973	1,867,726	197,575	1,670,151

32.2 Group

	Freehold Land & Buildings Rs 000	Improvements to Lease Hold Properties Rs 000	Computer Equipment Rs 000	Office Equipment Rs 000	Fixtures & Fittings Rs 000	Motor Vehicles Rs 000	Capital Work-in- Progress Rs 000	2018 Total Rs 000	2017 Total Rs 000
Cost / Valuation									
Balance as at 1st January	9,313,566	1,167,583	4,282,816	2,269,849	401,906	233,792	391,939	18,061,451	15,412,501
Additions & improvements	16,625	34,100	1,242,435	156,128	85,171	994	583,655	2,119,108	1,640,617
Disposals during the year	-	(12,318)	(119,211)	(21,010)	(3,575)	(4,040)	-	(160,154)	(177,794)
Written off during the year	-	-	(121,533)	(38,509)	(9,809)	(238)	-	(170,089)	(51,425)
Revaluation adjustment on accumulated depreciation	-	-	-	-	-	-	-	-	(93,033)
Revaluation surplus	-	-	-	-	-	-	-	-	1,330,585
Transfers / adjustments	124,760	-	(98)	(34)	41	-	(124,760)	(91)	-
Cost / valuation as at 31st December	9,454,951	1,189,365	5,284,409	2,366,424	473,734	230,508	850,834	19,850,225	18,061,451
Accumulated Depreciation									
Balance as at 1st January	37,688	988,752	2,486,193	1,542,515	233,399	141,462	-	5,430,009	4,703,294
Charge for the year	122,329	75,267	628,294	196,410	64,171	20,410	-	1,106,881	1,014,533
Disposals during the year	-	(12,289)	(116,294)	(20,213)	(3,448)	(3,916)	-	(156,160)	(156,772)
Written off during the year	-	-	(94,834)	(30,771)	(6,369)	(238)	-	(132,212)	(38,013)
Revaluation adjustment on accumulated depreciation	-	-	-	-	-	-	-	-	(93,033)
Transfers / adjustments	-	-	(3)	(81)	(7)	-	-	(91)	-
Accumulated depreciation as at 31st December	160,017	1,051,730	2,903,356	1,687,860	287,746	157,718	-	6,248,427	5,430,009
Net book value as at 31st December 2018	9,294,934	137,635	2,381,053	678,564	185,988	72,790	850,834	13,601,798	-
Net book value as at 31st December 2017	9,275,878	178,831	1,795,170	732,145	162,435	95,044	391,939	-	12,631,442

32.2 (a) 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 31st December	2018			2017		
	Cost Rs 000	Accumulated Depreciation Rs 000	Cost Less Accumulated Depreciation Rs 000	Cost Rs 000	Accumulated Depreciation Rs 000	Cost Less Accumulated Depreciation Rs 000
Freehold lands	1,195,013	-	1,195,013	1,195,013	-	1,195,013
Freehold buildings	1,893,980	429,488	1,464,492	1,752,596	385,507	1,367,089
Total	3,088,993	429,488	2,659,505	2,947,609	385,507	2,562,102

32.3 Details of Bank's & Group's Land and Buildings Stated at Valuation

Freehold land and buildings of the Group are revalued by independent professional valuers once in every three years or more frequently, to ensure that the carrying amount does not differ materially from that which would be determined using the fair value at the end of the reporting period. The Group revalued its entire class of freehold land and buildings as of 31st December 2017, the details of which are given below .

Location	Date of Valuation	Method of Valuation	Net Book Value before Revaluation		Revaluation Amount		Revaluation Gain / (Loss)			Revaluation Gain / (Loss) Recognised in	
			Land	Building	Land	Building	Land	Building	Total	Profit or Loss	OCI
			Rs Mn	Rs Mn	Rs Mn	Rs Mn	Rs Mn	Rs Mn	Rs Mn	Rs Mn	Rs Mn
Bank											
Valuer - M/S Prathap Chartered Valuation & Consultancy (Pvt) Ltd											
No. 1022, Maradana Road, Borella	28.12.2017	Market Comparable Method	255.00	97.01	246.80	95.26	(8.20)	(1.75)	(9.95)	-	(9.95)
"Nuwarawakele", Maithreepala Senanayake Mw, Anuradhapura	29.12.2017	Market Comparable Method	164.97	67.13	171.70	66.97	6.73	(0.16)	6.57	(0.16)	6.73
No. 29, Cross Street, Kandy	29.12.2017	Market Comparable Method	240.00	94.48	257.00	98.68	17.00	4.20	21.20	-	21.20
No. 05, Hakmana Road, Matara	27.12.2017	Market Comparable Method	166.91	36.76	173.74	40.66	6.83	3.90	10.73	-	10.73
Valuer - G W G Abeygunawardana											
No. 103, Dharmapala Mawatha, Hunupitiya, Colombo 7	28.12.2017	Market Comparable Method	700.00	67.55	1,492.50	68.98	792.50	1.43	793.93	-	793.93
Total - Bank			1,526.88	362.93	2,341.74	370.55	814.86	7.62	822.48	(0.16)	822.64
Subsidiaries											
Valuer - P B Kalugalagedara											
Sampath Centre - No. 110, Sir James Peiris Mawatha, Colombo 2	31.12.2017	Income Basis	1,972.00	1,642.31	2,367.00	1,676.50	395.00	34.19	429.19	-	429.19
Valuer - C Wellappili											
Siyapatha Finance PLC - No. 534, Baudhaloka Mawatha, Colombo 08	31.12.2017	Market Comparable Method	204.08	-	283.00	-	78.92	-	78.92	-	78.92
Total - Group			3,702.96	2,005.24	4,991.74	2,047.05	1,288.78	41.81	1,330.59	(0.16)	1,330.75

Except for the properties given in the above table, carrying value of the other properties were not materially different from the fair value as at that date.

NOTES TO THE FINANCIAL STATEMENTS

32 PROPERTY, PLANT AND EQUIPMENT CONTD.

32.4 Analysis of Freehold Land and Buildings by Location

Location	Land Extent Perches	Buildings Sq.ft	Cost / Revaluation of Land Rs 000	Cost / Revaluation of Building Rs 000	Total Value Rs 000	Accumulated Depreciation Rs 000	2018 Net Book Value Rs 000	As a % of Total NBV	2017 Net Book Value Rs 000
Bank									
1 Pettah No.180 (part), Bodiraja Mawatha, Pettah	-	5,124	-	69,891	69,891	5,821	64,070	0.7%	66,858
2 Borella No.1022, Maradana Road, Borella	24.7	15,876	246,800	95,256	342,056	2,878	339,178	3.6%	342,056
3 Kurunegala No.31 & 33, Negombo Road, Kurunegala	37.4	16,202	130,500	97,687	228,187	5,817	222,370	2.4%	224,559
4 Wattala No.256/1, Negombo Road, Wattala	42.5	5,314	89,000	41,000	130,000	2,134	127,866	1.4%	128,888
5 Matara No.05, Hakmana Road, Matara	47.6	11,431	173,740	40,660	214,400	1,350	213,050	2.3%	214,400
6 Maharagama No.81 & 81 A, High Level Road, Maharagama	13.5	6,310	67,300	36,081	103,381	2,144	101,237	1.1%	102,266
7 Deniyaya No.69, Main Street, Deniyaya	17.5	5,325	21,900	25,780	47,680	1,342	46,338	0.5%	46,981
8 Deniyaya No.117, Hapugahawalawatta, Ihalagama Road, Deniyaya	40.0	BareLand	600	-	600	-	600	0.0%	600
9 Ratmalana No.261, Galle Road, Ratmalana	10.9	5,520	30,000	23,000	53,000	1,260	51,740	0.6%	52,343
10 Piliyandala No.61A, Moratuwa Road, Piliyandala	37.5	8,138	65,000	35,361	100,361	2,065	98,296	1.1%	97,943
11 Anuradhapura "Nuwarawewakele", Maitheepala Senanayake Mw, Anuradhapura	40.4	8,929	171,700	69,677	241,377	2,041	239,336	2.6%	238,668
12 Panadura No.373 A, Galle Road, Panadura	27.3	6,020	61,500	52,500	114,000	3,125	110,875	1.2%	112,373
13 Old Moor Street No.371, Old Moor St, Masangasweediya, Colombo 12	24.0	10,180	132,000	28,000	160,000	3,909	156,091	1.7%	157,975
14 Tissamaharama No. 25-27, Main Street, Tissamaharama	22.2	10,815	17,760	33,683	51,443	1,748	49,695	0.5%	50,337
15 Katugastota No.187, Madawala Road, Katugastota	23.2	7,811	69,600	66,700	136,300	3,472	132,828	1.4%	134,491
16 Galle No.05, Wakwella Road, Galle	17.5	5,400	104,880	34,156	139,036	1,815	137,221	1.5%	133,790

Location	Land Extent Perches	Buildings Sq.ft	Cost / Revaluation of Land Rs 000	Cost / Revaluation of Building Rs 000	Total Value Rs 000	Accumulated Depreciation Rs 000	2018 Net Book Value Rs 000	As a % of Total NBV	2017 Net Book Value Rs 000
17 Wellawatte No.591, Galle Road, Wellawatta	21.5	7,776	118,000	60,000	178,000	3,287	174,713	1.9%	176,287
18 Narahenpita No.475, Elvitigala Mawatha, Narahenpita	18.9	9,600	94,000	65,423	159,423	3,477	155,946	1.7%	155,201
19 Kalutara No.312/A, Galle Road, Kalutara	30.0	8,715	75,000	68,781	143,781	3,753	140,028	1.5%	141,833
20 Alawwa No.7/5, Giriulla Road, Alawwa	20.7	8,190	20,500	26,500	47,000	2,759	44,241	0.5%	45,562
21 Horana No.42, Anguruwatota Road, Horana	20.8	BareLand	41,500	-	41,500	-	41,500	0.4%	41,500
22 Kandy Metro No.29, Cross Street, Kandy	25.7	17,398	257,000	98,681	355,681	3,286	352,395	3.8%	355,679
23 Dharmapala Mawatha No.103, Dharmapala Mawatha, Hunupitya, Colombo 7	119.4	7,300	1,492,500	69,441	1,561,941	1,811	1,560,130	16.8%	1,561,470
24 Gampaha No.150, Colombo Road, Gampaha	25.0	5,680	62,000	41,000	103,000	2,134	100,866	1.1%	101,888
25 Victoria Range No. 1/87, Victoria Range, Digana, Kandy	20.1	2,320	7,000	10,800	17,800	648	17,152	0.2%	17,465
26 Panchikawatta No. 85/87, Panchikawatta Road, Colombo 10	9.8	7,020	66,000	36,388	102,388	2,729	99,659	1.1%	96,513
27 Negombo No. 408, Main Street, Negombo	41.5	12,686	103,750	124,760	228,510	34	228,476	2.5%	103,750
Total - Bank	779.4	215,080	3,719,530	1,351,206	5,070,736	64,839	5,005,897	53.9%	4,901,678
Subsidiaries									
Sampath Centre									
28 Slave island No. 110, Sir James Peiris Mawatha, Colombo 2	157.8	220,301	2,367,000	1,734,215	4,101,215	95,178	4,006,037	43.1%	4,091,200
Siyapatha Finance PLC									
29 Borella No. 534, Bauddhaloka Mawatha, Colombo-08	29.1	WIP	283,000	-	283,000	-	283,000	3.0%	283,000
Total - Group	966.3	435,381	6,369,530	3,085,421	9,454,951	160,017	9,294,934	100.0%	9,275,878

NOTES TO THE FINANCIAL STATEMENTS

32 PROPERTY, PLANT AND EQUIPMENT CONTD.

32.5 (a) Improvement to Leasehold Properties

Bank & Group

As at 31st December	2018		Net Book Value Rs 000	2017 Net Book Value Rs 000
	Cost of Buildings Rs 000	Accumulated Depreciation Rs 000		
01 - 05 years	192,562	178,860	13,702	22,742
06 - 10 years	669,441	596,987	72,453	78,935
Above 10 years	327,362	275,883	51,480	77,154
Total	1,189,365	1,051,730	137,635	178,831

32.5 (b) Fully Depreciated Property, Plant and Equipment

A class-wise analysis of the initial cost of fully depreciated property, plant and equipment of the Bank/Group which are still in use as at reporting date is as follows.

As at 31st December	Bank		Group	
	2018 Rs 000	2017 Rs 000	2018 Rs 000	2017 Rs 000
Asset class				
Improvements to leasehold properties	839,885	767,465	839,885	767,465
Computer equipment & software	2,226,354	2,079,202	2,752,726	2,249,309
Office equipment	965,230	764,423	1,147,156	782,071
Fixtures & fittings	109,070	102,071	450,807	111,185
Motor vehicles	68,107	60,518	75,488	66,657
Total	4,208,646	3,773,679	5,266,062	3,976,687

32.5 (c) Temporarily Idle Property, Plant and Equipment - Bank & Group

The Bank holds Horana land worth of Rs 41.5 Mn with the intention of constructing a branch in the near future. The Bank does not intend to construct a branch in Deniyaya land as it was severely earth slipped. Any future construction on this land is subjected to NBRO (National Building Research Organisation) certification.

32.5 (d) Property, Plant and Equipment Retired from Active Use - Bank & Group

There were no property, plant and equipment retired from active use as at the reporting date (2017: Nil)

32.5 (e) Title Restriction on Property, Plant and Equipment - Bank & Group

There were no restriction on the title of property, plant and equipment as at 31st December 2018 (2017: Nil).

32.5 (f) Property, Plant and Equipment Pledged as Security for Liabilities - Bank & Group

There were no items of property, plant and equipment pledged as securities for liabilities.

32.5 (g) Compensation from Third Parties for Items of Property, Plant and Equipment - Bank & Group

There were no compensation received during the year from third parties for items of property, plant and equipment that were impaired, lost or given up (2017: Nil).

33 INTANGIBLE ASSETS

ACCOUNTING POLICY

Recognition

An intangible asset is an identifiable non-monetary asset without physical substance, held for use in the production or supply of goods or services, for rental to others or for administrative purposes. An intangible asset is recognised if it is probable that the future economic benefits that are attributable to the asset will flow to the entity and the cost of the asset can be measured reliably. An intangible asset is initially measured at cost. Expenditure incurred on an intangible item that was initially recognised as an expense by the Group in previous annual Financial Statements or interim Financial Statements are not recognised as part of the cost of an intangible asset at a later date.

Computer Software

Cost of purchased licenses and all computer software costs incurred, licensed for use by the Group, which are not integrally related to associated hardware, which can be clearly identified, reliably measured and it's probable that they will lead to future economic benefits, are included in the Statement of Financial Position under the category 'Intangible assets' and carried at cost less accumulated amortisation and any accumulated impairment losses.

Goodwill

Goodwill, if any, that arises upon the acquisition of subsidiaries is included in intangible assets. Goodwill is measured at initial recognition in accordance with Note 4.2.

Subsequent Expenditure

Expenditure incurred on software is capitalised only when it is probable that this expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance and this expenditure can be measured and attributed to the asset reliably. All other expenditure is expensed as incurred.

Goodwill is measured at cost less accumulated impairment losses.

Derecognition of Intangible Assets

The carrying amount of an item of intangible asset is derecognised on disposal or when no future economic benefits are expected from its use. The gain or loss arising from de-recognition of an item of intangible asset is included in the Statement of Profit or Loss when the item is derecognised.

There were no restrictions on the title of the intangible assets as at the reporting date. Further, there were no items pledged as securities for liabilities.

Intangible assets of the Bank as at 31st December 2018 only include computer software and cost of licenses. Rates of amortisation for computer software and licenses are given in Note 15, 'Other operating expenses'.

NOTES TO THE FINANCIAL STATEMENTS

33 INTANGIBLE ASSETS CONTD.

As at 31st December	Bank		Group	
	2018 Rs 000	2017 Rs 000	2018 Rs 000	2017 Rs 000
Cost				
Balance as at 1st January	2,077,871	1,294,959	2,206,151	1,359,300
Additions & improvements	516,985	782,912	609,189	846,889
Disposal / write off during the year	(8,582)	-	(8,582)	(38)
Cost as at 31st December	2,586,274	2,077,871	2,806,758	2,206,151
Accumulated Amortisation				
Balance as at 1st January	1,131,026	957,611	1,209,448	1,003,169
Charge for the year (Note 15)	322,898	173,415	343,492	182,317
Impairment for the year	-	-	33,371	24,000
Disposal / write off during the year	(5,072)	-	(5,072)	(38)
Accumulated amortisation as at 31st December	1,448,852	1,131,026	1,581,239	1,209,448
Net book value as at 31st December	1,137,422	946,845	1,225,519	996,703

34 DEFERRED TAX (ASSETS)/LIABILITIES

As at 31st December	Bank		Group	
	2018 Rs 000	2017 Rs 000	2018 Rs 000	2017 Rs 000
Recognised under assets	(989,343)	-	(989,416)	(401)
Recognised under liabilities	-	1,353,339	1,536,772	2,776,681
	(989,343)	1,353,339	547,356	2,776,280

Net deferred tax (assets) / liabilities of one entity cannot be set-off against another entity's (assets) / liabilities since there is no legally enforceable right to set-off. Therefore, net deferred tax assets and liabilities of different entities are separately recognised in the Statement of Financial Position.

34.1 Movement in Deferred Tax Liabilities / (Assets)

Bank

	Accelerated Depreciation for Tax Purposes		Provision for loan losses	Revaluation on Land & Buildings	Retirement Benefit Obligation	Tax Losses on Leasing Operation	Gain / (Loss) on FVOCI/AFS Assets	Other	Total
	Property, Plant & Equipment	Leased Assets							
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Balance as at 1st January 2017	340,798	907,434	-	118,633	(170,780)	(308,019)	-	(15,272)	872,794
Profit or loss (Note 17)	65,503	112,277	(391,189)	-	(94,881)	164,673	-	(16,325)	(159,942)
Other comprehensive income	-	-	-	818,222	(177,735)	-	-	-	640,487
Balance as at 31st December									
2017	406,301	1,019,711	(391,189)	936,855	(443,396)	(143,346)	-	(31,597)	1,353,339
Impact on adoption of SLFRS 9	-	-	(826,821)	-	-	-	-	-	(826,821)
Adjusted balance as at									
1st January 2018	406,301	1,019,711	(1,218,010)	936,855	(443,396)	(143,346)	-	(31,597)	526,518
Profit or loss (Note 17)	64,385	(180,775)	(1,861,348)	-	(70,232)	143,346	-	(48,241)	(1,952,865)
Other comprehensive income	-	-	-	-	(14,403)	-	451,407	-	437,004
Balance as at 31st December									
2018	470,686	838,936	(3,079,358)	936,855	(528,031)	-	451,407	(79,838)	(989,343)

Group

	Accelerated Depreciation for Tax Purposes		Provision for loan losses	Revaluation on Land & Buildings	Retirement Benefit Obligation	Tax Losses on Leasing Operation	Gain / (Loss) on FVOCI/AFS Assets	Other	Total
	Property, Plant & Equipment	Leased Assets							
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Balance as at 1st January 2017	377,098	1,569,712	-	118,633	(179,589)	(755,823)	-	(53,214)	1,076,817
Profit or loss (Note 17)	66,147	531,224	(391,189)	-	(96,322)	(104,780)	-	(15,871)	(10,791)
Other comprehensive income	-	-	-	1,891,063	(180,809)	-	-	-	1,710,254
Balance as at 31st December									
2017	443,245	2,100,936	(391,189)	2,009,696	(456,720)	(860,603)	-	(69,085)	2,776,280
Impact on adoption of SLFRS 9	-	-	(851,070)	-	-	-	-	-	(851,070)
Adjusted balance as at									
1st January 2018	443,245	2,100,936	(1,242,259)	2,009,696	(456,720)	(860,603)	-	(69,085)	1,925,210
Profit or loss (Note 17)	3,619	(662,426)	(1,839,319)	-	(72,839)	833,265	-	(77,979)	(1,815,679)
Other comprehensive income	-	-	-	-	(13,582)	-	451,407	-	437,825
Balance as at 31st December									
2018	446,864	1,438,510	(3,081,578)	2,009,696	(543,141)	(27,338)	451,407	(147,064)	547,356

NOTES TO THE FINANCIAL STATEMENTS

35 OTHER ASSETS

As at 31st December	Bank		Group	
	2018 Rs 000	2017 Rs 000	2018 Rs 000	2017 Rs 000
Pre-paid expenses	674,810	403,130	746,404	459,403
Reimbursement under special senior citizen deposit scheme	3,263,769	1,991,372	3,263,769	1,991,372
Other debtors	2,378,672	2,389,176	2,967,072	2,806,912
Pre-paid staff cost (Note 35.1)	2,968,127	2,433,049	2,991,843	2,446,286
Refundable deposits	96,955	81,685	44,437	26,212
Commission receivable on financial guarantees (Note 35.2)	93,012	105,051	93,012	105,051
	9,475,345	7,403,463	10,106,537	7,835,236

35.1 The Movement in the Pre-Paid Staff Cost

	Bank		Group	
	2018 Rs 000	2017 Rs 000	2018 Rs 000	2017 Rs 000
Balance as at 1st January	2,433,049	1,960,290	2,446,286	1,966,756
Add : Adjustment for new grants (net of settlements)	807,883	724,642	827,518	732,297
Charge to personnel expenses	(272,805)	(251,883)	(281,961)	(252,767)
Balance as at 31st December	2,968,127	2,433,049	2,991,843	2,446,286

35.2 Commission Receivable on Financial Guarantees

Bank & Group

	2018	2017
	Rs 000	Rs 000
Balance as at 1st January	105,051	115,370
Interest income	8,458	9,390
Commission received	(20,497)	(19,709)
Balance as at 31st December	93,012	105,051

36 DUE TO BANKS

As at 31st December	Bank		Group	
	2018 Rs 000	2017 Rs 000	2018 Rs 000	2017 Rs 000
Local Currency Deposits				
Demand deposits	30,906	50,832	30,906	50,832
Savings deposits	550	532	550	532
Term deposits	6,630,968	3,745,272	6,630,968	3,745,272
Total local currency deposits	6,662,424	3,796,636	6,662,424	3,796,636
Foreign Currency Deposits				
Demand deposits	1,044,081	830,700	1,044,081	830,700
Total foreign currency deposits	1,044,081	830,700	1,044,081	830,700
Total deposits	7,706,505	4,627,336	7,706,505	4,627,336
Unfavourable balances with local & foreign banks	1,194,958	116,412	1,258,352	192,951
	8,901,463	4,743,748	8,964,857	4,820,287

37 DUE TO OTHER CUSTOMERS

As at 31st December	Bank		Group	
	2018 Rs 000	2017 Rs 000	2018 Rs 000	2017 Rs 000
Local Currency Deposits				
Demand deposits	29,654,671	32,128,199	29,647,570	32,124,527
Saving deposits	174,415,928	165,844,789	174,199,790	165,648,008
Call deposits	138,441	126,358	138,441	126,358
Term deposits	395,594,414	354,757,444	405,100,141	363,798,498
Certificates of deposits	15,860,591	15,500,048	15,860,591	15,500,048
Margin deposits	2,730,520	1,558,972	2,730,520	1,545,480
Total local currency deposits	618,394,565	569,915,810	627,677,053	578,742,919
Foreign Currency Deposits				
Demand deposits	4,688,043	2,639,248	4,688,043	2,639,248
Saving deposits	23,004,614	18,548,653	23,004,614	18,548,612
Call deposits	-	660,943	-	660,943
Term deposits	44,168,021	34,017,317	44,168,021	34,017,317
Margin deposits	123,309	32,342	123,309	32,342
Total foreign currency deposits	71,983,987	55,898,503	71,983,987	55,898,462
Total deposits	690,378,552	625,814,313	699,661,040	634,641,381

37.1 Current Accounts and Savings Accounts (CASA)

As at 31st December	Bank		Group	
	2018 Rs 000	2017 Rs 000	2018 Rs 000	2017 Rs 000
CASA				
Local currency deposits	204,102,055	198,024,352	203,878,816	197,823,899
Foreign currency deposits	28,736,738	22,018,601	28,736,738	22,018,560
	232,838,793	220,042,953	232,615,554	219,842,459
Total Deposits				
Due to other customers	690,378,552	625,814,313	699,661,040	634,641,381
Due to banks - Demand, savings & term deposits (Note 36)	7,706,505	4,627,336	7,706,505	4,627,336
	698,085,057	630,441,649	707,367,545	639,268,717
CASA as a percentage (%) of total deposits	33.4	34.9	32.9	34.4

NOTES TO THE FINANCIAL STATEMENTS

38 DEBT ISSUED & OTHER BORROWED FUNDS

As at 31st December	Bank		Group	
	2018 Rs 000	2017 Rs 000	2018 Rs 000	2017 Rs 000
Redeemable debentures (Note 38.1)	34,297,696	31,532,803	38,957,631	36,192,070
Long term bond (Note 38.2)	2,314,880	2,120,767	2,314,880	2,120,767
Call borrowings	1,154,953	2,264,332	1,154,953	2,264,332
Term borrowings	5,101,507	-	16,866,711	10,499,645
Foreign currency borrowings	42,450,919	35,756,777	42,450,919	35,756,777
Refinance borrowings	4,628,451	4,423,561	4,628,451	4,423,561
	89,948,406	76,098,240	106,373,545	91,257,152

The Bank/Group has not had any default of principal, interest or other breaches with regard to any liability during 2017 and 2018.

38.1 Redeemable Debentures

	Bank		Group	
	2018 Rs 000	2017 Rs 000	2018 Rs 000	2017 Rs 000
Balance as at 1st January	31,532,803	27,009,027	36,192,070	30,624,287
Debentures issued	7,500,000	6,000,000	7,500,000	7,000,000
Debentures redeemed	(5,000,000)	(1,500,000)	(5,000,000)	(1,500,000)
	34,032,803	31,509,027	38,692,070	36,124,287
Interest accrued during the year (Note 8.2)	4,131,467	2,905,372	4,679,757	3,359,244
Interest paid	(3,866,574)	(2,881,596)	(4,414,196)	(3,291,461)
Balance as at 31st December	34,297,696	31,532,803	38,957,631	36,192,070

Details of Debentures Issued	Note	No. of Debentures	Face Value Rs 000	Amortised Cost	
				2018 Rs 000	2017 Rs 000
Debentures issued by the Bank					
Debentures issued in 2013	38.1.1	50,000,000	5,000,000	-	5,000,000
Debentures issued in 2014	38.1.2	70,000,000	7,000,000	7,000,000	7,000,000
Debentures issued in 2015	38.1.3	70,000,000	7,000,000	7,083,957	7,083,627
Debentures issued in 2016	38.1.4	60,000,000	6,000,000	6,426,581	6,426,573
Debentures issued in 2017	38.1.5	60,000,000	6,000,000	6,022,603	6,022,603
Debentures issued in 2018	38.1.6	75,000,000	7,500,000	7,764,555	-
Total debentures issued by the Bank			38,500,000	34,297,696	31,532,803
Debentures issued by the Subsidiary, Siyapatha Finance PLC					
Debentures issued in 2014	38.1.7	10,000,000	1,000,000	1,036,223	1,035,555
Debentures issued in 2016	38.1.8	25,000,000	2,500,000	2,593,233	2,593,233
Debentures issued in 2017	38.1.9	10,000,000	1,000,000	1,030,479	1,030,479
Total debentures issued by the subsidiary			4,500,000	4,659,935	4,659,267
Total debentures issued by the Group			43,000,000	38,957,631	36,192,070

Debentures Issued by the Bank :

38.1.1 Debentures Issued in 2013

Rated unsecured subordinated redeemable 5-year debentures of Rs 100/- each issued in 2013. The debentures are quoted on the Colombo Stock Exchange.

No. of Debentures	Face Value Rs 000	Amortised Cost		Allotment Date	Maturity Date	Rate of Interest
		2018 Rs 000	2017 Rs 000			
15,541,900	1,554,190	-	1,554,190	04-Dec-13	04-Dec-18	Fixed - 13.00 % per annum payable semi-annually
34,458,100	3,445,810	-	3,445,810	04-Dec-13	04-Dec-18	Fixed - 13.40 % per annum payable annually
50,000,000	5,000,000	-	5,000,000			

The Bank has redeemed the above debentures on 04th December 2018.

38.1.2 Debentures Issued in 2014

Rated unsecured subordinated redeemable 5-year debentures of Rs 100/- each issued in 2014. The debentures are quoted on the Colombo Stock Exchange.

No. of Debentures	Face Value Rs 000	Amortised Cost		Allotment Date	Maturity Date	Rate of Interest
		2018 Rs 000	2017 Rs 000			
31,765,500	3,176,550	3,176,550	3,176,550	15-Dec-14	14-Dec-19	Fixed - 8.25% per annum payable annually
38,234,500	3,823,450	3,823,450	3,823,450	15-Dec-14	14-Dec-19	Fixed - 8.10% per annum payable semi annually
70,000,000	7,000,000	7,000,000	7,000,000			

38.1.3 Debentures Issued in 2015

Rated unsecured subordinated redeemable 5-year debentures of Rs 100/- each issued in 2015. The debentures are quoted on the Colombo Stock Exchange.

No. of Debentures	Face Value Rs 000	Amortised Cost		Allotment Date	Maturity Date	Rate of Interest
		2018 Rs 000	2017 Rs 000			
67,412,700	6,741,270	6,821,722	6,821,722	18-Nov-15	18-Nov-20	Fixed - 9.90% per annum payable semi annually
2,587,300	258,730	262,235	261,905	18-Nov-15	18-Nov-20	Floating rate is equivalent to the six months treasury bill rate (net) plus 1.25 % per annum payable semi-annually
70,000,000	7,000,000	7,083,957	7,083,627			

NOTES TO THE FINANCIAL STATEMENTS

38 DEBT ISSUED & OTHER BORROWED FUNDS CONTD.

38.1.4 Debentures Issued in 2016

Rated unsecured subordinated redeemable 5-year debentures of Rs 100/- each issued in 2016. The debentures are quoted on the Colombo Stock Exchange.

No. of Debentures	Face Value Rs 000	Amortised Cost		Allotment Date	Maturity Date	Rate of Interest
		2018 Rs 000	2017 Rs 000			
59,526,500	5,952,650	6,378,917	6,378,917	10-Jun-16	10-Jun-21	Fixed - 12.75% per annum payable annually
473,500	47,350	47,664	47,656	10-Jun-16	10-Jun-21	Floating rate is equivalent to the six months treasury bill rate (gross) plus 1 % per annum payable semi-annually
60,000,000	6,000,000	6,426,581	6,426,573			

38.1.5 Debentures Issued in 2017

Basel III Compliant - Tier II listed rated unsecured subordinated redeemable 5 year debentures with a non - viability conversion, at a par value of Rs 100/- each issued in 2017. The debentures are quoted on the Colombo Stock Exchange.

No. of Debentures	Face Value Rs 000	Amortised Cost		Allotment Date	Maturity Date	Rate of Interest
		2018 Rs 000	2017 Rs 000			
60,000,000	6,000,000	6,022,603	6,022,603	21-Dec-17	21-Dec-22	Fixed - 12.50% per annum payable semi - annually
60,000,000	6,000,000	6,022,603	6,022,603			

38.1.6 Debentures Issued in 2018

Basel III Compliant - Tier II listed rated unsecured subordinated redeemable 5 year debentures with a non - viability conversion, at a par value of Rs 100/- each issued in 2018. The debentures are quoted on the Colombo Stock Exchange.

No. of Debentures	Face Value Rs 000	Amortised Cost		Allotment Date	Maturity Date	Rate of Interest
		2018 Rs 000	2017 Rs 000			
75,000,000	7,500,000	7,764,555	-	20-Mar-18	20-Mar-23	Fixed - 12.50% per annum payable semi - annually
75,000,000	7,500,000	7,764,555	-			

Debentures Issued by the Subsidiary, Siyapatha Finance PLC:

38.1.7 Debentures Issued in 2014

Rated unsecured subordinated redeemable 5-year debentures of Rs 100/- each issued in 2014. The debentures are quoted on the Colombo Stock Exchange.

No. of Debentures	Face Value Rs 000	Amortised Cost		Allotment Date	Maturity Date	Rate of Interest
		2018 Rs 000	2017 Rs 000			
10,000,000	1,000,000	1,036,223	1,035,555	24-Dec-14	24-Dec-19	Fixed - 8.90% per annum payable annually
10,000,000	1,000,000	1,036,223	1,035,555			

38.1.8 Debentures Issued in 2016

Rated unsecured senior transferable fully paid redeemable 5 year & 3 year debentures of Rs 100/- each issued in 2016. The debentures are quoted on the Colombo Stock Exchange.

No. of Debentures	Face Value Rs 000	Amortised Cost		Allotment Date	Maturity Date	Rate of Interest
		2018 Rs 000	2017 Rs 000			
14,219,900	1,421,990	1,474,156	1,474,156	20-Sep-16	20-Sep-19	Fixed - 13.00% per annum payable annually
10,780,100	1,078,010	1,119,077	1,119,077	20-Sep-16	20-Sep-21	Fixed - 13.50% per annum payable annually
25,000,000	2,500,000	2,593,233	2,593,233			

38.1.9 Debentures Issued in 2017

Rated unsecured subordinated transferable fully paid redeemable 5 year debentures of Rs 100/- each issued in 2017. The debentures are quoted on the Colombo Stock Exchange.

No. of Debentures	Face Value Rs 000	Amortised Cost		Allotment Date	Maturity Date	Rate of Interest
		2018 Rs 000	2017 Rs 000			
10,000,000	1,000,000	1,030,479	1,030,479	04-Oct-17	04-Oct-22	Fixed - 12.50% per annum payable annually
10,000,000	1,000,000	1,030,479	1,030,479			

NOTES TO THE FINANCIAL STATEMENTS

38 DEBT ISSUED & OTHER BORROWED FUNDS CONTD.

38.2 Long Term Bond

Bank & Group

The Bank has issued a redeemable zero coupon bond in 2003 with a redemption value of Rs 3,458 Mn which will be matured on 1st August 2023.

	2018 Rs 000	2017 Rs 000
Balance as at 1st January	2,120,767	1,942,931
Interest accrued	194,113	177,836
Balance as at 31st December	2,314,880	2,120,767

39 CURRENT TAX LIABILITIES / (RECEIVABLES)

As at 31st December	Bank		Group	
	2018 Rs 000	2017 Rs 000	2018 Rs 000	2017 Rs 000
Current tax liabilities	9,540,868	5,527,323	9,682,482	5,630,670
Current tax receivables	-	-	(23,360)	(6,425)
Net current tax liability (Note 39.1)	9,540,868	5,527,323	9,659,122	5,624,245

39.1 Current Tax Liabilities / (Receivables)

	Bank		Group	
	2018 Rs 000	2017 Rs 000	2018 Rs 000	2017 Rs 000
Balance as at 1st January	5,527,323	4,316,297	5,624,245	4,375,886
Current tax based on profit for the year (Note 17)	8,425,713	5,596,868	8,600,997	5,775,580
Over provision in respect of previous years (Note 17)	(265,666)	(935,121)	(269,822)	(937,061)
Payment of tax	(4,146,502)	(3,450,721)	(4,296,298)	(3,590,160)
Balance as at 31st December	9,540,868	5,527,323	9,659,122	5,624,245

40 OTHER LIABILITIES

As at 31st December	Bank		Group	
	2018* Rs 000	2017 Rs 000	2018* Rs 000	2017 Rs 000
Deposit insurance premium	156,110	176,522	157,160	177,583
Deferred income	610,600	589,123	620,233	589,123
Lease payable	439,988	436,478	-	-
Bills payable	1,277,841	2,277,242	1,277,841	2,277,242
Items in transit	950,638	1,289,087	950,638	1,289,087
Accrued expenses	2,780,635	3,060,849	2,951,523	3,231,737
Impairment provision for expected credit loss - credit related commitments & contingencies (Note 46.2)	1,184,087	n/a	1,184,087	n/a
Other payable	4,998,623	3,912,846	5,671,052	5,047,757
	12,398,522	11,742,147	12,812,534	12,612,529

* The amounts for the year ended 31st December 2018 have been prepared in accordance with Sri Lanka Accounting Standard - SLFRS 9 (Financial Instruments), whereas prior period amounts have not been restated.

41 OTHER PROVISIONS

As at 31st December	Bank		Group	
	2018 Rs 000	2017 Rs 000	2018 Rs 000	2017 Rs 000
Provision for gratuity (Note 41.1)	734,664	618,639	792,920	669,448
Leave accrual plan (Note 41.2)	221,134	196,979	221,134	196,979
EPF interest guarantee plan (Note 41.3)	92,254	101,890	92,254	101,890
Liability for pension fund (Note 41.4)	837,772	666,050	837,772	666,050
	1,885,824	1,583,558	1,944,080	1,634,367

41.1 Provision for Gratuity

Net Liability Recognised in the Statement of Financial Position

	Bank		Group	
	2018 Rs 000	2017 Rs 000	2018 Rs 000	2017 Rs 000
Balance as at 1st January	618,639	497,993	669,448	531,628
Provision made during the year (Note 41.1.1)	169,410	164,636	184,012	189,248
	788,049	662,629	853,460	720,876
Benefits paid by the plan	(53,385)	(43,990)	(60,540)	(51,428)
Balance as at 31st December (Note 41.1.2)	734,664	618,639	792,920	669,448

NOTES TO THE FINANCIAL STATEMENTS

41 OTHER PROVISIONS CONTD.

41.1.1 Provision Made During the Year

Amounts Recognised in Profit or Loss

For the year ended 31st December	Bank		Group	
	2018 Rs 000	2017 Rs 000	2018 Rs 000	2017 Rs 000
Current service cost	68,233	59,546	79,734	68,588
Net interest on the net defined benefit liability	63,658	59,261	69,692	63,403
Total amount recognised in profit or loss	131,891	118,807	149,426	131,991

Amounts Recognised in OCI

For the year ended 31st December	Bank		Group	
	2018 Rs 000	2017 Rs 000	2018 Rs 000	2017 Rs 000
Actuarial (gain) / loss due to changes in assumptions*				
Financial assumptions	(30,535)	10,459	(37,867)	19,776
Demographic assumptions	-	-	3,331	-
Actuarial experience loss arising during the year	68,054	35,370	69,122	37,481
Total actuarial loss recognised in OCI	37,519	45,829	34,586	57,257
Provision made during the year	169,410	164,636	184,012	189,248

* Significant assumptions used for the actuarial valuation are given in Note 41.1.3

41.1.2 Movement of Defined Benefit Obligation During the Year

	Bank		Group	
	2018 Rs 000	2017 Rs 000	2018 Rs 000	2017 Rs 000
Balance as at 1st January	618,639	497,993	669,448	531,628
Current service cost	68,233	59,546	79,734	68,588
Interest cost	63,658	59,261	69,692	63,403
Benefits paid from plan	(53,385)	(43,990)	(60,540)	(51,428)
Actuarial loss / (gain) due to changes in assumptions				
Financial assumptions	(30,535)	10,459	(37,867)	19,776
Demographic assumptions	-	-	3,331	-
Actuarial experience loss	68,054	35,370	69,122	37,481
Balance as at 31st December	734,664	618,639	792,920	669,448

An Actuarial valuation of the gratuity fund of the Bank was carried out as at 31st December 2018 by Mr Piyal S Goonetilleke (Fellow of Society of Actuaries - USA) of Messrs Piyal S Goonetilleke & Associates, a firm of professional actuaries. The valuation method used by the actuary to value the Fund is the "Projected Unit Credit Method", recommended by Sri Lanka Accounting Standard - LKAS 19 (Employee Benefits).

41.1.3 Actuarial Assumptions - Bank

As at 31st December	2018	2017
Financial assumptions		
Discount rate	12.19%	10.29%
Future salary increment rate	11.39%	9.82%
Demographic assumptions		
Mortality	RP 2000 Mortality Table	RP 2000 Mortality Table
Retirement age	55 years	55 years

Expected average future working life of the active participants is 11.1 years.

41.1.4 Sensitivity of Assumptions Employed in Gratuity Valuation - Bank

Reasonably possible changes at the reporting date to one of the significant actuarial assumptions, holding other assumptions constant, would have affected the gratuity liability / Statement of Comprehensive Income by the amounts shown below.

Increase / (Decrease) in Discount Rate	Increase / (Decrease) in Salary Increment Rate	2018		2017	
		Sensitivity Effect on Comprehensive Income Statement Increase/ (Decrease) in Comprehensive Income for the Year Rs Mn	Sensitivity Effect on Gratuity Liability Increase/ (Decrease) in Liability Rs Mn	Sensitivity Effect on Comprehensive Income Statement Increase/ (Decrease) in Comprehensive Income for the Year Rs Mn	Sensitivity Effect on Gratuity Liability Increase/ (Decrease) in Liability Rs Mn
1%	-	77.9	(77.9)	66.7	(66.7)
(1%)	-	(92.9)	92.9	(80.2)	80.2
-	1%	(91.1)	91.1	(78.4)	78.4
-	(1%)	77.9	(77.9)	66.6	(66.6)

All subsidiaries of the Group carry out actuarial valuations to ascertain their respective gratuity liabilities. However assumptions and the sensitivity of the assumptions have been given only for the gratuity fund of the Bank since subsidiary gratuity liabilities do not have a material impact on the Group Financial Statements.

41.2 Leave Accrual Plan

41.2.1 Net Liability Recognised in the Statement of Financial Position

Bank & Group

	2018 Rs 000	2017 Rs 000
Balance as at 1st January	196,979	167,503
Provision made during the year	24,155	29,476
Balance as at 31st December	221,134	196,979

NOTES TO THE FINANCIAL STATEMENTS

41 OTHER PROVISIONS CONTD.

41.3 EPF Interest Guarantee Plan

Employees' Provident Fund (EPF) is an approved private provident fund which has been set up to meet the provident fund liabilities of the Bank to which the Bank and employees contribute 12% and 8% respectively on the salary of each employee. Employees who are members of the fund are entitled to receive interest at a guaranteed rate of National Savings Bank's one year fixed deposit rate (net of income tax) on their balance, even if the fund earns a lower return from its investment in a given financial year. As per Section 8 of the EPF Constitution, the Bank shall contribute any shortfall in the revenue account of the fund, after payment of interest at the said rate and other cost of administering the fund. Thus the Bank's obligation to EPF is not limited to only 12% contribution referred to above and accordingly the fund was treated as a defined benefit liability as per Sri Lanka Accounting Standard - LKAS 19 (Employee Benefits). An actuarial valuation was carried out by Mr Piyal S Goonetilleke (Fellow of Society of Actuaries - USA) of Messrs Piyal S Goonetilleke & Associates, a firm of professional actuaries to value the Bank's additional obligation arising from Section 8 of the EPF constitution as at 31st December 2018.

41.3.1 Net Liability Recognised in the Statement of Financial Position

Bank & Group

As at 31st December	2018 Rs 000	2017 Rs 000
Fund obligation as at 31st December	11,695,490	10,337,918
Fair value of plan assets as at 31st December	(11,603,236)	(10,236,028)
Net liability recognised in the Statement of Financial Position	92,254	101,890

41.3.2 Amounts Recognised in Profit or Loss

Bank & Group

For the year ended 31st December	2018 Rs 000	2017 Rs 000
Current service cost	7,720	6,308
Interest expense on defined benefit liability	10,484	9,870
Total amount recognised in profit or loss	18,204	16,178

41.3.3 Amounts Recognised in OCI

Bank & Group

For the year ended 31st December	2018 Rs 000	2017 Rs 000
Actuarial (gain) / loss due to changes in assumptions*		
Financial assumptions	(23,329)	9,900
Demographic assumptions	-	-
Actuarial gain due to experience adjustments	(4,511)	(7,132)
Total amount recognised in OCI	(27,840)	2,768

* Significant assumptions used for the actuarial valuation are given in Note 41.3.5

41.3.4 Movement of the Net Liability Recognised in the Statement of Financial Position

Bank & Group

	2018 Rs 000	2017 Rs 000
Balance as at 1st January	101,890	82,944
Current service cost and interest cost	18,204	16,178
Actuarial (gain) / loss	(27,840)	2,768
Balance as at 31st December	92,254	101,890

41.3.5 Actuarial Assumptions - Bank

	2018	2017
Financial assumptions		
Discount rate	12.19%	10.29%
Future salary increment rate	11.39%	9.82%
Return from EPF investments	8.78%	9.87%
Long term guaranteed EPF interest rate (net of tax)	9.03%	10.12%
Demographic assumptions		
Mortality	RP 2000 Mortality Table	RP 2000 Mortality Table

Expected average future working life of the active participants is 11.1 years.

41.3.6 Sensitivity of Assumptions Employed in EPF Interest Guarantee Plan Valuation

Reasonably possible changes at the reporting date to one of the significant actuarial assumptions, holding other assumptions constant, would have affected the EPF interest guarantee liability / Statement of Comprehensive Income by the amounts shown below.

Increase / (Decrease) in Discount Rate	Increase / (Decrease) in Salary Increment Rate	2018		2017	
		Sensitivity Effect on Comprehensive Income Statement Increase/ (Decrease) in Comprehensive Income for the Year Rs Mn	Sensitivity Effect on Employment Benefit Obligation Increase/ (Decrease) in Liability Rs Mn	Sensitivity Effect on Comprehensive Income Statement Increase/ (Decrease) in Comprehensive Income for the Year Rs Mn	Sensitivity Effect on Employment Benefit Obligation Increase/ (Decrease) in Liability Rs Mn
1%	-	8.7	(8.7)	10.4	(10.4)
(1%)	-	(10.0)	10.0	(12.2)	12.2
-	1%	(1.7)	1.7	(1.9)	1.9
-	(1%)	1.6	(1.6)	1.7	(1.7)

41.4 Pension Fund

41.4.1 Net Liability Recognised in the Statement of Financial Position

Bank & Group

As at 31st December	2018 Rs 000	2017 Rs 000
Present value of funded obligations as at 31st December (Note 41.4.4)	7,467,660	6,986,957
Fair value of plan assets as at 31st December (Note 41.4.5)	(6,629,888)	(6,320,907)
Funded status	837,772	666,050
Present value of unfunded benefit obligation	-	-
Net liability recognised in the Statement of Financial Position	837,772	666,050

NOTES TO THE FINANCIAL STATEMENTS

41 OTHER PROVISIONS CONTD.

41.4.2 Amounts Recognised in Profit or Loss

Bank & Group

For the year ended 31st December	2018 Rs 000	2017 Rs 000
Current service cost	265,618	225,322
Net interest expense / (income) on the net defined benefit liability / asset	82,737	(6,930)
Total amount recognised in profit or loss	348,355	218,392

41.4.3 Amounts Recognised in OCI

Bank & Group

For the year ended 31st December	2018 Rs 000	2017 Rs 000
Actuarial (gain) / loss due to changes in assumptions*		
Financial assumptions	(722,018)	585,382
Demographic assumptions	-	-
Actuarial loss due to experience adjustments	363,161	53,675
Actuarial loss / (gain) from plan assets	400,617	(52,888)
Total amount recognised in OCI	41,760	586,169

* Significant assumptions used for the actuarial valuation are given in Note 41.4.6

41.4.4 Defined Benefit Obligation Reconciliation

Bank & Group

	2018 Rs 000	2017 Rs 000
Defined benefit obligation as at 1st January	6,986,957	5,587,056
Current service cost	265,618	225,322
Interest cost	755,989	687,208
Actual benefits paid from plan	(182,047)	(151,686)
Actuarial (gain) / loss due to changes in assumptions		
Financial assumptions	(722,018)	585,382
Demographic assumptions	-	-
Actuarial loss due to experience adjustments	363,161	53,675
Defined benefit obligation as at 31st December	7,467,660	6,986,957

41.4.5 Fair Value of Plan Assets Reconciliation

Bank & Group

	2018 Rs 000	2017 Rs 000
Fair value of plan assets as at 1st January	6,320,907	5,725,567
Interest income on plan assets	673,252	694,138
Actual employer contributions	218,393	-
Actual benefits paid from plan	(182,047)	(151,686)
Actuarial (loss) / gain from plan assets	(400,617)	52,888
Fair value of plan assets as at 31st December	6,629,888	6,320,907

An actuarial valuation of the Pension Fund was carried out as at 31st December 2018 by Mr Piyal S Goonetilleke (Fellow of Society Actuaries - USA) of Messrs Piyal S Goonetilleke & Associates, a firm of professional actuaries. The valuation method used by the actuary to value the Fund is the "Projected Unit Credit Method", recommended by Sri Lanka Accounting Standard - LKAS 19 (Employee Benefits).

41.4.5 (a) Fair Value of Plan Assets Consists of the Following

As at 31st December	2018 Rs 000	2017 Rs 000
Equity securities and debentures	1,513,403	1,649,869
Government securities	14,066	226,894
Term deposits	4,862,824	4,184,134
Others	239,595	260,010
Fair value of plan assets	6,629,888	6,320,907

41.4.6 Actuarial Assumptions

Bank & Group

As at 31st December	2018	2017
Financial assumptions		
Discount rate	12.39%	10.82%
Future salary increment rate	11.39%	9.82%
Expected return on assets	12.39%	10.82%
Demographic assumptions		
Mortality	RP 2000 Mortality Table	RP 2000 Mortality Table
Retirement age	Normal retirement age or age on valuation date, if greater	Normal retirement age or age on valuation date, if greater

- Expected average future life of the active and retired participants is 33.4 years.

41.4.7 Sensitivity of Assumptions Employed in Pension Fund Valuation

Reasonably possible changes at the reporting date to one of the significant actuarial assumptions, holding other assumptions constant, would have affected the net pension liability/ Statement of Comprehensive Income by the amounts shown below.

Increase / (Decrease) in Discount Rate	Increase / (Decrease) in Salary Increment Rate	2018		2017	
		Sensitivity Effect on Statement of Comprehensive Income Increase/(Decrease) in Comprehensive Income for the Year Rs Mn	Sensitivity Effect on Employment Benefit Obligation Increase/(Decrease) in Net Pension Liability Rs Mn	Sensitivity Effect on Statement of Comprehensive Income Increase/(Decrease) in Comprehensive Income for the Year Rs Mn	Sensitivity Effect on Employment Benefit Obligation Increase/(Decrease) in Net Pension Liability Rs Mn
1%	-	718.0	(718.0)	744.0	(744.0)
(1%)	-	(832.3)	832.3	(887.0)	887.0
-	1%	(365.7)	365.7	(389.2)	389.2
-	(1%)	349.4	(349.4)	359.2	(359.2)

NOTES TO THE FINANCIAL STATEMENTS

42 STATED CAPITAL

Bank & Group

	2018 Rs 000	2017 Rs 000
Balance as at 1st January	16,307,722	6,471,200
Rights issue	12,532,052	7,602,778
Scrip dividend	3,956,178	2,233,744
Balance as at 31st December	32,795,952	16,307,722

Rights, preferences and restrictions of classes of capital

The holders of ordinary shares have the right to receive dividend as declared from time to time and are entitled to one vote per share at the Annual General Meeting of the Bank.

42.1 Reconciliation of Number of Shares

Bank & Group

	2018	2017
Ordinary shares as at 1st January	217,222,236	176,981,069
Number of shares issued under rights issue	50,128,208	31,031,748
Number of shares issued due to final scrip dividend 2017 & 2016 (respectively)	13,551,804	9,209,419
Ordinary shares as at 31st December	280,902,248	217,222,236

43 STATUTORY RESERVE FUND

	Bank		Group	
	2018 Rs 000	2017 Rs 000	2018 Rs 000	2017 Rs 000
Balance as at 1st January	2,860,000	2,250,000	2,973,000	2,336,422
Transfer during the year	610,000	610,000	636,000	636,578
Balance as at 31st December	3,470,000	2,860,000	3,609,000	2,973,000

The statutory reserve fund is maintained as required by the section 20 (1) of the Banking Act No. 30 of 1988. A sum equivalent to not less than 5% of the profit after tax before any dividend is declared or any profits are transferred to elsewhere, should be transferred to above reserve until the reserve is equal to 50% of the Bank's stated capital. Thereafter a further sum equivalent to 2% of such profits should be transferred to the statutory reserve fund until the amount of the said reserve fund is equal to the stated capital of the Bank.

44 OTHER RESERVES

As at 31st December	Bank		Group	
	2018* Rs 000	2017 Rs 000	2018* Rs 000	2017 Rs 000
Revaluation reserve (Note 44.1)	2,409,050	2,409,050	5,093,154	5,093,154
Available for sale reserve (Note 44.2)	n/a	2,299,721	n/a	2,299,721
Fair value through other comprehensive income reserve (Note 44.3)	1,160,765	n/a	1,160,765	n/a
General reserve (Note 44.4)	38,909,901	33,701,025	38,909,902	33,701,026
	42,479,716	38,409,796	45,163,821	41,093,901

* The amounts for the year ended 31st December 2018 have been prepared in accordance with Sri Lanka Accounting Standard - SLFRS 9 (Financial Instruments), whereas prior period amounts have not been restated.

44.1 Revaluation Reserve

	Bank		Group	
	2018 Rs 000	2017 Rs 000	2018 Rs 000	2017 Rs 000
Balance as at 1st January	2,409,050	2,404,631	5,093,154	5,653,471
Revaluation surplus	-	822,641	-	1,330,746
Deferred tax effect on revaluation surplus	-	(818,222)	-	(1,891,063)
Balance as at 31st December	2,409,050	2,409,050	5,093,154	5,093,154

44.2 Available for Sale Reserve

Bank & Group

	2017 Rs 000
Balance as at 1st January	1,271,319
Gain arising on re-measuring available for sale financial assets	1,017,636
Exchange difference	10,766
Balance as at 31st December	2,299,721

44.3 Fair Value through Other Comprehensive Income Reserve

Bank & Group

	2018 Rs 000
Balance as at 1st January	2,299,721
Loss on re-measurement - debt instrument at FVOCI	(109,826)
Reclassification to profit or loss - debt instruments at FVOCI	(6,773)
Loss on re-measurement - equity instruments at FVOCI	(733,606)
Exchange differences - equity instruments at FVOCI	162,656
Deferred tax effect on cumulative gain	(451,407)
Balance as at 31st December	1,160,765

44.4 General Reserve

The Board of Directors decides the amount to be transferred to general reserve from retained earnings after retaining a substantial amount to pay proposed dividend. The purpose of setting up the general reserve is to meet the potential future unknown commitments.

	Bank		Group	
	2018 Rs 000	2017 Rs 000	2018 Rs 000	2017 Rs 000
Balance as at 1st January	33,701,025	27,694,235	33,701,026	27,694,236
Unclaimed dividend adjustments	8,876	6,790	8,876	6,790
Transfer during the year	5,200,000	6,000,000	5,200,000	6,000,000
Balance as at 31st December	38,909,901	33,701,025	38,909,902	33,701,026

NOTES TO THE FINANCIAL STATEMENTS

45 RETAINED EARNINGS

	Bank		Group	
	2018 Rs 000	2017 Rs 000	2018 Rs 000	2017 Rs 000
Balance as at 31st December	6,072,399	4,397,449	8,533,827	6,315,429
Impact of adopting SLFRS 9 on opening retained earnings (Note 6)	(2,126,111)	n/a	(2,188,464)	n/a
Restated balance under SLFRS 9 as at 1st January 2018	3,946,288	4,397,449	6,345,363	6,315,429
Profit for the year	12,142,817	12,104,120	12,605,869	12,682,500
Actuarial loss on defined benefit plans	(51,439)	(634,766)	(48,506)	(646,194)
Deferred tax effect	14,403	177,735	13,582	180,809
Interim dividend for 2016 : Scrip	-	(2,477,734)	-	(2,477,734)
Final dividend for 2016 : Cash	-	(884,405)	-	(884,405)
Final dividend for 2017 : Scrip	(4,598,427)	-	(4,598,427)	-
Transfers to reserves during the year	(5,810,000)	(6,610,000)	(5,836,000)	(6,636,578)
Balance as at 31st December	5,643,642	6,072,399	8,481,881	8,533,827

46 COMMITMENTS AND CONTINGENCIES

As at 31st December	Bank		Group	
	2018* Rs 000	2017 Rs 000	2018 * Rs 000	2017 Rs 000
Credit related commitments & contingencies				
Direct credit facilities	168,175,885	161,377,222	164,629,612	161,059,499
Indirect credit facilities	46,523,763	66,325,717	46,523,763	66,325,717
Acceptances	17,473,251	19,182,917	17,473,251	19,182,917
Documentary credit	17,586,545	19,796,716	17,586,545	19,796,716
Guarantees	52,375,427	51,292,097	52,377,627	51,292,697
	302,134,871	317,974,669	298,590,798	317,657,546
Other commitments & contingencies				
Capital commitments (Note 46.3)	568,383	708,532	1,484,470	2,241,858
Operating lease commitments - as lessee (Note 46.4)	3,940,747	3,614,072	3,175,692	2,954,872
Forward exchange contracts	20,740,947	15,421,830	20,740,947	15,421,830
Currency SWAPs	68,092,400	45,786,984	68,092,400	45,786,984
	93,342,477	65,531,418	93,493,509	66,405,544
Total gross commitments & contingencies	395,477,348	383,506,087	392,084,307	384,063,090
Impairment for expected credit losses - credit related commitments & contingencies (Note 46.2)	(1,184,087)	n/a	(1,184,087)	n/a
Commitments & contingencies net of impairment for expected credit losses	394,293,261	383,506,087	390,900,220	384,063,090

* The amounts for the year ended 31st December 2018 have been prepared in accordance with Sri Lanka Accounting Standard - SLFRS 9 (Financial Instruments), whereas prior period amounts have not been restated.

46.1 Analysis of Credit Related Commitments and Contingencies based on the Exposure to Credit Risk

Bank

As at 31st December 2018

	Stage 1 Rs 000	Stage 2 Rs 000	Stage 3 Rs 000	Total Rs 000
Direct credit facilities	157,115,225	9,324,695	1,735,965	168,175,885
Indirect credit facilities	41,679,979	4,842,284	1,500	46,523,763
Acceptances	16,049,843	1,423,408	-	17,473,251
Documentary credit	16,205,967	1,015,159	365,419	17,586,545
Guarantees	44,772,135	4,574,650	3,028,642	52,375,427
Gross credit related commitments & contingencies	275,823,149	21,180,196	5,131,526	302,134,871
Impairment for expected credit losses	(658,526)	(231,217)	(294,344)	(1,184,087)
Net credit related commitments & contingencies	275,164,623	20,948,979	4,837,182	300,950,784

Group

As at 31st December 2018

	Stage 1 Rs 000	Stage 2 Rs 000	Stage 3 Rs 000	Total Rs 000
Direct credit facilities	153,568,952	9,324,695	1,735,965	164,629,612
Indirect credit facilities	41,679,979	4,842,284	1,500	46,523,763
Acceptances	16,049,843	1,423,408	-	17,473,251
Documentary credit	16,205,967	1,015,159	365,419	17,586,545
Guarantees	44,774,335	4,574,650	3,028,642	52,377,627
Gross credit related commitments & contingencies	272,279,076	21,180,196	5,131,526	298,590,798
Impairment for expected credit losses	(658,526)	(231,217)	(294,344)	(1,184,087)
Net credit related commitments & contingencies	271,620,550	20,948,979	4,837,182	297,406,711

46.2 Impairment for Expected Credit Losses - Credit Related Commitments and Contingencies

Bank & Group

	2018 Rs 000
Balance as at 1st January	789,085
Net charge for the year (Note 13)	395,002
Amounts written off during the year	-
Other adjustments including exchange rate differences	-
Balance as at 31st December	1,184,087

NOTES TO THE FINANCIAL STATEMENTS

46 COMMITMENTS AND CONTINGENCIES CONTD.

46.3 Capital Commitments

Capital expenditure approved by the Board of Directors, for which provisions have not been made in the accounts are detailed below.

As at 31st December	Bank		Group	
	2018 Rs 000	2017 Rs 000	2018 Rs 000	2017 Rs 000
Approved & contracted for	90,255	213,610	1,213,105	1,453,166
Approved but not contracted for	478,128	494,922	271,365	788,692
	568,383	708,532	1,484,470	2,241,858

46.4 Operating Lease Commitments - as Lessee

As at 31st December	Bank		Group	
	2018 Rs 000	2017 Rs 000	2018 Rs 000	2017 Rs 000
Less than 1 year	1,047,475	931,717	747,956	704,929
1 - 5 years	2,539,922	2,112,296	1,981,006	1,582,291
More than 5 years	353,350	570,059	446,730	667,652
	3,940,747	3,614,072	3,175,692	2,954,872

46.5 Other Contingent Liabilities

46.5.1 Litigation against the Bank

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 reasonably estimated, the Bank makes adjustments to account for adverse effects which the claims may have on its financial standing. At the year end, the Bank had several unresolved legal claims.

i. Commercial High Court Case No. HC (Civil) 11 / 2004 (1) – Claremont Capital

The Plaintiff has instituted action against the Bank claiming a sum of Rs 273,272,295.16 on a transfer of funds done by the Bank. In addition, the Plaintiff is seeking a further sum of Rs 53,411,299.34 and a sum of Rs 4,906,796.63 per month from the date of action (i.e. 26th January 2004) until payment, as losses and damages. The Bank has denied the claim of the Plaintiff and has vigorously defended the claim. The Judgment has been delivered in favour of the Bank against which the Plaintiff has appealed in the Supreme Court under the Case No. SC 06 / 2013 (f).

ii. Following Cases are Filed against the Bank in Order to Recover Damages.

(a) Case No. - DMR 5787 / 10 – E N D Silva

The Plaintiff's action against the Bank has been dismissed by the District Court. The Plaintiff has preferred an appeal against the judgment to the Civil Appellate Courts. Appeal is pending.

(b) Case No. - DMR 1904 / 2012 – A M Wickramasinghe

The Plaintiff has allegedly instituted this action against the Bank claiming a sum of Rs 2.5 Mn as damages on the basis that the Bank has illegally handed over the Certificate of Registration pertaining to the vehicle leased under the Lease Agreement No L / 0 / 16 / SBL / Kuli, to the spouse and the consent letter given by the spouse is challenged in Courts. The judgement was delivered in favour of the Bank on 16th February 2018.

(c) Case No. - 7058 / DMR – D J B Basnayake

The Plaintiff has instituted this action against the Bank, claiming a sum of Rs 20 Mn on the basis that the Bank has increased the rate of interest in respect of the housing loan obtained by him and he suffered damages as a result of that. However the Letter of Offer confirms that the Bank has the right to increase the rate of interest. Case is proceeding under trial stage.

(d) Case No. - 58032 / MR – J H Ranawaka

The Plaintiff has filed this action against the Bank as well as the CRIB, claiming Rs 100 Mn as damages, on the basis that his Company namely Jagath Robotics (Pvt) Ltd has been reported to the CRIB, under an irrelevant reference due to negligence of the Bank. After the Trial Court has dismissed the Plaintiff's action on 8th February 2017. However the Plaintiff has filed and appeal against same judgment to the Civil Appellate Court in Colombo. Up to now the Appeal has not commenced.

(e) Case No. - 11938 / M - Embilipitiya – R B A Maheshika

Plaintiff has instituted this action against the Bank claiming damages of Rs 1.0 Mn for the payment of Rs 0.1 Mn from a Savings account, to a person who has forged the Plaintiff's signature. Case is proceeding under trial stage.

(f) DC Colombo Case No. 891 / 13 – J Dedigama

The plaintiff has filed a case against the Bank claiming damages of Rs 143 Mn on the basis that the Bank has unlawfully auctioned his property under the provisions of Act No. 04 of 1990. Though the claim is large, the basis of the case is not favourable to the Plaintiff since the Bank has acted all the time as per the provisions of law. Case is proceeding under trial stage.

(g) CHC Colombo Case No. 29 / 13 / MR – R J Technology

The above case was filed by D L D P Roshan Jayasinghe, the proprietor of R J Technology Systems against the Bank by claiming damages of Rs 40 Mn on the basis that the Bank illegally suspended his credit balance of Rs 299,209.43 and as a result, two cheques issued by him got returned.

Over Rs 3 Mn is due to the Bank from the said customer on a charge back created through the payment gateway, which was utilised by the customer and the Bank is defending this action on the right of set off recognised by law relating to banking facilities. Case is proceeding under trial stage.

(h) CHC Colombo Case No. 299 / 13 / MR – R J Technology

The above case was filed by D L D P Roshan Jayasinghe, the proprietor of R J Technology Systems, against the Bank, claiming damages of Rs 250 Mn, on the basis that the Bank has illegally suspended operation of his current account and the payment gateway facility provided to him by the Bank.

Over Rs 3 Mn is due to the Bank from the said customer on a charge back created through the payment gateway, which was utilised by the customer and the Bank is defending this action on the right of set off recognised by law relating to banking facilities. Case is proceeding under trial stage.

(i) D C Polonnaruwa case No. 16139 / L / 15 – P A G N R Kularathne

The plaintiff has instituted above action against the Bank claiming a sum of Rs 120 Mn as damages, and also seeking an order from courts declaring that he is the owner of the land and property acquired by the Bank under Parate Execution. Further he claims that the Bank has fraudulently acted with one of the customers of the Bank who died recently and got transferred the land owned by plaintiff in the name of the deceased customer together with the rice mill and hence he has suffered a loss of Rs 120 Mn.

Judgment delivered in our favour by dismissing the action and the plaintiff appealed against the judgment. Appeal case has not commence yet.

iii. The following cases are filed against the Bank in order to prevent the Bank from enforcing the mortgages to recover its dues:

- (a) Seven actions have been filed in Supreme Court.
- (b) Four actions have been filed in Court of Appeal
- (c) Two actions have been filed in Civil Appeal Court.
- (d) Forty seven actions have been filed in Commercial High Court
- (e) One hundred and fourteen actions have been filed in District Courts.

46.5.2 Litigation against the Group

Other than those disclosed above there is no case filed against the Group which would have material impact on the financial position of the Group.

NOTES TO THE FINANCIAL STATEMENTS

47 RELATED PARTY DISCLOSURES

The Bank and the Group carry out transactions in the ordinary course of business with the parties who are defined as related parties in the Sri Lanka Accounting Standards - LKAS 24 (Related Party Disclosures), the details of which are reported below.

47.1 Terms and Conditions

The pricing applicable to such transactions is based on the assessment of risk and pricing model of the Bank and is comparable with what is applied to transactions between the Bank/Group and its unrelated customers with similar credit standing.

47.2 Parent and Ultimate Controlling Party

The Bank does not have an identifiable parent of its own.

47.3 Transactions with Key Management Personnel (KMP)

As per Sri Lanka Accounting Standard - LKAS 24 (Related Party Disclosures), Key Management Personnel (KMP) are those having authority and responsibility for planning, directing and controlling the activities of the entity. According to the above definition, a person can not be considered as a KMP unless such person has both the authority and responsibility to carry out all the three activities mentioned in the above definition (i.e. planning, directing and controlling the activities of the entity).

Accordingly, the Board of Directors of the Bank are considered as KMP of the Bank and the Group.

47.3.1 Compensation to KMP

For the year ended 31st December	Bank		Group	
	2018 Rs 000	2017 Rs 000	2018 Rs 000	2017 Rs 000
Short term employment benefits				
Directors' fees & expenses	64,398	59,696	72,457	64,704
Short term benefits	49,120	51,553	49,120	51,553
Post - employment benefits	3,356	5,994	3,356	5,994
Termination benefits*	-	22,043	-	22,043
Total	116,874	139,286	124,933	144,294

* Termination benefits for 2017 include, Ex-gratia payment of Rs 10 Mn paid to the former Managing Director of the Bank, Rs 7 Mn paid to the former Group Chief Financial Officer / Executive Director and 50% of the net book values of the vehicles transferred to them, as approved by the shareholders at the Annual General Meeting held on 31st March 2017.

47.3.2 Transactions with KMP and their Close Family Members (CFMs)

CFMs of the KMP are those family members who may be expected to influence the KMP or be influenced by that KMP in their dealings with the entity. They may include KMP's spouse, children, domestic partner, children of the KMP's spouse / domestic partner and dependents of the KMP, KMP's spouse / domestic partner. Aggregate value of the transactions with KMP and their CFMs are disclosed below.

As at 31st December	Limit Rs 000	2018		Limit Rs 000	2017	
		Closing Balance Rs 000	Average Balance Rs 000		Closing Balance Rs 000	Average Balance Rs 000
Loans & receivables	4,000	-	12,831	56,836	2,986	4,502
Credit cards	7,575	1,314	1,225	12,575	571	863
Deposits		279,515	280,748		275,649	359,661

For the year ended 31st December	2018 Rs 000	2017 Rs 000
Interest & other income	2,333	487
Interest expenses	25,940	23,525
Cash dividend paid	-	292
Scrip dividend paid (Number of shares)	2,501	3,039

No losses have been recorded against loan balances outstanding with KMP during the period and no provisions have been made for impairment losses against such balances as at the reporting date.

47.4 Transactions with Subsidiaries

Details of the subsidiaries are given in Note 31. Aggregate value of transactions with subsidiaries are disclosed below.

Subsidiary Company	Nature of Facility / Transaction	2018		2017	
		Average Balance Rs 000	31st December Balance Rs 000	Average Balance Rs 000	31st December Balance Rs 000
Siyapatha Finance PLC	As at				
	Loans & receivables	3,305,329	5,278,669	2,260,005	1,511,523
	Deposits	917	1,660	153,738	681
	Other liabilities	223,376	10,586	9,504	9,388
	Commitment & contingencies	4,000	-	60,000	10,000
	For the year ended				
	Dividend income (Gross)		69,721		65,491
Income & fees received		422,706		232,211	
Expenses & fees paid		23,749		2,298	
Sampath Centre Ltd	As at				
	Loans & receivables	60,092	300,460	331	-
	Other assets	62,896	63,192	62,754	62,754
	Deposits	364,669	349,413	551,847	487,552
	Other liabilities	79,762	48,485	121,542	103,806
	For the year ended				
	Dividend income (Gross)		34,001		35,595
Income & fees received		-		13	
Expenses & fees paid		361,308		336,438	

NOTES TO THE FINANCIAL STATEMENTS

47 RELATED PARTY DISCLOSURES CONTD.

Subsidiary Company	Nature of Facility / Transaction	2018		2017	
		Average Balance Rs 000	31st December Balance Rs 000	Average Balance Rs 000	31st December Balance Rs 000
S C Securities (Pvt) Ltd	As at				
	Loans & receivables	18,683	48,968	24,627	-
	Deposits	31,163	38,709	5,422	4,805
	Other liabilities	35,400	13,000	92,333	84,000
	Other assets	12	62	-	-
	Commitment & contingencies	1,750	1,750	1,750	1,750
	For the year ended				
	Income & fees received		2,136		1,481
	Expenses & fees paid		5,947		4,932
Sampath Information Technology Solutions Ltd	As at				
	Loans & receivables	368,214	304,502	526,395	464,439
	Deposits	6,064	4,501	2,732	13,523
	Other liabilities	132,020	130,850	74,805	101,058
	Finance lease payable (Note 40)	440,176	439,988	351,456	436,478
	Commitment & contingencies	15,088	7,285	252,593	51,341
	For the year ended				
	Income & fees received		51,443		84,206
	Expenses & fees paid excluding reimbursement of expenses		240,373		239,978
	Purchase of computer hardware & software		50,305		30,397

The Directors' valuation of investments in subsidiaries has been carried out on net asset basis as at 31st December 2018. During the year, the Bank reversed Rs 1.6 Mn from the cumulative provision made as at 31st December 2017 (Rs 67 Mn) against SC Securities (Pvt) Ltd. Except for SC Securities (Pvt) Ltd, no provisions have been made for impairment losses against balances with subsidiaries as at the reporting date.

47.5 Transactions with Other Related Parties

47.5.1 Transactions with Entities Controlled and / or Jointly Controlled by KMP or their CFMs

As at 31st December	2018		2017	
	Average Balance Rs 000	Closing Balance Rs 000	Average Balance Rs 000	Closing Balance Rs 000
Loans & receivables	1,951	-	-	-
Documentary credits	20,566	-	46,554	16,534
Deposits	329,617	481,820	326,713	111,566

For the year ended 31st December	2018 Rs 000	2017 Rs 000
Interest & other income	797	43
Interest expense	6,550	8,988
Scrip dividend paid (Number of shares)	15	-

In addition to the above, Siyapatha Finance PLC has paid Rs 9 Mn (2017 - Rs 173 Mn) to entities which are controlled / jointly controlled by KMP / CFMs of KMP during their ordinary course of business.

No losses have been recorded against loan balances outstanding with the entities controlled / jointly controlled by KMP / CFMs of KMP during the period and no provisions have been made for impairment losses against such balances as at the reporting date.

NOTES TO THE FINANCIAL STATEMENTS

47 RELATED PARTY DISCLOSURES CONTD.

47.5.2 Transactions with Post Employment Benefit Plans of the Bank

Name of the Post Employment Benefit Plan	Nature of Transactions	2018		2017	
		Average Balance Rs 000	31st December Balance Rs 000	Average Balance Rs 000	31st December Balance Rs 000
Sampath Bank Employees' Provident Fund	As at				
	Deposits	2,807,892	2,911,005	3,242,117	3,257,417
	Investment in repo	-	-	45,871	-
	Debentures	670,071	671,582	777,604	668,302
	Interest payable	114,525	197,391	109,951	133,875
	Other liabilities	-	-	2,258	-
	For the year ended				
Interest expenses		385,229		500,308	
Sampath Bank Employees' Pension Fund*	As at				
	Deposits	1,912,304	1,547,079	2,043,407	2,118,043
	Debentures	589,400	589,400	605,362	589,400
	Investment in Sampath Bank				
	Shares - market value	952,163	823,174	872,053	957,492
	Investment in repo	74,869	14,000	898,112	226,078
	Interest payable	97,767	109,784	105,747	103,188
	Net liability in the Bank's Financial Statements (Note 41.4.1)	676,886	837,772	89,012	666,050
	For the year ended				
	Dividend paid - Cash (Gross)		-		12,966
	Interest expense		265,778		377,567
Scrip dividend (Number of Shares)		168,991		150,015	

* The fund subscribed for the Rights issues of the Bank during the years ended 31st December 2018 & 2017. Accordingly 300,599 (2017: 430,000) new shares were acquired by way of Rights in 2018. Total cost of the rights purchased during the year ended 31st December 2018 amounted to Rs 75.2 Mn (2017:105.35 Mn)

48 SEGMENT INFORMATION

ACCOUNTING POLICY

An operating segment is a component of the Group that engages in business activities from which it may earn revenue and incur expenses, including revenue and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed regularly by the chief operating decision maker to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

For management purposes, the Group has identified four operating segments based on products and services, as follows:

- Banking
- Leasing, hire purchase & factoring
- Dealing / Investment
- Others

Leasing, hire purchase & factoring represents the finance leasing, hire purchase & factoring businesses of the Bank as well as the above activities of its subsidiary, Siyapatha Finance PLC. Dealing / Investment involves activities such as stock broking, securities dealing, investment banking and foreign currency related services.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profits or losses, which in certain respects, are measured differently from operating profits or losses in the Consolidated Financial Statements. Income taxes are managed on a group basis and are not allocated to operating segments.

Interest income is reported net as management primarily relies on net interest income as a performance measure, not the gross income and expense. Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

Revenue from transactions with a single external customer or counterparty did not exceed 10% or more of the Bank's total revenue in 2018 or 2017.

The following table presents income, profit, total assets, total liabilities & cash flows of the Group's operating segments.

NOTES TO THE FINANCIAL STATEMENTS

48 SEGMENT INFORMATION CONTD.

For the year ended 31st December	Banking		Leasing, Hire purchase & Factoring		Dealing / Investment		Other		(Eliminations)/ Unallocated		Total	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018*	2017
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Net interest income	31,824,006	23,501,967	3,951,054	2,782,366	5,097,144	4,012,908	-	-	-	-	40,872,204	30,297,241
Dividend income	-	-	-	-	154,612	151,135	-	-	-	-	154,612	151,135
Net fee & commission income	9,767,212	8,009,147	429,353	385,061	31,042	27,410	-	-	-	-	10,227,607	8,421,618
Foreign exchange profit	2,493,351	694,929	-	-	2,997,496	2,437,447	1,946	(4,864)	-	-	5,492,793	3,127,512
Other income	1,207,26	96,871	288,648	222,504	(85,250)	(11,260)	161,510	167,116	-	-	485,634	475,231
Total revenue from external customers	44,205,295	32,302,914	4,669,055	3,389,931	8,195,044	6,617,640	163,456	162,252	-	-	57,232,850	42,472,737
Inter segment revenue	163,167	130,955	-	-	-	-	570,984	519,101	(734,151)	(650,056)	-	-
Total operating income	44,368,462	32,433,869	4,669,055	3,389,931	8,195,044	6,617,640	734,440	681,353	(734,151)	(650,056)	57,232,850	42,472,737
Less: impairment charge	11,040,482	2,321,209	1,034,653	230,828	-	-	63,575	81,636	-	-	12,138,710	2,633,673
Net operating income	33,327,980	30,112,660	3,634,402	3,159,103	8,195,044	6,617,640	670,865	599,717	(734,151)	(650,056)	45,094,140	39,839,064
Less: Total operating expenses	16,383,017	14,006,631	1,792,286	1,602,405	2,696,039	2,623,011	581,450	399,169	(62,823)	(611,769)	20,823,969	18,019,447
Segment result	16,944,963	16,106,029	1,842,116	1,556,698	5,499,005	3,994,629	89,415	200,548	(105,328)	(38,287)	24,270,171	21,819,617
Less: Taxes on financial services	-	-	-	-	-	-	-	-	-	-	51,488,06	4,309,389
Less: Income tax expenses	-	-	-	-	-	-	-	-	-	-	6,515,496	4,827,728
Profit for the year	-	-	-	-	-	-	-	-	-	-	12,605,869	12,682,500
Non-controlling interest	-	-	-	-	-	-	-	-	-	-	-	-
Profit attributable to equity holders of the Bank	-	-	-	-	-	-	-	-	-	-	12,605,869	12,682,500

As at 31st December	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018*	2017
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
	Segment assets	675,846,736	592,023,659	59,710,978	50,527,973	186,956,649	151,980,498	6,512,334	6,273,320	(9,348,849)	(4,639,883)	919,677,848
Unallocated assets	-	-	-	-	-	-	-	-	28,107,369	30,551,102	28,107,369	30,551,102
Total assets	675,846,736	592,023,659	59,710,978	50,527,973	186,956,649	151,980,498	6,512,334	6,273,320	18,758,520	25,911,219	947,785,217	826,716,669
Segment liabilities	545,258,082	492,960,028	64,830,770	56,420,005	252,461,666	209,440,253	2,212,464	2,271,741	(7,028,419)	(3,283,808)	857,734,563	757,808,219
Unallocated liabilities	-	-	-	-	-	-	-	-	-	-	-	-
Total liabilities	545,258,082	492,960,028	64,830,770	56,420,005	252,461,666	209,440,253	2,212,464	2,271,741	(7,028,419)	(3,283,808)	857,734,563	757,808,219

For the year ended 31st December	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
	Cash flows from operating activities	14,664,955	11,900,939	(4,917,795)	(7,142,738)	(100,156)	28,785	402,920	340,908	3,753,390	5,071,623	13,803,314
Cash flows from investing activities	(900,000)	(100,000)	(79,202)	(1,265,091)	(29,530,393)	(20,071,079)	(720,555)	(828,934)	(1,547,627)	(649,825)	(32,777,777)	(22,914,929)
Cash flows from financing activities	18,817,577	10,655,575	5,678,399	7,837,191	-	100,000	250,537	164,140	(4,689,837)	(5,024,430)	20,056,676	13,732,476
Capital expenditure	-	-	231,694	74,443	-	323	835,965	830,610	1,660,638	1,525,125	2,728,297	2,430,501

* The amounts for the year ended 31st December 2018 have been prepared in accordance with Sri Lanka Accounting Standard - SLFRS 9 (Financial Instruments), whereas prior period amounts have not been restated.

49 EVENTS AFTER THE REPORTING PERIOD

ACCOUNTING POLICY

Events after the reporting period are those events, favourable and unfavourable, that occur between the reporting date and the date when the Financial Statements are authorised for issue.

No circumstances have arisen since the reporting date which would require adjustments to, or disclosure in the financial statements, other than those disclosed below.

49.1 Bank

49.1.1 Proposed Dividends

Directors have recommended a final dividend of Rs 16.25 per share be paid for the financial year ended 31st December 2018. This will be paid by Rs 5.00 in the form of cash dividend and Rs 11.25 in the form of scrip dividend. Further this dividend is to be approved by the shareholders at the Annual General Meeting to be held on 29th March 2019.

In accordance with Sri Lanka Accounting Standard - LKAS 10 (Event After the Reporting Period), this proposed final dividend has not been recognised as a liability as at 31st December 2018. As required by section 56 (2) of the Companies Act No. 7 of 2007, the Board of Directors has confirmed that the Bank has satisfied the 'solvency test' in accordance with section 57 of the Companies Act No. 7 of 2007, having obtained a certificate from the auditors, prior to recommending the final dividend for the year.

Under the Inland Revenue Act No. 24 of 2017, a Withholding Tax of 14% has been imposed on dividend declared.

49.1.2 Debenture Issue 2019/2024

The Bank announced a debenture issue on 30th November 2018, of an initial issue of up to 50,000,000 BASEL III compliant - Tier 2, listed, rated, unsecured, subordinated, redeemable 5 year Debentures with a non-viability conversion, with an option to issue up to a further 10,000,000 of said Debentures at the discretion of the Bank in the event of an over subscription of the initial issue and with a further option to issue up to a further 10,000,000 of said Debentures at the discretion of the Bank in the event of an over subscription of the initial issue and the second tranche, at an issue price of Rs 100 each to raise Rs 7 Bn.

The shareholders of the Bank approved the above debenture issue at the Extraordinary General Meeting held on 25th January 2019.

50 FAIR VALUE OF ASSETS & LIABILITIES

50.1 Assets & Liabilities Recorded at Fair Value

The following is a description of how fair values are determined for assets and liabilities that are recorded at fair value. These incorporate the Bank's estimate of assumptions that a market participant would make when valuing assets and liabilities.

Derivatives - Assets & Liabilities

Derivative products which consist of SWAPs, forward exchange contracts and hedges are valued using a valuation technique with market-observable inputs. The most frequently applied valuation techniques include forward foreign exchange spot and forward premiums.

Financial Assets - Fair Value through Other Comprehensive Income/Available for Sale

FVOCI / Available for sale financial assets primarily consist of quoted / unquoted equity securities and government securities.

Government securities are valued using the yield curve published by the Central Bank of Sri Lanka. Quoted equity securities are valued using quoted market prices in the active markets as at the reporting date.

Trading Assets & Other Assets Measured at Fair Value

Trading assets and other assets measured at fair value are the government securities and quoted equity securities. Government securities are valued using yield curve published by the Central Bank of Sri Lanka. For quoted equity securities, the Bank uses quoted market prices in the active market as at the reporting date.

NOTES TO THE FINANCIAL STATEMENTS

50 FAIR VALUE OF ASSETS & LIABILITIES CONTD.

Property, Plant & Equipment

Freehold land and buildings are carried at revalued amount, being their fair value at the revaluation date less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

50.2 Valuation Model

For all financial instruments where fair values are determined by referring to externally quoted prices or observable pricing inputs to models, independent price determination or validation is obtained. In an inactive market, direct observation of a traded price may not be possible. In these circumstances, the Bank uses alternative market information to validate the financial instrument's fair value, with greater weight given to information that is considered to be more relevant and reliable.

Fair value of freehold land and buildings was determined by using Market Comparable Method or Income Basis. These valuations performed by the valuers are based on active market prices, significantly adjusted for difference in the nature, location or condition of the specific property. Management determined that freehold land and buildings constitute one class of asset under Sri Lanka Accounting Standard - SLFRS 13 (Fair Value Measurement), based on the nature, characteristics and risks of the property.

Fair values are determined according to the following hierarchy:

Level 1 – Quoted market price (unadjusted): quoted prices for identical assets and liabilities in active markets.

Level 2 – Valuation technique using observable inputs: quoted prices for similar assets and liabilities in active markets or quoted prices for identical or similar assets and liabilities in inactive markets and are valued using models where all significant inputs are observable.

Level 3 – Valuation technique with significant unobservable inputs: assets and liabilities valued using valuation techniques where one or more significant inputs are unobservable.

50.3 Valuation Framework

The Bank has an established control framework with respect to the measurement of fair values of trading and investment operations and all other significant assets and liabilities. Specific controls include:

- A review and approval process involving the Board Audit Committee for significant judgment and assumptions, new models, changes to existing judgments, assumptions and models.
- Periodic (at least quarterly) reviewing of fair value measurements against observable market data.
- Periodic (at least annually) reviewing of fair value measurement models against changes in market conditions, significant judgments and assumptions.
- Use of sophisticated software for fair value measurements of trading and investment securities and derivatives.
- Independent analysis and investigation of significant daily valuation movements in trading and investment securities and derivatives.
- A dual verification process for market data inputs to the fair value measurement software.

50.4 Assets & 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 into which the fair value measurement is categorised. The amounts are based on the value recognised in the Statement of Financial Position.

50.4.1 Assets & Liabilities Measured at Fair Value - Fair Value Hierarchy

Bank

As at 31st December	Date of Valuation	2018				2017			
		Fair Value Measurement Using		Total	Fair Value Measurement Using		Total		
		Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)		Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)			
Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000		
Financial assets measured at fair value									
Derivative financial instruments									
Currency SWAPs	31st December	-	1,123,941	-	1,123,941	-	403,667	-	403,667
Forward exchange contracts		-	47,096	-	47,096	-	93,251	-	93,251
Sub Total		-	1,171,037	-	1,171,037	-	496,918	-	496,918
Financial assets - recognised through profit or loss									
Government securities	31st December	27,647,228	-	-	27,647,228	20,413,198	-	-	20,413,198
Quoted equity securities		73,018	-	-	73,018	89,309	-	-	89,309
Sub Total		27,720,246	-	-	27,720,246	20,502,507	-	-	20,502,507
Financial assets - fair value through other comprehensive income									
Government securities	31st December	25,047,854	-	-	25,047,854	n/a	n/a	n/a	n/a
Quoted equity security		2,432,869	-	-	2,432,869	n/a	n/a	n/a	n/a
Unquoted equity securities		-	-	36,582	36,582	n/a	n/a	n/a	n/a
Sub Total		27,480,723	-	36,582	27,517,305	n/a	n/a	n/a	n/a
Financial assets - available for sale									
Government securities	31st December	n/a	n/a	n/a	n/a	74,405,289	-	-	74,405,289
Quoted equity security		n/a	n/a	n/a	n/a	2,659,822	-	-	2,659,822
Unquoted equity securities		n/a	n/a	n/a	n/a	-	-	30,608	30,608
Sub Total		n/a	n/a	n/a	n/a	77,065,111	-	30,608	77,095,719
Total financial assets measured at fair value		55,200,969	1,171,037	36,582	56,408,588	97,567,618	496,918	30,608	98,095,144
Non-financial assets measured at fair value									
Freehold land & buildings (included under property, plant & equipment) *	31st December	-	-	5,005,897	5,005,897	-	-	4,901,678	4,901,678
Total non - financial assets measured at fair value		-	-	5,005,897	5,005,897	-	-	4,901,678	4,901,678
Financial liabilities measured at fair value									
Derivative financial instruments	31st December	-	2,504,242	-	2,504,242	-	55,536	-	55,536
Currency SWAPs		-	448,077	-	448,077	-	48,411	-	48,411
Forward exchange contracts		-	-	-	-	-	-	-	-
Total financial liabilities measured at fair value		-	2,952,319	-	2,952,319	-	103,947	-	103,947

There were no material transfers between levels of fair value hierarchy during 2018 and 2017.

* The fair values exist in the most recent valuations less subsequent accumulated depreciation and impairment losses are considered as the fair values as at the reporting date (31st December 2018).

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50 FAIR VALUE OF ASSETS & LIABILITIES CONTD.

50.4.2 Assets & Liabilities Measured at Fair Value - Fair Value Hierarchy

Group

As at 31st December	Date of Valuation	2018				2017			
		Fair Value Measurement Using Significant Observable Inputs (Level 1)		Fair Value Measurement Using Significant Unobservable Inputs (Level 2)		Fair Value Measurement Using Significant Observable Inputs (Level 1)		Fair Value Measurement Using Significant Unobservable Inputs (Level 2)	
		Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Financial assets measured at fair value									
Derivative financial instruments	31st December								
Currency SWAPs		-	1,123,941	-	1,123,941	-	403,667	-	403,667
Forward exchange contracts		-	47,096	-	47,096	-	93,251	-	93,251
Sub Total		-	1,171,037	-	1,171,037	-	496,918	-	496,918
Financial assets - recognised through profit or loss	31st December	27,647,228	-	-	27,647,228	20,413,198	-	-	20,413,198
Government securities		73,018	-	-	73,018	89,309	-	-	89,309
Quoted equity securities		27,720,246	-	-	27,720,246	20,502,507	-	-	20,502,507
Sub Total		27,720,246	-	-	27,720,246	20,502,507	-	-	20,502,507
Financial assets - fair value through other comprehensive income	31st December								
Government securities		25,047,854	-	-	25,047,854	n/a	n/a	n/a	n/a
Quoted equity security		2,432,869	-	-	2,432,869	n/a	n/a	n/a	n/a
Unquoted equity securities		-	36,638	-	36,638	n/a	n/a	n/a	n/a
Sub Total		27,480,723	-	-	27,517,361	n/a	n/a	n/a	n/a
Financial assets - available for sale	31st December								
Government securities		n/a	n/a	n/a	n/a	74,405,289	-	-	74,405,289
Quoted equity security		n/a	n/a	n/a	n/a	2,659,822	-	-	2,659,822
Unquoted equity securities		n/a	n/a	n/a	n/a	-	-	30,664	30,664
Sub Total		n/a	n/a	n/a	n/a	77,065,111	-	30,664	77,095,775
Total financial assets measured at fair value		55,200,969	1,171,037	36,638	56,408,644	97,567,618	496,918	30,664	98,095,200
Non-financial assets measured at fair value									
Freehold land & buildings (included under property, plant & equipment) *	31st December	-	-	9,294,934	9,294,934	-	-	9,275,878	9,275,878
Total non - financial assets measured fair value		-	-	9,294,934	9,294,934	-	-	9,275,878	9,275,878
Financial liabilities measured at fair value									
Derivative financial instruments	31st December	-	2,504,242	-	2,504,242	-	55,536	-	55,536
Forward exchange contracts		-	448,077	-	448,077	-	48,411	-	48,411
Total financial liabilities measured at fair value		-	2,952,319	-	2,952,319	-	103,947	-	103,947

There were no material transfers between levels of fair value hierarchy during 2018 and 2017.

* The fair values exist in the most recent valuations less subsequent accumulated depreciation and impairment losses are considered as the fair values as at the reporting date (31st December 2018)

50.5 Level 3 Fair Value Measurement

50.5.1 Reconciliation

The following table shows a reconciliation from the beginning balances to the ending balances of fair value measurements in Level 3 of the fair value hierarchy.

	Bank Assets Measured at Level 3		Group Assets Measured at Level 3	
	Unquoted Equity Securities Rs 000	Freehold Land and Buildings Rs 000	Unquoted Equity Securities Rs 000	Freehold Land and Buildings Rs 000
Balance as at 1st January 2017	30,708	4,106,220	30,764	8,055,438
Additions	1,041	8,666	1,041	9,101
Revaluation surplus credited to revaluation reserve		822,641		1,330,746
Total gain / (loss) recognised in profit or loss:				
Impairment charge for the year (Note 13)	-	(161)	-	(161)
Depreciation of buildings	-	(35,688)	-	(119,246)
Transfers & other adjustments (Note 29.3)	(1,141)	-	(1,141)	-
Balance as at 31st December 2017	30,608	4,901,678	30,664	9,275,878
Additions	6,407	16,520	6,407	16,625
Disposals / deductions	(625)	-	(625)	-
Total gain / (loss) recognised in profit or loss:				
Depreciation of buildings	-	(37,061)	-	(122,329)
Transfers & other adjustments	192	124,760	192	124,760
Balance as at 31st December 2018	36,582	5,005,897	36,638	9,294,934

NOTES TO THE FINANCIAL STATEMENTS

50 FAIR VALUE OF ASSETS & LIABILITIES CONTD.

50.5.2 Unobservable Inputs Used In Measuring Fair Value

The table below sets out information about significant unobservable inputs used in measuring fair value of the assets categorised under Level 3 of the fair value hierarchy.

Type of Asset	Bank Fair Value as at 31st December 2018 Rs 000	Group Fair Value as at 31st December 2018 Rs 000	Assets Measured at Level 3			
			Valuation Technique	Significant Unobservable Inputs	Weighted Average Range of Estimates for Unobservable Inputs	Fair Value Measurement Sensitivity to Unobservable Inputs
Property, plant & equipment						
- Freehold land	3,719,530	6,369,530	Market comparable method	Estimated price per perch	Rs 15,000 - 12,500,000	*
- Freehold buildings	1,286,367	2,925,404	Market comparable method	Estimated price per sq.ft	Rs 2,750 - 13,640	*
			Income basis	Estimated rental value per sq.ft		
				Bank	Rs 100 -175	*
				Subsidiary	Rs 156	*
				Expected market rental growth		
				Bank	1%	*
				Subsidiary	0% - 5%	*
				Discount rate		
				Bank	6.50%	**
				Subsidiary	5.75%	**

* Significant increases / (decreases) in any of these inputs in isolation would result in a significantly higher / (lower) fair value.

** Significant increases / (decreases) in this input in isolation would result in a significantly (lower) / higher fair value.

50.6 Fair Value of Financial Assets and Liabilities Carried at Amortised Cost

The following describes the methodologies and assumptions used to determine fair values of those financial instruments which are not already recorded at fair value in the Financial Statements.

Assets of which Fair Value Approximates Carrying Value

For financial assets and liabilities that have a short term maturity, it is assumed that the carrying amounts approximate their fair values. This assumption is also applied to demand deposits and savings deposits which do not have a specific maturity.

Fixed Rate Financial Instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing market interest rates for debts with similar credit risk and maturity. For quoted debt issued, the fair values are determined based on quoted market prices. For variable rate instruments with a fixed credit spread, an adjustment is made to reflect the change in credit spread since the instrument was first recognised.

Variable Rate Financial Instruments

Variable rate is a fair measure which reflects market movements. Hence the carrying value represents the fair value of the variable rate instruments.

Set out below is a comparison of the carrying amounts and fair values of the Bank's financial instruments by classes that are not carried at fair value in the Financial Statements. This table does not include the fair values of non-financial assets and non-financial liabilities.

	Bank				Group			
	Fair Value			Carrying Value	Fair Value			Carrying Value
	Level 1 Rs 000	Level 2 Rs 000	Level 3 Rs 000		Level 1 Rs 000	Level 2 Rs 000	Level 3 Rs 000	
Financial Assets								
Loans to & receivables from banks	-	1,644,134	-	1,644,134	1,644,405	-	1,644,134	1,644,405
Loans to & receivables from other customers	-	645,530,393	-	645,530,393	648,369,233	-	674,277,119	675,894,019
Debt & other instruments	-	121,818,703	-	121,818,703	121,105,392	-	121,823,239	121,109,711
	-	768,993,230	-	768,993,230	771,119,030	-	797,744,492	798,648,135
Financial Liabilities								
Due to other customers - fixed & certificate of deposits	-	455,670,889	-	455,670,889	455,623,026	-	465,496,559	465,128,753
Debt issued & other borrowed funds	-	88,948,818	-	88,948,818	89,948,406	-	104,798,203	106,373,545
	-	544,619,707	-	544,619,707	545,571,432	-	570,294,762	571,502,298

The following table lists those financial instruments for which their carrying amounts are a reasonable approximation of fair values because, for example, they are short term in nature or re-priced to current market rates frequently.

Assets	Liabilities
Cash & cash equivalents	Due to banks
Balances with Central Bank of Sri Lanka	Securities sold under repurchase agreements
Placements with banks	Savings, demand, call & margin deposits in "Due to other customers"
Reverse repurchase agreements	Dividend payable
Other financial assets	Other financial liabilities

	Bank				Group			
	Fair Value			Carrying Value	Fair Value			Carrying Value
	Level 1 Rs 000	Level 2 Rs 000	Level 3 Rs 000		Level 1 Rs 000	Level 2 Rs 000	Level 3 Rs 000	
Financial Assets								
Loans to & receivables from banks	-	2,084,079	-	2,084,079	2,084,507	-	2,084,079	2,084,507
Loans to & receivables from other customers	-	557,046,812	-	557,046,812	560,798,940	-	582,805,470	586,370,704
Debt & other instruments	-	49,182,374	-	49,182,374	49,352,443	-	49,182,374	49,352,443
Financial assets- held to maturity	-	-	-	-	-	12,336	-	12,336
	-	608,313,265	-	608,313,265	612,235,890	12,336	634,071,923	637,820,082

Financial Liabilities

Due to other customers - fixed & certificate of deposits	-	405,005,482	-	405,005,482	404,274,809	-	414,427,236	413,315,863
Debt issued & other borrowed funds	-	76,160,135	-	76,160,135	76,098,240	-	91,310,595	91,257,152
	-	481,165,617	-	481,165,617	480,373,049	-	505,737,831	504,573,015

The following table lists those financial instruments for which their carrying amounts are a reasonable approximation of fair values because, for example, they are short term in nature or re-priced to current market rates frequently.

Assets	Liabilities
Cash & cash equivalents	Due to banks
Balances with Central Bank of Sri Lanka	Securities sold under repurchase agreements
Placements with banks	Savings, demand, call & margin deposits in "Due to other customers"
Reverse repurchase agreements	Dividend payable
Other financial assets	Other financial liabilities

NOTES TO THE FINANCIAL STATEMENTS

51 RISK MANAGEMENT

51.1 Introduction

Risk is 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 continuous profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is mainly exposed to Credit Risk, Liquidity Risk, Market Risk and Operational Risk which have been disclosed in this note as summarised below.

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Risk Management Framework

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has delegated its authority to Board Integrated Risk Management Committee (BIRMC) which is responsible for developing and monitoring Bank's risk management policies. The Committee comprises of Executive and Non - Executive Directors. Meetings of BIRMC are held regularly, and the Board of Directors are duly updated of its activities.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls and to monitor adherence to established limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank, through its training and management standards and procedures, continuously updates and maintains a disciplined and constructive control environment, in which all employees are assigned and made to understand their respective roles and responsibilities.

Integrated Risk Management Unit

The Business units (i.e. Credit Departments, Branches, Regional Offices, Treasury etc.) have primary responsibility for Risk Management. The Integrated Risk Management Unit, which has no responsibility for profit or volume targets, acts as the 2nd line of defence and reports to the Group Chief Risk Officer (GCRO) who in turn directly reports to the BIRMC.

Asset / Liability Management Committee (ALCO)

ALCO is chaired by the Managing Director and has representatives from Treasury Department, Credit Departments, Marketing Department, Finance Department, Strategic Planning Department and Deposit Mobilisation Department. The Group Chief Financial Officer and the Group Chief Risk Officer are also members of the ALCO. The Committee meets regularly to monitor and manage the assets & liabilities of the Bank and overall liquidity position to keep the Bank's liquidity at healthy levels, whilst satisfying regulatory requirements.

Risk Measurement and Reporting

The Bank's risks are measured using appropriate techniques based on the type of risk and industry best practices. The Bank also carries out Stress Testing to identify the effect of extreme events/worst case scenarios in most of the major types of risks and the results are reported to Board Integrated Risk Management Committee (BIRMC) on a periodic basis.

Monitoring and controlling risks is primarily performed based on policies, limits and thresholds established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept (Risk Appetite).

Risk Mitigation

As part of its overall risk management, the Bank obtains various types of collaterals to mitigate the risk. Details such as nature of the collateral that could be accepted, required security margin etc. are clearly defined in the Credit Policy of the Bank and any deviations that require specific approval. However, respective approving authorities would take into account the availability of security only as the secondary source of repayment.

51.2 Credit Risk

Credit risk is the risk of financial loss to the Bank, if a borrower or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers/other banks and investments in debt securities. In addition to the credit risk from direct funding exposures, the Bank would also be exposed to indirect liabilities such as letters of credit, guarantees etc, which would carry credit risk.

The Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector concentration risks) to ensure stringent Credit Risk Management.

51.2.1 Assessment of Expected Credit Losses

51.2.1 (a) Analysis of the total impairment for expected credit losses is as follows.

Bank

As at 31st December 2018

	Note	Stage 1 Rs 000	Stage 2 Rs 000	Stage 3 Rs 000	Total Rs 000
Cash & cash equivalents	21.1	1,015	17,185	-	18,200
Placements with banks	23.1	2,195	-	-	2,195
Loans to & receivables from banks	26.1	1,275	8,013	-	9,288
Loans to & receivables from other customers	27.2	2,901,724	2,097,246	15,286,587	20,285,557
Debt & other instruments	28.3	501,273	49,871	-	551,144
Credit related commitments & contingencies	46.1	658,526	231,217	294,344	1,184,087
Total impairment for expected credit losses		4,066,008	2,403,532	15,580,931	22,050,471

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51 RISK MANAGEMENT CONTD.

Group

As at 31st December 2018

	Note	Stage 1 Rs 000	Stage 2 Rs 000	Stage 3 Rs 000	Total Rs 000
Cash & cash equivalents	21.1	1,018	17,185	-	18,203
Placements with banks	23.1	2,195	-	-	2,195
Loans to & receivables from banks	26.1	1,275	8,013	-	9,288
Loans to & receivables from other customers	27.2	2,967,544	2,206,593	16,703,813	21,877,950
Debt & other instruments	28.3	501,273	49,871	-	551,144
Credit related commitments & contingencies	46.1	658,526	231,217	294,344	1,184,087
Total impairment for expected credit losses		4,131,831	2,512,879	16,998,157	23,642,867

51.2.1 (b) Movement of the total impairment for expected credit losses during the period

	Bank Rs 000	Group Rs 000
Balance as at 1st January 2018	11,596,239	12,347,852
Net charge to profit or loss	11,224,414	12,075,135
Write-off during the year (Note 27.3)	(279,015)	(279,190)
Interest income accrued on impaired loans & receivables (Note 8.1)	(1,325,572)	(1,335,335)
Other movements (Note 27.3)	834,405	834,405
Balance as at 31st December 2018	22,050,471	23,642,867

The methodology used in the determination of expected credit losses is explained in Note 4.4.6 to financial statements.

51.2.1 (c) Sensitivity Analysis : Impact of extending the recovery cash flows by further one year for individually significant impaired loans

Had the Bank further extended the recovery cash flows by one year, only for instances where cash flow is forecasted based on collateral realisation, the cumulative impairment provision for individually significant impaired loans would have increased by Rs 1,817 Mn.

51.2.1 (d) Sensitivity Analysis : Impact of staging of loans on collective impairment for expected credit losses

As explained in Note 4.4.6.1, the Bank / Group categorises its loans into stage 1, stage 2, stage 3 and originated credit impaired when determining the collective impairment provision under SLFRS 9. The sensitivity of collective impairment provision to staging of the loans is given below.

- If all performing loans to other customers currently in stage 2, were moved to stage 1, the ECL provision of the Bank / Group as at 31st December 2018 would have further reduced by approximately 9%. The total loans to & receivables from other customers in stage 2 as at 31st December 2018 amounts to Rs 67.8 Bn & Rs 76.0 Bn for the Bank & the Group respectively.
- If all performing loans to other customers currently in stage 1, were moved to stage 2, the ECL provision of the Bank / Group as at 31st December 2018 would have further increased by approximately 45%. The total loans to & receivables from other customers in stage 1 as at 31st December 2018 amounts to Rs 557.6 Bn & Rs 572.6 Bn for the Bank & the Group respectively. The management believes that a movement of the entire stage 1 loan portfolio to stage 2 is highly unlikely.

51.2.1 (e) Loans past due but not impaired

A loan is considered past due when a counterparty has not made a payment by the contractual due date. The following table presents the carrying value of loans that are contractually past due but not classified as impaired because they are less than 90 days past due. Loans past due 30 days or less are not presented in this analysis as they are not administratively considered past due.

As at 31st December 2018

	Bank			Group		
	31 - 60 Days Rs 000	61 - 90 Days Rs 000	Total Rs 000	31 - 60 Days Rs 000	61 - 90 Days Rs 000	Total Rs 000
Term loans	40,726,751	178,932	40,905,683	41,823,709	364,389	42,188,098
Overdrafts	11,240,904	1,203,284	12,444,188	11,240,904	1,203,284	12,444,188
Import loans	4,251,171	411,663	4,662,834	4,251,171	411,663	4,662,834
Others	8,742,978	1,086,599	9,829,577	12,779,192	3,889,893	16,669,085
	64,961,804	2,880,478	67,842,282	70,094,976	5,869,229	75,964,205

51.2.1 (f) Overview of rescheduled / restructured loans (except individually impaired loans)

Bank

As at 31st December 2018

	Amortised Cost			Impairment for ECL			Net Carrying Value Rs 000
	Stage 2 Rs 000	Stage 3 Rs 000	Total Rs 000	Stage 2 Rs 000	Stage 3 Rs 000	Total Rs 000	
Term loans	26,366,926	4,475,227	30,842,153	747,793	1,710,647	2,458,440	28,383,713
Import loans	215,863	42,099	257,962	2,225	22,317	24,542	233,420
Others	1,410,506	100,230	1,510,736	57,368	36,125	93,493	1,417,243
	27,993,295	4,617,556	32,610,851	807,386	1,769,089	2,576,475	30,034,376

Group

As at 31st December 2018

	Amortised Cost			Impairment for ECL			Net Carrying Value Rs 000
	Stage 2 Rs 000	Stage 3 Rs 000	Total Rs 000	Stage 2 Rs 000	Stage 3 Rs 000	Total Rs 000	
Term loans	26,373,809	4,555,039	30,928,848	747,855	1,723,814	2,471,669	28,457,179
Import loans	215,863	42,099	257,962	2,225	22,317	24,542	233,420
Others	1,666,867	528,749	2,195,616	60,602	123,127	183,729	2,011,887
	28,256,539	5,125,887	33,382,426	810,682	1,869,258	2,679,940	30,702,486

51.2.2 Credit-related Commitments Risks

The Bank makes available to its customers guarantees that may require that the Bank makes payments on their behalf and enters into commitments to extend credit lines to secure their liquidity needs. Letters of credit and guarantees (including standby letters of credit) 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. Such commitments expose the Bank to risks similar to loans and are mitigated by the same control processes and policies.

NOTES TO THE FINANCIAL STATEMENTS

51 RISK MANAGEMENT CONTD.

51.2.3 Collateral and Other Credit Enhancements

51.2.3 (a) Net exposure to credit risk

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are in place covering the acceptability and valuation of each type of collateral. The main types of collateral obtained are as follows:

For commercial lending : charges over real estate properties, inventory and trade receivables

For retail lending : mortgages over residential properties

The Bank also obtains guarantees from parent companies as securities against loans guaranteed to their subsidiaries.

Management monitors the market value of collateral and will request additional collateral in accordance with the underlying agreement. It is the Bank's policy to dispose repossessed properties in an orderly manner. The proceeds are used to recover the outstanding claim.

The following table shows the maximum exposure and net exposure (net of fair value of any collaterals held) to credit risk by class of financial asset, before netting off impairment for expected credit losses.

Bank

As at 31st December	Note	2018*		2017	
		Maximum Exposure to Credit Risk Rs 000	Net Exposure Rs 000	Maximum Exposure to Credit Risk Rs 000	Net Exposure Rs 000
Financial Assets					
Cash & cash equivalents	21	19,070,155	4,058,907	22,334,315	7,701,785
Placements with banks	23	8,749,121	8,749,121	3,159,326	3,159,326
Reverse repurchase agreements		500,124	-	1,200,762	-
Derivative financial instruments	24	1,171,037	1,171,037	496,918	496,918
Financial assets recognised through profit or loss - measured at fair value	25	27,720,246	27,720,246	20,502,507	20,502,507
Financial assets at amortised cost					
Loans to & receivables from banks	26	1,653,693	1,035,403	2,084,507	1,536,253
Loans to & receivables from other customers**	27	668,654,790	286,145,708	569,442,247	247,198,663
Debt & other instruments	28	121,656,536	116,496,094	49,352,443	45,952,577
Financial assets - fair value through other comprehensive income	29	27,517,305	27,517,305	n/a	n/a
Financial assets - available for sale	29	n/a	n/a	77,095,719	77,095,719
Other assets		5,434,982	5,434,982	4,123,185	4,123,185
		882,127,989	478,328,803	749,791,929	407,766,933

Group

As at 31st December	Note	2018*		2017	
		Maximum Exposure to Credit Risk Rs 000	Net Exposure Rs 000	Maximum Exposure to Credit Risk Rs 000	Net Exposure Rs 000
Financial Assets					
Cash & cash equivalents	21	19,236,457	4,065,352	22,612,939	7,707,599
Placements with banks	23	8,749,121	8,749,121	3,225,025	3,225,025
Reverse repurchase agreements		2,258,852	-	2,392,852	-
Derivative financial instruments	24	1,171,037	1,171,037	496,918	496,918
Financial assets recognised through profit or loss - measured at fair value	25	27,720,246	27,720,246	20,502,507	20,502,507
Financial assets at amortised cost					
Loans to & receivables from banks	26	1,653,693	1,035,403	2,084,507	1,536,253
Loans to & receivables from other customers**	27	697,771,969	283,152,017	595,686,947	250,264,137
Debt & other instruments	28	121,660,855	116,500,413	49,352,443	45,952,577
Financial assets - fair value through other comprehensive income	29	27,517,361	27,517,361	n/a	n/a
Financial assets - available for sale	29	n/a	n/a	77,095,775	77,095,775
Financial assets - held to maturity	30	-	-	12,428	12,428
Other assets		5,845,058	5,845,058	4,285,587	4,285,587
		913,584,649	475,756,008	777,747,928	411,078,806

* The amounts for the year ended 31st December 2018 have been prepared in accordance with Sri Lanka Accounting Standard - SLFRS 9 (Financial Instruments), whereas prior period amounts have not been restated.

** Approximately 40% and 8% of the loans and receivables of the Bank/Group are secured against immovable property and cash / deposits held within the Bank/Group respectively . Further 9% of the loans and receivables are secured against other securities including movable property, gold, lease receivables etc.

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51.2.3 (b) Offsetting financial assets & liabilities

Financial assets and financial liabilities are offset and the net amount is presented in the Statement of Financial Position when the Group has a legal right to set off the recognised amounts and it intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

51.2.3 (c) Financial assets & liabilities not subject to offsetting

Amounts that do not qualify for offsetting include netting arrangements that only permit outstanding transactions with the same counterparty to be offset in an event of default or occurrence of other predetermined events. Such netting arrangements include repurchase arrangements and other similar secured lending and borrowing arrangements.

The amount of the financial collateral received or pledged subject to netting arrangements but not qualified for offsetting are disclosed below.

Bank

As at 31st December	Gross Amount	2018 Amount Subject to Netting but do not Qualify for Offsetting	Net Amount	Gross Amount	2017 Amount Subject to Netting but do not Qualify for Offsetting	Net Amount
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000

Financial Assets

Loans to & receivables from other customers	58,642,583	42,629,826	16,012,757	61,426,422	39,586,513	21,839,909
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Financial Liabilities

Securities sold under repurchase agreements	13,732,205	13,732,205	-	4,386,335	4,386,335	-
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Group

As at 31st December	Gross Amount	2018 Amount Subject to Netting but do not Qualify for Offsetting	Net Amount	Gross Amount	2017 Amount Subject to Netting but do not Qualify for Offsetting	Net Amount
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000

Financial Assets

Loans to & receivables from other customers	59,916,005	43,125,497	16,790,508	62,917,895	40,361,767	22,556,128
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Financial Liabilities

Securities sold under repurchase agreements	13,709,472	13,709,472	-	4,231,946	4,231,946	-
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51.2.4 Analysis of Risk Concentration

Risk concentrations: maximum exposure to credit risk without taking account of any collateral and other credit enhancements.

The Concentration risk is monitored/managed through borrower/group, sector, product etc. Maximum exposure of both funded and non funded facilities to a company and a group as at the reporting date was Rs 16,977 Mn and Rs 19,605 Mn respectively. The following tables show the maximum exposure to credit risk for the components of the Statement of Financial Position, including geography of counterparty and sector.

51.2.4.1 Country Risk - Geographical Analysis

(a) Bank - as at 31st December 2018

	Sri Lanka	Europe	America	South Asia	Asia Pacific	Middle East & Africa	Total
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Financial Assets							
Cash & cash equivalents	15,271,319	525,600	1,593,880	411,398	899,881	349,877	19,051,955
Balances with Central Bank of Sri Lanka	36,557,776	-	-	-	-	-	36,557,776
Placements with banks	1,831,313	1,827,242	2,070,560	-	-	3,017,811	8,746,926
Reverse repurchase agreements	500,124	-	-	-	-	-	500,124
Derivative financial instruments	1,144,244	26,777	-	-	16	-	1,171,037
Financial assets recognised through profit or loss - measured at fair value	27,720,246	-	-	-	-	-	27,720,246
Financial assets at amortised cost							
Loans to & receivables from banks	1,644,405	-	-	-	-	-	1,644,405
Loans to & receivables from other customers **	635,472,649	527,370	577,183	11,173,135	329,325	289,571	648,369,233
Debt & other instruments	121,105,392	-	-	-	-	-	121,105,392
Financial assets - fair value through other comprehensive income	25,083,237	-	-	2,434,068	-	-	27,517,305
Other assets	4,702,420	206,979	135,108	95,120	30,212	265,143	5,434,982
	871,033,125	3,113,968	4,376,731	14,113,721	1,259,434	3,922,402	897,819,381

** Provincial breakdown for loans to & receivables from other customers within Sri Lanka

The amounts for the year ended 31st December 2018 have been prepared in accordance with Sri Lanka Accounting Standard - SLFRS 9 (Financial Instruments), whereas prior period amounts have not been restated.

Province	Rs 000
Central	41,472,090
Eastern	11,941,418
North Central	12,553,301
North Western	30,036,102
Northern	11,326,441
Sabaragamuwa	13,090,474
Southern	29,986,943
Uva	12,036,742
Western	473,029,138
	635,472,649

(b) Bank - as at 31st December 2017

	Sri Lanka	Europe	America	South Asia	Asia Pacific	Middle East & Africa	Total
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Financial Assets							
Cash & cash equivalents	17,004,822	418,545	3,820,867	145,915	545,655	398,511	22,334,315
Balances with Central Bank of Sri Lanka	41,100,364	-	-	-	-	-	41,100,364
Placements with banks	76,764	-	779,774	-	2,302,788	-	3,159,326
Reverse repurchase agreements	1,200,762	-	-	-	-	-	1,200,762
Derivative financial instruments	468,599	28,319	-	-	-	-	496,918
Financial assets - held for trading	20,502,507	-	-	-	-	-	20,502,507
Loans to & receivables from banks	2,084,507	-	-	-	-	-	2,084,507
Loans to & receivables from other customers**	553,132,105	187,137	495,452	5,749,046	1,177,299	57,901	560,798,940
Other loans & receivables	49,352,443	-	-	-	-	-	49,352,443
Financial assets - available for sale	74,434,889	-	-	2,660,830	-	-	77,095,719
Financial assets - held to maturity	-	-	-	-	-	-	-
Other assets	3,587,081	165,236	116,268	616	5,933	248,051	4,123,185
	762,944,843	799,237	5,212,361	8,556,407	4,031,675	704,463	782,248,986

** Provincial breakdown for loans to & receivables from other customers within Sri Lanka

Province	Rs 000
Central	35,618,138
Eastern	11,093,394
North Central	12,843,992
North Western	29,025,034
Northern	9,998,350
Sabaragamuwa	11,859,291
Southern	26,676,226
Uva	11,326,665
Western	404,691,015
	553,132,105

(c) Group - as at 31st December 2018

	Sri Lanka	Europe	America	South Asia	Asia Pacific	Middle East & Africa	Total
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Financial Assets							
Cash & cash equivalents	15,437,618	525,600	1,593,880	411,398	899,881	349,877	19,218,254
Balances with Central Bank of Sri Lanka	36,557,776	-	-	-	-	-	36,557,776
Placements with banks	1,831,313	1,827,242	2,070,560	-	-	3,017,811	8,746,926
Reverse repurchase agreements	2,258,852	-	-	-	-	-	2,258,852
Derivative financial instruments	1,144,244	26,777	-	-	16	-	1,171,037
Financial assets recognised through profit or loss - measured at fair value	27,720,246	-	-	-	-	-	27,720,246
Financial assets at amortised cost							
Loans to & receivables from banks	1,644,405	-	-	-	-	-	1,644,405
Loans to & receivables from other customers **	662,997,435	527,370	577,183	11,173,135	329,325	289,571	675,894,019
Debt & other instruments	121,109,711	-	-	-	-	-	121,109,711
Financial assets - fair value through other comprehensive income	25,083,293	-	-	2,434,068	-	-	27,517,361
Other assets	5,112,496	206,979	135,108	95,120	30,212	265,143	5,845,058
	900,897,389	3,113,968	4,376,731	14,113,721	1,259,434	3,922,402	927,683,645

** Provincial breakdown for loans to & receivables from other customers within Sri Lanka

The amounts for the year ended 31st December 2018 have been prepared in accordance with Sri Lanka Accounting Standard - SLFRS 9 (Financial Instruments), whereas prior period amounts have not been restated.

Province	Rs 000
Central	45,370,903
Eastern	14,769,208
North Central	13,799,472
North Western	33,375,553
Northern	11,648,447
Sabaragamuwa	14,929,307
Southern	32,324,661
Uva	12,424,642
Western	484,355,242
	662,997,435

(d) Group - as at 31st December 2017

	Sri Lanka	Europe	America	South Asia	Asia Pacific	Middle East & Africa	Total
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Financial Assets							
Cash & cash equivalents	17,283,446	418,545	3,820,867	145,915	545,655	398,511	22,612,939
Balances with Central Bank of Sri Lanka	41,100,364	-	-	-	-	-	41,100,364
Placements with banks	142,463	-	779,774	-	2,302,788	-	3,225,025
Reverse repurchase agreements	2,392,852	-	-	-	-	-	2,392,852
Derivative financial instruments	468,599	28,319	-	-	-	-	496,918
Financial assets - held for trading	20,502,507	-	-	-	-	-	20,502,507
Loans to & receivables from banks	2,084,507	-	-	-	-	-	2,084,507
Loans to & receivables from other customers**	578,703,872	187,137	495,452	5,749,045	1,177,298	57,900	586,370,704
Other loans & receivables	49,352,443	-	-	-	-	-	49,352,443
Financial assets - available for sale	74,434,947	-	-	2,660,828	-	-	77,095,775
Financial assets - held to maturity	12,428	-	-	-	-	-	12,428
Other assets	3,749,482	165,236	116,269	616	5,933	248,051	4,285,587
	790,227,910	799,237	5,212,362	8,556,404	4,031,674	704,462	809,532,049

** Provincial breakdown for loans to & receivables from other customers within Sri Lanka

Province	Rs 000
Central	38,768,934
Eastern	13,501,722
North Central	13,823,369
North Western	31,804,101
Northern	10,238,855
Sabaragamuwa	13,244,867
Southern	28,350,723
Uva	11,630,423
Western	417,340,878
	578,703,872

51.2.4.2 Industry Analysis

The following tables show the risk concentration by industry for the components of the Statement of Financial Position.

(a) Bank - as at 31st December 2018

	Agriculture and Related	Manufacturing	Tourism	Transport	Construction & Infrastructure	Traders	Banks, Financial and Business Services	Government	Other Services	Consumers	Total
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Financial Assets											
Cash & cash equivalents	-	-	-	-	-	-	19,051,955	-	-	-	19,051,955
Balances with Central Bank of Sri Lanka	-	-	-	-	-	-	-	36,557,776	-	-	36,557,776
Placements with banks	-	-	-	-	-	-	8,746,926	-	-	-	8,746,926
Reverse repurchase agreements	-	-	-	-	-	-	500,124	-	-	-	500,124
Derivative financial instruments	3,173	-	-	-	-	2,904	1,164,960	-	-	-	1,171,037
Financial assets recognised through profit or loss – measured at fair value	-	-	-	-	-	-	-	27,647,228	-	-	27,647,228
Government debt securities	-	-	-	-	-	-	-	68,843	-	-	73,018
Quoted equities	-	-	-	-	-	4,175	-	-	-	-	-
Financial assets at amortised cost	-	-	-	-	-	-	-	-	-	-	-
Loans to & receivables from banks	-	-	-	-	-	-	-	-	-	-	1,644,405
Loans to & receivables from other customers	42,003,403	104,065,649	60,543,023	12,486,850	124,843,741	140,016,521	48,443,812	15,535,474	21,077,173	79,353,587	648,369,233
Debt & other instruments	32,709	509,847	-	-	547,047	723,486	7,671,829	11,620,474	-	-	121,105,392
Financial assets – fair value through other comprehensive income	-	-	-	-	-	-	-	-	-	-	-
Government debt securities	-	-	-	-	-	-	-	25,047,854	-	-	25,047,854
Other equity securities	-	-	-	-	-	-	2,432,869	-	36,582	-	2,469,451
Other assets	-	-	-	-	-	-	1,111,608	3,263,769	1,059,605	-	5,434,982
	42,039,285	104,575,496	60,543,023	12,486,850	125,390,788	140,747,086	90,837,331	219,672,575	22,173,360	79,353,587	897,819,381

The amounts for the year ended 31st December 2018 have been prepared in accordance with Sri Lanka Accounting Standard - SLFRS 9 (Financial Instruments), whereas prior period amounts have not been restated.

(b) Bank - as at 31st December 2017

	Agriculture and Related	Manufacturing	Tourism	Transport	Construction & Infrastructure	Traders	Banks, Financial and Business Services	Government	Other Services	Consumers	Total
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Financial Assets											
Cash & cash equivalents	-	-	-	-	-	-	22,334,315	-	-	-	22,334,315
Balances with Central Bank of Sri Lanka	-	-	-	-	-	-	-	41,100,364	-	-	41,100,364
Placements with banks	-	-	-	-	-	-	3,159,326	-	-	-	3,159,326
Reverse repurchase agreements	-	-	-	-	-	-	1,200,762	-	-	-	1,200,762
Derivative financial instruments	-	-	-	-	-	34,257	462,661	-	-	-	496,918
Financial assets - held for trading	-	-	-	-	-	-	-	-	-	-	-
Government securities	-	-	-	-	-	-	-	20,413,198	-	-	20,413,198
Quoted equities	-	-	-	-	-	4,348	84,961	-	-	-	89,309
Loans to & receivables from banks	-	-	-	-	-	-	2,084,507	-	-	-	2,084,507
Loans to & receivables from other customers	44,638,250	91,455,200	43,039,520	8,304,092	114,024,949	136,249,276	31,359,360	9,710,813	20,419,452	61,598,028	560,798,940
Other loans & receivables	78,146	509,893	-	-	816,128	1,415,394	5,644,116	40,888,766	-	-	49,352,443
Financial assets - available for sale	-	-	-	-	-	-	-	74,405,290	-	-	74,405,290
Government securities	-	-	-	-	-	-	2,659,822	-	30,607	-	2,690,429
Other equity securities	-	-	-	-	-	-	-	-	-	-	-
Financial assets - held to maturity	-	-	-	-	-	-	-	-	-	-	-
Other assets	44,716,396	91,965,093	43,039,520	8,304,092	114,841,077	137,703,275	70,122,319	188,509,802	21,449,384	61,598,028	782,248,986

(c) Group - as at 31st December 2018

	Agriculture and Related	Manufacturing	Tourism	Transport	Construction & Infrastructure	Traders	Banks, Financial and Business Services	Government	Other Services	Consumers	Total
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Financial Assets											
Cash & cash equivalents	-	-	-	-	-	-	19,218,254	-	-	-	19,218,254
Balances with Central Bank of Sri Lanka	-	-	-	-	-	-	-	36,557,776	-	-	36,557,776
Placements with banks	-	-	-	-	-	-	8,746,926	-	-	-	8,746,926
Reverse repurchase agreements	-	-	-	-	-	-	2,258,852	-	-	-	2,258,852
Derivative financial instruments	3,173	-	-	-	-	2,904	1,164,960	-	-	-	1,171,037
Financial assets recognised through profit or loss - measured at fair value	-	-	-	-	-	-	-	27,647,228	-	-	27,647,228
Government debt securities	-	-	-	-	-	4,175	68,843	-	-	-	73,018
Quoted equities	-	-	-	-	-	-	-	-	-	-	-
Financial assets at amortised cost	-	-	-	-	-	-	1,644,405	-	-	-	1,644,405
Loans to & receivables from banks	-	-	-	-	-	-	-	-	-	-	-
Loans to & receivables from other customers	44,280,481	107,102,933	61,859,712	14,484,802	126,821,391	145,614,527	43,221,969	15,535,474	31,877,007	85,095,723	675,894,019
Debt & other instruments	32,709	509,847	-	-	547,047	723,486	7,671,829	111,624,793	-	-	121,109,711
Financial assets - fair value through other comprehensive income	-	-	-	-	-	-	-	25,047,854	-	-	25,047,854
Government debt securities	-	-	-	-	-	-	2,432,869	-	36,638	-	2,469,507
Other equity securities	-	-	-	-	-	89,404	1,110,864	3,263,769	1,381,021	-	5,845,058
Other assets	44,316,363	107,612,780	61,859,712	14,484,802	127,368,438	146,434,496	87,539,771	219,676,894	33,294,666	85,095,723	927,683,645

The amounts for the year ended 31st December 2018 have been prepared in accordance with Sri Lanka Accounting Standard - SLFRS 9 (Financial Instruments), whereas prior period amounts have not been restated.

(d) Group - as at 31st December 2017

	Agriculture and Related	Manufacturing	Tourism	Transport	Construction & Infrastructure	Traders	Banks, Financial and Business Services	Government	Other Services	Consumers	Total
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Financial Assets											
Cash & cash equivalents	-	-	-	-	-	-	22,612,939	-	-	-	22,612,939
Balances with Central Bank of Sri Lanka	-	-	-	-	-	-	-	41,100,364	-	-	41,100,364
Placements with banks	-	-	-	-	-	-	3,225,025	-	-	-	3,225,025
Reverse repurchase agreements	-	-	-	-	-	-	2,392,852	-	-	-	2,392,852
Derivative financial instruments	-	-	-	-	-	34,257	462,661	-	-	-	496,918
Financial assets - held for trading	-	-	-	-	-	-	-	-	-	-	-
Government debt securities	-	-	-	-	-	-	-	20,413,198	-	-	20,413,198
Quoted equities	-	-	-	-	-	4,348	84,961	-	-	-	89,309
Loans to & receivables from banks	-	-	-	-	-	-	2,084,507	-	-	-	2,084,507
Loans to & receivables from other customers	46,287,881	93,550,757	43,629,940	8,401,310	115,142,960	141,215,711	30,343,939	9,710,814	33,926,011	64,161,381	586,370,704
Other loans & receivables	78,146	509,893	-	-	816,128	1,415,394	5,644,116	40,888,766	-	-	49,352,443
Financial assets - available for sale	-	-	-	-	-	-	-	74,405,289	-	-	74,405,289
Government securities	-	-	-	-	-	-	-	-	30,664	-	2,690,486
Other equity securities	-	-	-	-	-	-	-	-	-	-	-
Financial assets - held to maturity	-	-	-	-	-	-	-	12,428	-	-	12,428
Other assets	-	-	-	-	-	-	1,266,895	1,991,372	1,027,320	-	4,285,587
	46,366,027	94,060,650	43,629,940	8,401,310	115,959,088	142,669,710	70,777,717	188,522,231	34,983,995	64,161,381	809,532,049

51.2.5 Commitments and Contingencies

To meet the financial needs of customers, the Bank enters into various commitments and contingent liabilities. Even though these obligations may not be recognised in 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 should have to pay if the guarantee is called upon. The maximum exposure to credit risk relating to a loan commitment is the full amount of the commitment. In both cases, the maximum risk exposure is significantly greater than the amount recognised as a liability in the Statement of Financial Position. The Bank's maximum credit risk exposure for commitments and contingencies are disclosed in the Note No. 46.1.

51.3 Liquidity Risk and Funding Management

Liquidity risk is the risk that the Bank will encounter difficulties in meeting its financial commitments that are settled by delivering cash or another financial asset. Hence the Bank may be unable to meet its payment obligations when they fall due under both normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, and adopted a policy of continuously managing assets with liquidity in mind and monitoring future cash flows and liquidity on a daily basis. The Bank has developed internal control processes and contingency plans for managing liquidity risk. 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 Bank maintains a portfolio of highly marketable and diverse assets assumed to be easily liquidated in the event of an unforeseen interruption of expected cash flow. The Bank also has committed lines of credit that could be utilized to meet liquidity needs. Further, the Bank maintained a statutory deposit with the Central Bank of Sri Lanka equal to 6% (2017 : 7.5%) of customer rupee deposits. 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 specific to the Bank. The most important of this is to maintain the required ratio of liquid assets to liabilities, to meet the regulatory requirement (20%). Liquid assets consist of cash, short-term bank deposits and liquid debt securities available for immediate sale. Further the Statutory Liquid Assets Ratio of the Bank for the month of December 2018 is given in Note 51.3.1 below.

51.3.1 Statutory Liquid Assets Ratio (SLAR)

For the month of December	2018 %	2017 %
Domestic banking unit (DBU)	21.50	22.22
Foreign currency banking unit (FCBU)	25.78	24.90

51.3.2 Loans to & receivables from banks and other customers (Advances) to Due to banks and other customers (Deposits) Ratio

The Bank is aware of the importance of due to banks & other customers as a source of funds for its lending operations. This is monitored using the following ratio, which compares loans to & receivables from banks and other customers (Advances) as a percentage of due to banks & due to other customers (Deposits).

Loans to & receivables from banks and other customers (Advances) to Due to banks and other customers (Deposits) Ratio

As at 31st December 2018 : 96.02% (2017 : 90.65%)

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51.3.3 Analysis of Financial Assets and Liabilities by Remaining Contractual Maturities

The tables below summarise the maturity profile of the undiscounted cash flows of the Bank's financial assets and financial liabilities as at 31st December 2018. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date it could be required to pay and the tables do not reflect the expected cash flows indicated by its deposit retention history.

Contractual Maturities of Undiscounted Cash Flows of Financial Assets and Financial Liabilities

(a) Bank - as at 31st December 2018

	Up to 3 Months Rs 000	3 - 12 Months Rs 000	1 - 3 Years Rs 000	3 - 5 Years Rs 000	Over 5 Years Rs 000	Total Rs 000
Financial Assets						
Cash & cash equivalents	19,051,955	-	-	-	-	19,051,955
Balances with Central Bank of Sri Lanka	20,181,962	13,586,582	997,728	1,357,820	433,684	36,557,776
Placements with banks	8,751,689	-	-	-	-	8,751,689
Reverse repurchase agreements	500,124	-	-	-	-	500,124
Derivative financial instruments	988,372	182,665	-	-	-	1,171,037
Financial assets recognised through profit or loss - measured at fair value	27,720,246	-	-	-	-	27,720,246
Financial assets at amortised cost						
Loans to & receivables from banks	432,018	596,420	853,342	16,844	-	1,898,624
Loans to & receivables from other customers	275,643,909	135,237,471	175,762,818	113,721,690	100,132,188	800,498,076
Debt & other instruments	21,880,528	48,662,322	40,006,291	24,106,371	-	134,655,512
Financial assets - fair value through other comprehensive income	12,731,631	12,312,540	-	3,683	2,469,451	27,517,305
Other assets	2,167,660	3,044,980	45,828	48,917	150,046	5,457,431
Total Financial Assets	390,050,094	213,622,980	217,666,007	139,255,325	103,185,369	1,063,779,775
Financial Liabilities						
Due to banks	8,538,313	454,827	-	-	-	8,993,140
Derivative financial instruments	1,321,472	1,630,847	-	-	-	2,952,319
Securities sold under repurchase agreements	13,472,851	276,173	-	-	-	13,749,024
Due to other customers	392,723,859	273,121,590	19,548,158	29,942,048	7,507,588	722,843,243
Debt issued & other borrowed funds	9,350,454	29,315,256	34,943,178	29,455,434	5,294,154	108,358,476
Dividend payable	97,462	-	-	-	-	97,462
Other liabilities	5,334,106	2,425,542	557,970	100,449	291,815	8,709,882
Total Financial Liabilities	430,838,517	307,224,235	55,049,306	59,497,931	13,093,557	865,703,546
Total Net Financial Assets / (Liabilities)	(40,788,423)	(93,601,255)	162,616,701	79,757,394	90,091,812	198,076,229

The amounts for the year ended 31st December 2018 have been prepared in accordance with Sri Lanka Accounting Standard - SLFRS 9 (Financial Instruments), whereas prior period amounts have not been restated.

(b) Bank - as at 31st December 2017

	Up to 3 Months Rs 000	3 - 12 Months Rs 000	1 - 3 Years Rs 000	3 - 5 Years Rs 000	Over 5 Years Rs 000	Total Rs 000
Financial Assets						
Cash & cash equivalents	22,346,640	-	-	-	-	22,346,640
Balances with Central Bank of Sri Lanka	23,720,784	15,013,592	841,857	1,026,699	497,432	41,100,364
Placements with banks	3,159,526	-	-	-	-	3,159,526
Reverse repurchase agreements	1,201,269	-	-	-	-	1,201,269
Derivative financial instruments	317,442	178,576	900	-	-	496,918
Financial assets - held for trading	20,502,507	-	-	-	-	20,502,507
Loans to & receivables from banks	230,880	651,790	1,338,701	325,491	-	2,546,862
Loans to & receivables from other customers	258,434,330	106,664,521	153,049,982	85,134,760	77,597,223	680,880,816
Other loans & receivables	8,054,707	9,049,778	27,492,162	11,726,774	-	56,323,421
Financial assets - available for sale	66,170,810	7,459,409	151,502	518,562	2,795,436	77,095,719
Financial assets - held to maturity	-	-	-	-	-	-
Other assets	3,674,139	338,784	47,078	47,637	50,350	4,157,988
Total Financial Assets	407,813,034	139,356,450	182,922,182	98,779,923	80,940,441	909,812,030
Financial Liabilities						
Due to banks	3,095,152	1,690,482	-	-	-	4,785,634
Derivative financial instruments	71,608	32,265	74	-	-	103,947
Securities sold under repurchase agreements	4,046,691	359,868	-	-	-	4,406,559
Due to other customers	366,962,472	229,784,102	13,049,236	16,378,049	7,201,357	633,375,216
Debt issued & other borrowed funds	3,991,519	26,438,226	32,889,494	27,046,806	4,214,590	94,580,635
Dividend payable	99,259	-	-	-	-	99,259
Other liabilities	4,290,457	2,672,234	705,130	124,119	256,608	8,048,548
Total Financial Liabilities	382,557,158	260,977,177	46,643,934	43,548,974	11,672,555	745,399,798
Total Net Financial Assets / (Liabilities)	25,255,876	(121,620,727)	136,278,248	55,230,949	69,267,886	164,412,232

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(c) Group - as at 31st December 2018

	Up to 3 Months Rs 000	3 - 12 Months Rs 000	1 - 3 Years Rs 000	3 - 5 Years Rs 000	Over 5 Years Rs 000	Total Rs 000
Financial Assets						
Cash & cash equivalents	19,218,254	-	-	-	-	19,218,254
Balances with Central Bank of Sri Lanka	20,181,963	13,586,582	997,728	1,357,820	433,683	36,557,776
Placements with banks	8,751,690	-	-	-	-	8,751,690
Reverse repurchase agreements	2,271,347	-	-	-	-	2,271,347
Derivative financial instruments	988,372	182,665	-	-	-	1,171,037
Financial assets recognised through profit or loss - measured at fair value	27,720,246	-	-	-	-	27,720,246
Financial assets at amortised cost						
Loans to & receivables from banks	432,018	596,420	853,342	16,844	-	1,898,624
Loans to & receivables from other customers	281,175,177	146,737,986	190,576,830	119,684,823	100,248,079	838,422,895
Debt and other instruments	21,880,528	48,662,322	40,010,591	24,106,371	-	134,659,812
Financial assets - fair value through other comprehensive income	12,731,631	12,312,540	-	3,683	2,469,507	27,517,361
Other assets	2,385,333	3,289,898	45,898	48,917	149,983	5,920,029
Total Financial Assets	397,736,559	225,368,413	232,484,389	145,218,458	103,301,252	1,104,109,071
Financial Liabilities						
Due to banks	8,601,707	454,827	-	-	-	9,056,534
Derivative financial instruments	1,321,473	1,630,846	-	-	-	2,952,319
Securities sold under repurchase agreements	13,459,848	265,526	-	-	-	13,725,374
Due to other customers	395,612,100	277,478,002	21,178,615	30,630,845	7,507,599	732,407,161
Debt issued & other borrowed funds	12,775,167	33,234,510	42,829,165	31,513,443	5,294,154	125,646,439
Dividend payable	97,462	-	-	-	-	97,462
Other liabilities	5,832,792	2,210,444	153,864	35,058	291,817	8,523,975
Total Financial Liabilities	437,700,549	315,274,155	64,161,644	62,179,346	13,093,570	892,409,264
Total Net Financial Assets / (Liabilities)	(39,963,990)	(89,905,742)	168,322,745	83,039,112	90,207,682	211,699,807

The amounts for the year ended 31st December 2018 have been prepared in accordance with Sri Lanka Accounting Standard - SLFRS 9 (Financial Instruments), whereas prior period amounts have not been restated.

(d) Group - as at 31st December 2017

	Up to 3 Months Rs 000	3 - 12 Months Rs 000	1 - 3 Years Rs 000	3 - 5 Years Rs 000	Over 5 Years Rs 000	Total Rs 000
Financial Assets						
Cash & cash equivalents	22,646,773	-	-	-	-	22,646,773
Balances with Central Bank of Sri Lanka	23,720,784	15,013,592	841,857	1,026,699	497,432	41,100,364
Placements with banks	3,225,540	-	-	-	-	3,225,540
Reverse repurchase agreements	1,819,603	597,599	-	-	-	2,417,202
Derivative financial instruments	317,442	178,576	900	-	-	496,918
Financial assets - held for trading	20,502,507	-	-	-	-	20,502,507
Loans to & receivables from banks	230,880	651,790	1,338,701	325,491	-	2,546,862
Loans to & receivables from other customers	264,004,775	116,644,635	166,106,667	90,166,283	77,660,744	714,583,104
Other loans & receivables	8,054,707	9,049,778	27,492,162	11,726,774	-	56,323,421
Financial assets - available for sale	66,170,810	7,459,409	151,502	518,562	2,795,492	77,095,775
Financial assets - held to maturity	2,403	5,967	-	4,300	-	12,670
Other assets	3,674,139	535,659	47,078	47,637	15,877	4,320,390
Total Financial Assets	414,370,363	150,137,005	195,978,867	103,815,746	80,969,545	945,271,526
Financial Liabilities						
Due to banks	3,171,691	1,690,482	-	-	-	4,862,173
Derivative financial instruments	71,608	32,265	74	-	-	103,947
Securities sold under repurchase agreements	3,962,622	286,648	-	-	-	4,249,270
Due to other customers	371,487,145	233,475,321	14,280,655	17,597,768	7,201,371	644,042,260
Debt issued & other borrowed funds	6,935,600	30,341,083	38,578,903	30,900,296	4,214,590	110,970,472
Dividend payable	99,259	-	-	-	-	99,259
Other liabilities	5,452,674	2,492,258	291,624	13,495	248,199	8,498,250
Total Financial Liabilities	391,180,599	268,318,057	53,151,256	48,511,559	11,664,160	772,825,631
Total Net Financial Assets / (Liabilities)	23,189,764	(118,181,052)	142,827,611	55,304,187	69,305,385	172,445,895

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51.3.4 Remaining Contractual Maturities of Commitments and Contingencies

The tables below show the contractual expiry by remaining 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.

(a) Bank - as at 31st December 2018

	On Demand Rs 000	Less than 3 Months Rs 000	3 to 12 Months Rs 000	1 to 5 Years Rs 000	Over 5 Years Rs 000	Total Rs 000
Credit related commitments and contingencies						
Direct credit facilities	168,175,885	-	-	-	-	168,175,885
Indirect credit facilities	46,523,763	-	-	-	-	46,523,763
Acceptances	239,502	10,779,531	6,425,568	28,650	-	17,473,251
Documentary credit	1,648,704	14,042,761	1,851,274	43,806	-	17,586,545
Guarantees	7,884,615	10,229,833	18,285,953	15,972,562	2,464	52,375,427
	224,472,469	35,052,125	26,562,795	16,045,018	2,464	302,134,871
Other commitments and contingencies						
Capital Commitments	568,383	-	-	-	-	568,383
Operating lease commitments - as lessee	-	268,226	779,249	2,332,504	560,768	3,940,747
Forward exchange contracts	-	64,215,275	24,618,072	-	-	88,833,347
	568,383	64,483,501	25,397,321	2,332,504	560,768	93,342,477
Total gross commitments & contingencies	225,040,852	99,535,626	51,960,116	18,377,522	563,232	395,477,348
Impairment for expected credit losses - credit related commitments and contingencies	(879,722)	(137,372)	(104,101)	(62,882)	(10)	(1,184,087)
Commitments and contingencies net of impairment for expected credit losses	224,161,130	99,398,254	51,856,015	18,314,640	563,222	394,293,261

The amounts for the year ended 31st December 2018 have been prepared in accordance with Sri Lanka Accounting Standard - SLFRS 9 (Financial Instruments), whereas prior period amounts have not been restated.

(b) Bank - as at 31st December 2017

	On Demand	Less than 3	3 to 12	1 to 5 Years	Over 5 Years	Total
	Rs 000	Months	Months	Rs 000	Rs 000	Rs 000
		Rs 000	Rs 000			

Credit related commitments and contingencies

Direct credit facilities	161,377,222	-	-	-	-	161,377,222
Indirect credit facilities	66,325,717	-	-	-	-	66,325,717
Acceptances	49,494	12,206,404	6,896,475	30,544	-	19,182,917
Documentary credit	1,686,058	13,892,514	4,028,991	175,609	13,544	19,796,716
Guarantees	6,867,637	11,840,270	18,271,936	11,576,952	2,735,302	51,292,097
	236,306,128	37,939,188	29,197,402	11,783,105	2,748,846	317,974,669

Other commitments and contingencies

Capital Commitments	708,532	-	-	-	-	708,532
Operating lease commitments - as lessee	-	239,035	692,682	2,112,296	570,059	3,614,072
Forward exchange contracts	-	41,016,433	19,129,706	1,062,675	-	61,208,814
	708,532	41,255,468	19,822,388	3,174,971	570,059	65,531,418
Total gross commitments & contingencies	237,014,660	79,194,656	49,019,790	14,958,076	3,318,905	383,506,087
Impairment for expected credit losses - credit related commitments and contingencies	n/a	n/a	n/a	n/a	n/a	n/a
Commitments and contingencies net of impairment for expected credit losses	237,014,660	79,194,656	49,019,790	14,958,076	3,318,905	383,506,087

(c) Group - as at 31st December 2018

	On Demand	Less than 3	3 to 12	1 to 5 Years	Over 5 Years	Total
	Rs 000	Months	Months	Rs 000	Rs 000	Rs 000
		Rs 000	Rs 000			

Credit related commitments and contingencies

Direct credit facilities	164,629,612	-	-	-	-	164,629,612
Indirect credit facilities	46,523,763	-	-	-	-	46,523,763
Acceptances	239,502	10,779,531	6,425,568	28,650	-	17,473,251
Documentary credit	1,648,704	14,042,761	1,851,274	43,806	-	17,586,545
Guarantees	7,884,615	10,232,033	18,285,953	15,972,562	2,464	52,377,627
	220,926,196	35,054,325	26,562,795	16,045,018	2,464	298,590,798

Other commitments and contingencies

Capital Commitments	425,343	675	1,058,452	-	-	1,484,470
Operating lease commitments - as lessee	-	196,970	550,986	1,773,589	654,147	3,175,692
Forward exchange contracts	-	64,215,275	24,618,072	-	-	88,833,347
	425,343	64,412,920	26,227,510	1,773,589	654,147	93,493,509
Total gross commitments & contingencies	221,351,539	99,467,245	52,790,305	17,818,607	656,611	392,084,307
Impairment for expected credit losses - credit related commitments and contingencies	(879,722)	(137,372)	(104,101)	(62,882)	(10)	(1,184,087)
Commitments and contingencies net of impairment for expected credit losses	220,471,817	99,329,873	52,686,204	17,755,725	656,601	390,900,220

The amounts for the year ended 31st December 2018 have been prepared in accordance with Sri Lanka Accounting Standard - SLFRS 9 (Financial Instruments), whereas prior period amounts have not been restated.

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(d) Group - as at 31st December 2017

	On Demand Rs 000	Less than 3 Months Rs 000	3 to 12 Months Rs 000	1 to 5 Years Rs 000	Over 5 Years Rs 000	Total Rs 000
Credit related commitments and contingencies						
Direct credit facilities	161,059,499	-	-	-	-	161,059,499
Indirect credit facilities	66,325,717	-	-	-	-	66,325,717
Acceptances	49,494	12,206,404	6,896,475	30,544	-	19,182,917
Documentary credit	1,686,058	13,892,514	4,028,991	175,609	13,544	19,796,716
Guarantees	6,867,637	11,840,270	18,272,536	11,576,952	2,735,302	51,292,697
	235,988,405	37,939,188	29,198,002	11,783,105	2,748,846	317,657,546
Other commitments and contingencies						
Capital Commitments	1,015,471	251,918	767,292	207,177	-	2,241,858
Operating lease commitments - as lessee	-	182,761	522,166	1,570,196	679,749	2,954,872
Forward exchange contracts	-	41,016,433	19,129,706	1,062,675	-	61,208,814
	1,015,471	41,451,112	20,419,164	2,840,048	679,749	66,405,544
Total gross commitments & contingencies	237,003,876	79,390,300	49,617,166	14,623,153	3,428,595	384,063,090
Impairment for expected credit losses						
- credit related commitments and contingencies	n/a	n/a	n/a	n/a	n/a	n/a
Commitments and contingencies net of impairment for expected credit losses	237,003,876	79,390,300	49,617,166	14,623,153	3,428,595	384,063,090

51.4 Market Risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates, commodity prices and equity prices. The Bank classifies exposures to market risk into either trading or non-trading portfolios and manages each of those portfolios separately.

51.4.1 Interest Rate Risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Bank's policy is to continuously monitor positions on a daily basis and hedging strategies are used to ensure positions are maintained within prudential levels.

The following tables demonstrate the sensitivity of the Bank's Statement of Profit or Loss for the year ended 31st December 2018 and 31st December 2017 to a reasonable possible change in interest rates, with all other variables held constant.

Rate Sensitive Assets (RSA) & Rate Sensitive Liabilities (RSL) as at 31st December

	2018 Rs 000	2017 Rs 000
Rate Sensitive Assets (RSA)*	661,890,806	588,201,327
Rate Sensitive Liabilities (RSL)*	710,882,699	635,838,264
GAP (RSA - RSL)	(48,991,893)	(47,636,937)

Impact on Statement of Profit or Loss due to Interest Rate Shocks as at 31st December

	2018 Rs 000	2017 Rs 000
Interest Rate Shock		
0.50%	95,239	184,032
1.00%	190,478	368,064
(0.50%)	(95,239)	(184,032)
(1.00%)	(190,478)	(368,064)

* The above computation is based on the rate sensitive assets and liabilities which are matured or repriced within one year.

Interest Rate Sensitivity Analysis

The tables below analyse the Bank's interest rate risk exposure on financial assets and liabilities. The Bank's assets and liabilities are included at carrying amount and categorised by the earlier of contractual re-pricing or maturity dates.

(a) Bank - as at 31st December 2018

	Up to 3 Months Rs 000	3 - 12 Months Rs 000	1-3 Years Rs 000	3 - 5 Years Rs 000	Over 5 Years Rs 000	Non Interest Bearing Rs 000	Total Rs 000
Financial Assets							
Cash & cash equivalents	124,373	-	-	-	-	18,927,582	19,051,955
Balances with Central Bank of Sri Lanka	-	-	-	-	-	36,557,776	36,557,776
Placements with banks	8,746,926	-	-	-	-	-	8,746,926
Reverse repurchase agreements	500,124	-	-	-	-	-	500,124
Derivative financial instruments	-	-	-	-	-	1,171,037	1,171,037
Financial assets recognised through profit or loss - measured at fair value	27,647,228	-	-	-	-	73,018	27,720,246
Financial assets at amortised cost							
Loans to & receivables from banks	1,636,617	1,627	6,161	-	-	-	1,644,405
Loans to & receivables from other customers	406,426,860	82,303,360	60,123,919	39,954,149	59,365,762	195,183	648,369,233
Debt and other instruments	54,714,550	54,744,970	5,676,811	5,969,061	-	-	121,105,392
Financial assets - fair value through other comprehensive income	12,731,631	12,312,540	-	3,683	-	2,469,451	27,517,305
Other assets	-	-	-	-	-	5,434,982	5,434,982
Total Financial Assets	512,528,309	149,362,497	65,806,891	45,926,893	59,365,762	64,829,029	897,819,381
Financial Liabilities							
Due to banks	6,199,539	431,981	-	-	-	2,269,943	8,901,463
Derivative financial instruments	-	-	-	-	-	2,952,319	2,952,319
Securities sold under repurchase agreements	13,470,633	261,572	-	-	-	-	13,732,205
Due to other customers	365,788,158	267,529,387	9,157,558	10,698,825	2,468	37,202,156	690,378,552
Debt issued & other borrowed funds	32,092,375	25,109,054	14,729,589	16,197,596	1,806,237	13,555	89,948,406
Dividend payable	-	-	-	-	-	97,462	97,462
Other liabilities	-	-	-	-	-	8,390,901	8,390,901
Total Financial Liabilities	417,550,705	293,331,994	23,887,147	26,896,421	1,808,705	50,926,336	814,401,308
Interest Rate Sensitivity Gap	94,977,604	(143,969,497)	41,919,744	19,030,472	57,557,057	13,902,693	83,418,073

The amounts for the year ended 31st December 2018 have been prepared in accordance with Sri Lanka Accounting Standard - SLFRS 9 (Financial Instruments), whereas prior period amounts have not been restated.

(b) Bank - as at 31st December 2017

	Up to 3 Months Rs 000	3 - 12 Months Rs 000	1-3 Years Rs 000	3 - 5 Years Rs 000	Over 5 Years Rs 000	Non Interest Bearing Rs 000	Total Rs 000
Financial Assets							
Cash & cash equivalents	2,052,687	-	-	-	-	20,281,628	22,334,315
Balances with Central Bank of Sri Lanka	-	-	-	-	-	41,100,364	41,100,364
Placements with banks	3,159,326	-	-	-	-	-	3,159,326
Reverse repurchase agreements	1,200,762	-	-	-	-	-	1,200,762
Derivative financial instruments	-	-	-	-	-	496,918	496,918
Financial assets - held for trading	20,413,198	-	-	-	-	89,309	20,502,507
Loans to & receivables from banks	2,074,895	125	8,336	1,151	-	-	2,084,507
Loans to & receivables from other customers	379,839,192	60,019,742	52,443,967	32,307,028	36,000,544	188,467	560,798,940
Other loans & receivables	40,693,392	5,117,789	3,523,067	18,195	-	-	49,352,443
Financial assets - available for sale	66,170,810	7,459,409	151,502	518,562	105,006	2,690,430	77,095,719
Financial assets - held to maturity	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	4,123,185	4,123,185
Total Financial Assets	515,604,262	72,597,065	56,126,872	32,844,936	36,105,550	68,970,301	782,248,986
Financial Liabilities							
Due to banks	2,083,540	1,662,264	-	-	-	997,944	4,743,748
Derivative financial instruments	-	-	-	-	-	103,947	103,947
Securities sold under repurchase agreements	4,042,682	343,653	-	-	-	-	4,386,335
Due to other customers	350,327,888	232,695,968	3,607,073	2,812,940	4,084	36,366,360	625,814,313
Debt issued & other borrowed funds	15,295,116	29,387,153	15,688,863	12,857,199	2,869,909	-	76,098,240
Dividend payable	-	-	-	-	-	99,259	99,259
Other liabilities	-	-	-	-	-	8,262,267	8,262,267
Total Financial Liabilities	371,749,226	264,089,038	19,295,936	15,670,139	2,873,993	45,829,777	719,508,109
Interest Rate Sensitivity Gap	143,855,036	(191,491,973)	36,830,936	17,174,797	33,231,557	23,140,524	62,740,877

(c) Group - as at 31st December 2018

	Up to 3 Months Rs 000	3 - 12 Months Rs 000	1-3 Years Rs 000	3 - 5 Years Rs 000	Over 5 Years Rs 000	Non Interest Bearing Rs 000	Total Rs 000
Financial Assets							
Cash & cash equivalents	124,373	-	-	-	-	19,093,881	19,218,254
Balances with Central Bank of Sri Lanka	-	-	-	-	-	36,557,776	36,557,776
Placements with banks	8,746,926	-	-	-	-	-	8,746,926
Reverse repurchase agreements	2,258,852	-	-	-	-	-	2,258,852
Derivative financial instruments	-	-	-	-	-	1,171,037	1,171,037
Financial assets recognised through profit or loss - measured at fair value	27,647,228	-	-	-	-	73,018	27,720,246
Financial assets at amortised cost							
Loans to & receivables from banks	1,636,617	1,627	6,161	-	-	-	1,644,405
Loans to & receivables from other customers	409,861,410	90,486,126	70,864,087	45,016,139	59,471,074	195,183	675,894,019
Debt and other instruments	54,714,550	54,744,970	5,681,130	5,969,061	-	-	121,109,711
Financial assets - fair value through other comprehensive income	12,731,630	12,312,541	-	3,683	-	2,469,507	27,517,361
Other assets	-	-	-	-	-	5,845,058	5,845,058
Total Financial Assets	517,721,586	157,545,264	76,551,378	50,988,883	59,471,074	65,405,460	927,683,645
Financial Liabilities							
Due to banks	6,262,932	431,981	-	-	-	2,269,944	8,964,857
Derivative financial instruments	-	-	-	-	-	2,952,319	2,952,319
Securities sold under repurchase agreements	13,457,633	251,839	-	-	-	-	13,709,472
Due to other customers	368,529,368	271,653,969	10,550,598	11,729,563	2,483	37,195,059	699,661,040
Debt issued & other borrowed funds	41,674,992	26,066,876	18,536,279	18,275,606	1,806,237	13,555	106,373,545
Dividend payable	-	-	-	-	-	97,462	97,462
Other liabilities	-	-	-	-	-	8,523,975	8,523,975
Total Financial Liabilities	429,924,925	298,404,665	29,086,877	30,005,169	1,808,720	51,052,314	840,282,670
Interest Rate Sensitivity Gap	87,796,661	(140,859,401)	47,464,501	20,983,714	57,662,354	14,353,146	87,400,975

The amounts for the year ended 31st December 2018 have been prepared in accordance with Sri Lanka Accounting Standard - SLFRS 9 (Financial Instruments), whereas prior period amounts have not been restated.

(d) Group - as at 31st December 2017

	Up to 3 Months Rs 000	3 - 12 Months Rs 000	1-3 Years Rs 000	3 - 5 Years Rs 000	Over 5 Years Rs 000	Non Interest Bearing Rs 000	Total Rs 000
Financial Assets							
Cash & cash equivalents	2,052,687	-	-	-	-	20,560,252	22,612,939
Balances with Central Bank of Sri Lanka	-	-	-	-	-	41,100,364	41,100,364
Placements with banks	3,225,025	-	-	-	-	-	3,225,025
Reverse repurchase agreements	1,809,634	583,218	-	-	-	-	2,392,852
Derivative financial instruments	-	-	-	-	-	496,918	496,918
Financial assets - held for trading	20,413,198	-	-	-	-	89,309	20,502,507
Loans to & receivables from banks	2,074,897	125	8,336	1,149	-	-	2,084,597
Loans to & receivables from other customers	384,201,786	67,397,057	61,935,812	36,590,299	36,057,283	188,467	586,370,704
Other loans & receivables	40,693,391	5,117,790	3,523,067	18,195	-	-	49,352,443
Financial assets - available for sale	66,170,810	7,459,409	151,502	518,562	105,006	2,690,486	77,095,775
Financial assets - held to maturity	2,400	5,725	-	4,303	-	-	12,428
Other assets	-	-	-	-	-	4,285,587	4,285,587
Total Financial Assets	520,643,828	80,563,324	65,618,717	37,132,508	36,162,289	69,411,383	809,532,049
Financial Liabilities							
Due to banks	2,160,079	1,662,264	-	-	-	997,944	4,820,287
Derivative financial instruments	-	-	-	-	-	103,947	103,947
Securities sold under repurchase agreements	3,958,682	273,264	-	-	-	-	4,231,946
Due to other customers	354,139,223	235,927,949	4,441,425	3,779,486	4,098	36,349,200	634,641,381
Debt issued & other borrowed funds	24,416,331	30,321,230	18,714,473	14,935,209	2,869,909	-	91,257,152
Dividend payable	-	-	-	-	-	99,259	99,259
Other liabilities	-	-	-	-	-	8,780,888	8,780,888
Total Financial Liabilities	384,674,315	268,184,707	23,155,898	18,714,695	2,874,007	46,331,238	743,934,860
Interest Rate Sensitivity Gap	135,969,513	(187,621,383)	42,462,819	18,417,813	33,288,282	23,080,145	65,597,189

NOTES TO THE FINANCIAL STATEMENTS

51 RISK MANAGEMENT CONTD.

51.4.2 Currency Risk

Currency risk arises as a result of fluctuations in the value of a financial instrument due to changes in foreign exchange rates. The Bank's Board has set limits on positions by currency. In accordance with the Bank's policy, positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within established limits.

The tables below indicate the currencies to which the Bank had significant exposures as at 31st December 2018 and 31st December 2017 and the effect to the gains/losses in case of a market exchange rates increase/decrease by 5 % and 10%. The analysis calculates the effect of a reasonably possible movement of the currency rate against the LKR, with all other variables held constant, on the Statement of Profit or Loss (due to the fair value of currency sensitive non trading monetary assets and liabilities) and equity (due to change in fair value of currency swaps and forward exchange contracts used as cash flow hedges). A negative amount in the "Impact on Statement of Profit or Loss" column of the table reflects a potential net reduction in Statement of Profit or Loss or equity, while a positive amount reflects a net potential increase.

Foreign Exchange Position as at 31st December	2018		2017	
	Net Overall Long Rs 000	Net Overall Short Rs 000	Net Overall Long Rs 000	Net Overall Short Rs 000
Currency				
USD	1,493,221	-	471,139	-
GBP	-	34,666	-	1,249
EUR	-	75,657	39,917	-
JPY	-	10,639	16,112	-
AUD	1,279	-	23,062	-
CAD	8,181	-	5,164	-
CHF	42,423	-	9,321	-
SGD	12,246	-	16,001	-
HKD	6,750	-	8,097	-
Sub Total	1,564,100	120,962	588,813	1,249
Other Currencies	55,273	-	77,668	-
Grand Total	1,619,373	120,962	666,481	1,249
Higher of Long or Short	1,619,373		666,481	

Impact on Statement of Profit or Loss due to Exchange Rate Shocks	2018		2017	
	Net Open Position (after Rate Shocks) Rs 000	Impact on Statement of Profit or Loss for the period ended 31st December Rs 000	Net Open Position (after Rate Shocks) Rs 000	Impact on Statement of Profit or Loss for the period ended 31st December Rs 000
5%	1,700,342	80,969	699,805	33,324
10%	1,781,311	161,938	733,129	66,648
-5%	1,538,405	(80,969)	633,157	(33,324)
-10%	1,457,436	(161,938)	599,833	(66,648)

51.4.3 Equity Price Risk

Equity price risk is the risk that the fair value of equities decreases as a result of changes in the level of equity indices and individual stocks. Investment Committee reviews and approves all equity investment decisions. Further the market value of the Bank's equity portfolio as of 31st December 2018 is Rs 73,017,946/-. (2017: Rs 89,308,497/-).

51.5 Operational Risk

Operational risk is the risk of losses arising from failed internal processes, systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. Strategic and Reputational Risks are not covered in Operational Risk. Operational Risks of the Bank are mitigated and managed through a Board approved Operational Risk Management Policy control framework which consists of monitoring and responding to potential risks such as segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, Business Continuity Planning etc. Operational Risk Management Unit reports to Group Chief Risk Officer and the Board Integrated Risk Management Committee which maintains a high level overall supervision of managing Operational Risks of the Bank.

51.6 Capital Management

The Bank's capital management objectives can be summarised as follows:

- Maintain sufficient capital to meet minimum regulatory capital requirements
- Hold sufficient capital to support the Bank's risk appetite
- Provide additional capital to business segments of the Bank to achieve the overall strategic objectives
- Provide a "cushion" or "buffer" in absorbing potential losses arising from various risks and safeguarding the depositors' funds

Regulatory Capital

The Bank manages its capital considering the regulatory capital requirements. The Central Bank of Sri Lanka (CBSL) sets and monitors capital requirements for licensed commercial banks in Sri Lanka based on the Basel framework. Accordingly Domestic Systemically Important Banks (D-SIB) in Sri Lanka need to maintain minimum Tier I capital adequacy ratio (including capital buffers) of 8.875% and minimum total capital adequacy ratio of 12.875% as at 31st December 2018. The Bank has always maintained the Capital Adequacy Ratio above the minimum regulatory requirements.

NOTES TO THE FINANCIAL STATEMENTS

52 MATURITY ANALYSIS

(a) Maturity Gap Analysis as at 31st December 2018

	Within 12 Months Rs 000	Bank After 12 Months Rs 000	Total Rs 000	Within 12 Months Rs 000	Group After 12 Months Rs 000	Total Rs 000
Assets						
Cash & cash equivalents	19,051,955	-	19,051,955	19,218,254	-	19,218,254
Balances with Central Bank of Sri Lanka	33,768,543	2,789,233	36,557,776	33,768,543	2,789,233	36,557,776
Placements with banks	8,746,926	-	8,746,926	8,746,926	-	8,746,926
Reverse repurchase agreements	500,124	-	500,124	2,258,852	-	2,258,852
Derivative financial instruments	1,171,037	-	1,171,037	1,171,037	-	1,171,037
Financial assets recognised through profit or loss - measured at fair value	27,720,246	-	27,720,246	27,720,246	-	27,720,246
Financial assets at amortised cost						
Loans to & receivables from banks	871,266	773,139	1,644,405	871,265	773,140	1,644,405
Loans to & receivables from other customers	358,163,494	290,205,739	648,369,233	369,936,545	305,957,474	675,894,019
Debt and other instruments	65,371,995	55,733,397	121,105,392	65,371,995	55,737,716	121,109,711
Financial assets - fair value through other comprehensive income	25,044,171	2,473,134	27,517,305	25,044,171	2,473,190	27,517,361
Investment in subsidiaries	-	2,320,429	2,320,429	-	-	-
Property, plant & equipment	-	7,917,993	7,917,993	-	13,601,798	13,601,798
Intangible assets	-	1,137,422	1,137,422	-	1,225,519	1,225,519
Current tax receivables	-	-	-	23,360	-	23,360
Deferred tax assets	-	989,343	989,343	-	989,416	989,416
Other assets	6,010,088	3,465,257	9,475,345	6,615,637	3,490,900	10,106,537
Total Assets	546,419,845	367,805,086	914,224,931	560,746,831	387,038,386	947,785,217
Liabilities						
Due to banks	8,901,463	-	8,901,463	8,964,857	-	8,964,857
Derivative financial instruments	2,952,319	-	2,952,319	2,952,319	-	2,952,319
Securities sold under repurchase agreements	13,732,205	-	13,732,205	13,709,472	-	13,709,472
Due to other customers	641,766,153	48,612,399	690,378,552	648,624,848	51,036,192	699,661,040
Debt issued & other borrowed funds	33,915,599	56,032,807	89,948,406	42,029,007	64,344,538	106,373,545
Dividend payable	97,462	-	97,462	97,462	-	97,462
Current tax liabilities	9,540,868	-	9,540,868	9,682,482	-	9,682,482
Deferred tax liabilities	-	-	-	-	1,536,772	1,536,772
Other liabilities	11,509,255	889,267	12,398,522	11,906,325	906,209	12,812,534
Other provisions	-	1,885,824	1,885,824	-	1,944,080	1,944,080
Total Liabilities	722,415,324	107,420,297	829,835,621	737,966,772	119,767,791	857,734,563
Maturity Gap	(175,995,479)	260,384,789	84,389,310	(177,219,941)	267,270,595	90,050,654
Cumulative Gap	(175,995,479)	84,389,310		(177,219,941)	90,050,654	

The amounts for the year ended 31st December 2018 have been prepared in accordance with Sri Lanka Accounting Standard - SLFRS 9 (Financial Instruments), whereas prior period amounts have not been restated.

(b) Maturity Gap Analysis as at 31st December 2017

	Within 12 Months Rs 000	Bank After 12 Months Rs 000	Total Rs 000	Within 12 Months Rs 000	Group After 12 Months Rs 000	Total Rs 000
Assets						
Cash & cash equivalents	22,334,315	-	22,334,315	22,612,939	-	22,612,939
Balances with Central Bank of Sri Lanka	38,734,375	2,365,989	41,100,364	38,734,375	2,365,989	41,100,364
Placements with banks	3,159,326	-	3,159,326	3,225,025	-	3,225,025
Reverse repurchase agreements	1,200,762	-	1,200,762	2,392,852	-	2,392,852
Derivative financial instruments	496,018	900	496,918	496,018	900	496,918
Financial assets - held for trading	20,502,507	-	20,502,507	20,502,507	-	20,502,507
Loans to & receivables from banks	654,592	1,429,915	2,084,507	654,592	1,429,915	2,084,507
Loans to & receivables from other customers	325,309,271	235,489,669	560,798,940	337,277,073	249,093,631	586,370,704
Other loans & receivables	10,958,210	38,394,233	49,352,443	10,958,210	38,394,233	49,352,443
Financial assets - available for sale	73,630,219	3,465,500	77,095,719	73,630,219	3,465,556	77,095,775
Financial assets - held to maturity	-	-	-	8,125	4,303	12,428
Investment in subsidiaries	-	1,356,075	1,356,075	-	-	-
Property, plant & equipment	-	7,269,942	7,269,942	-	12,631,442	12,631,442
Intangible assets	-	946,845	946,845	-	996,703	996,703
Current tax receivables	-	-	-	6,425	-	6,425
Deferred tax assets	-	-	-	-	401	401
Other assets	4,738,072	2,665,391	7,403,463	5,210,659	2,624,577	7,835,236
Total Assets	501,717,667	293,384,459	795,102,126	515,709,019	311,007,650	826,716,669
Liabilities						
Due to banks	4,743,748	-	4,743,748	4,820,287	-	4,820,287
Derivative financial instruments	103,873	74	103,947	103,873	74	103,947
Securities sold under repurchase agreements	4,386,335	-	4,386,335	4,231,946	-	4,231,946
Due to other customers	592,085,627	33,728,686	625,814,313	599,111,783	35,529,598	634,641,381
Debt issued & other borrowed funds	22,929,774	53,168,466	76,098,240	28,586,811	62,670,341	91,257,152
Dividend payable	99,259	-	99,259	99,259	-	99,259
Current tax liabilities	5,527,323	-	5,527,323	5,630,670	-	5,630,670
Deferred tax liabilities	-	1,353,339	1,353,339	-	2,776,681	2,776,681
Other liabilities	10,681,306	1,060,841	11,742,147	11,870,502	742,027	12,612,529
Other provisions	-	1,583,558	1,583,558	-	1,634,367	1,634,367
Total Liabilities	640,557,245	90,894,964	731,452,209	654,455,131	103,353,088	757,808,219
Maturity Gap	(138,839,578)	202,489,495	63,649,917	(138,746,112)	207,654,562	68,908,450
Cumulative Gap	(138,839,578)	63,649,917		(138,746,112)	68,908,450	

NOTES TO THE FINANCIAL STATEMENTS

53 RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

	Bank		Group	
	Debtures Rs 000	Other Borrowed Funds Rs 000	Debtures Rs 000	Other Borrowed Funds Rs 000
Balance as at 1st January 2017	27,009,027	45,119,210	30,624,287	53,554,945
Net cash flows from financing activities	4,500,000	(318,808)	5,500,000	1,758,093
Non cash changes				
Foreign exchange movements	-	(142,611)	-	(142,611)
Net accrual for interest expense	23,776	(92,354)	67,783	(105,345)
Balance as at 31st December 2017	31,532,803	44,565,437	36,192,070	55,065,082
Balance as at 1st January 2018	31,532,803	44,565,437	36,192,070	55,065,082
Net cash flows from financing activities	2,500,000	4,427,774	2,500,000	5,666,873
Non cash changes				
Foreign exchange movements	-	6,110,723	-	6,110,723
Net accrual for interest expense	264,893	546,776	265,561	573,236
Balance as at 31st December 2018	34,297,696	55,650,710	38,957,631	67,415,914

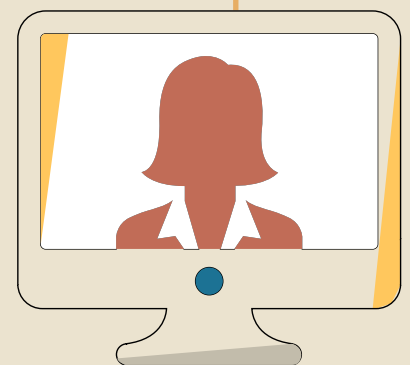
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PURPOSEFUL PERFORMANCE SIMPLIFIED



Virtual Banking Technology

Sampath Bank launched Sri Lanka's first-ever Virtual Teller Machine or VTM in 2018. The VTM offers a range of banking services, including account opening, cash deposits, withdrawals, obtaining personalised debit cards and cheque deposits available 24/7/365. Customers can also connect directly to our Customer Care Centre for real-time information and assistance.

STATEMENT OF PROFIT OR LOSS IN US\$

For the year ended 31st December	Bank		Group	
	2018* US\$ 000	2017 US\$ 000	2018* US\$ 000	2017 US\$ 000
Gross income	630,455	603,192	666,395	634,791
Interest income	535,452	518,728	567,701	546,641
Less: Interest expense	327,395	333,950	344,234	349,265
Net interest income	208,057	184,778	223,467	197,376
Fee & commission income	63,454	61,922	65,162	63,694
Less: Fee & commission expense	9,224	8,791	9,243	8,830
Net fee & commission income	54,230	53,131	55,919	54,864
Net trading (loss) /gain	(12,404)	2,215	(12,404)	2,215
Net gain on financial assets	878	945	879	946
Other operating income	43,075	19,382	45,057	21,295
Total operating income	293,836	260,451	312,918	276,696
Less: Impairment charge	61,360	15,477	66,368	17,157
Net operating income	232,476	244,974	246,550	259,539
Less: Operating expenses				
Personnel expenses	48,313	52,352	52,895	56,690
Other operating expenses	57,247	57,866	60,959	60,701
Total operating expenses	105,560	110,218	113,854	117,391
Operating profit before taxes on financial services	126,916	134,756	132,696	142,148
Less: Taxes on financial services	26,589	26,573	28,151	28,074
Profit before income tax	100,327	108,183	104,545	114,074
Less: Income tax expense	33,938	29,328	35,623	31,451
Profit for the year	66,389	78,855	68,922	82,623
Attributable to:				
Equity holders of the Bank	66,389	78,855	68,922	82,623
Non-controlling interest			-	-
	66,389	78,855	68,922	82,623
Earnings per share : Basic / Diluted (US\$)	0.25	0.37	0.26	0.38
Dividend per share				
Dividend per share: Gross (US\$)	0.09**	0.11		
Dividend per share: Net (US\$)	0.08**	0.10		

* The amounts for the year ended 31st December 2018 have been prepared in accordance with Sri Lanka Accounting Standard - SLFRS 9 (Financial Instruments), whereas prior period amounts have not been restated.

Exchange rate of US\$ was Rs 182.90 as at 31st December 2018 (Rs 153.50 as at 31st December 2017)

** Calculated based on proposed dividend, which is to be approved at the Annual General Meeting.

STATEMENT OF COMPREHENSIVE INCOME IN US\$

For the year ended 31st December	Bank		Group	
	2018* US\$ 000	2017 US\$ 000	2018* US\$ 000	2017 US\$ 000
Profit for the year	66,389	78,855	68,922	82,623
Other comprehensive income				
Items that will be reclassified to profit or loss:				
Financial assets - available for sale:				
Gain arising on re-measurement	n/a	6,630	n/a	6,630
Exchange difference in translation	n/a	70	n/a	70
	n/a	6,700	n/a	6,700
Debt instruments at fair value through other comprehensive income:				
Loss arising on re-measurement	(600)	n/a	(600)	n/a
Reclassification to profit or loss	(37)	n/a	(37)	n/a
Deferred tax effect to the above	62	n/a	62	n/a
	(575)	n/a	(575)	n/a
Net other comprehensive income that will be reclassified to profit or loss	(575)	6,700	(575)	6,700
Items that will not be reclassified to profit or loss:				
Equity instruments at fair value through other comprehensive income:				
Loss arising on re-measurement	(4,011)	n/a	(4,011)	n/a
Exchange difference in translation	889	n/a	889	n/a
Deferred tax effect to the above	(2,530)	n/a	(2,530)	n/a
	(5,652)	n/a	(5,652)	n/a
Actuarial loss on defined benefit plans	(281)	(4,135)	(265)	(4,210)
Deferred tax effect to the above	79	1,158	74	1,178
	(202)	(2,977)	(191)	(3,032)
Surplus from revaluation of property, plant & equipment	-	5,359	-	8,669
Deferred tax effect on revaluation surplus	-	(5,330)	-	(12,320)
	-	29	-	(3,651)
Net other comprehensive income that will not to be reclassified to profit or loss	(5,854)	(2,948)	(5,843)	(6,683)
Other comprehensive income net of tax	(6,429)	3,752	(6,418)	17
Total comprehensive income for the year net of tax	59,960	82,607	62,504	82,640
Attributable to:				
Equity holders of the Bank	59,960	82,607	62,504	82,640
Non-controlling interest	-	-	-	-
	59,960	82,607	62,504	82,640

* The amounts for the year ended 31st December 2018 have been prepared in accordance with Sri Lanka Accounting Standard - SLFRS 9 (Financial Instruments), whereas prior period amounts have not been restated.

Exchange rate of US\$ was Rs 182.90 as at 31st December 2018 (Rs 153.50 as at 31st December 2017)

STATEMENT OF FINANCIAL POSITION IN US\$

As at 31st December	Bank		Group	
	2018* US\$ 000	2017 US\$ 000	2018* US\$ 000	2017 US\$ 000
ASSETS				
Cash & cash equivalents	104,166	145,500	105,075	147,316
Balances with Central Bank of Sri Lanka	199,878	267,755	199,878	267,755
Placements with banks	47,824	20,582	47,824	21,010
Reverse repurchase agreements	2,734	7,823	12,350	15,589
Derivative financial instruments	6,403	3,237	6,403	3,237
Financial assets recognised through profit or loss - measured at fair value	151,560	133,567	151,560	133,567
Financial assets at amortised cost				
Loans to & receivables from banks	8,991	13,580	8,991	13,580
Loans to & receivables from other customers	3,544,938	3,653,413	3,695,429	3,820,005
Debt and other instruments	662,140	321,514	662,164	321,514
Financial assets - fair value through other comprehensive income	150,450	n/a	150,450	n/a
Financial assets - available for sale	n/a	502,252	n/a	502,252
Financial assets - held to maturity	n/a	-	n/a	81
Investment in subsidiaries	12,687	8,834	-	-
Property, plant & equipment	43,291	47,361	74,367	82,290
Intangible assets	6,219	6,168	6,700	6,493
Current tax receivables	-	-	128	42
Deferred tax assets	5,409	-	5,410	3
Other assets	51,806	48,231	55,257	51,044
Total Assets	4,998,496	5,179,817	5,181,986	5,385,778
LIABILITIES				
Due to banks	48,668	30,904	49,015	31,403
Derivative financial instruments	16,142	677	16,142	677
Securities sold under repurchase agreements	75,080	28,575	74,956	27,570
Due to other customers	3,774,623	4,076,966	3,825,375	4,134,472
Debt issued & other borrowed funds	491,790	495,754	581,594	594,509
Dividend payable	533	647	533	647
Current tax liabilities	52,164	36,009	52,939	36,682
Deferred tax liabilities	-	8,816	8,402	18,089
Other liabilities	67,789	76,495	70,052	82,167
Other provisions	10,311	10,316	10,629	10,647
Total Liabilities	4,537,100	4,765,159	4,689,637	4,936,863
EQUITY				
Stated capital	179,311	106,239	179,311	106,239
Reserves				
Statutory reserve	18,972	18,632	19,732	19,368
Other reserves	232,257	250,227	246,932	267,713
Retained earnings	30,856	39,560	46,374	55,595
Total equity attributable to equity holders of the Bank	461,396	414,658	492,349	448,915
Non-controlling interest	-	-	-	-
Total Equity	461,396	414,658	492,349	448,915
Total Liabilities & Equity	4,998,496	5,179,817	5,181,986	5,385,778
Commitments & contingencies	2,155,786	2,498,411	2,137,235	2,502,040
Net asset value per share (US\$)	1.64	1.91	1.75	2.07

* The amounts for the year ended 31st December 2018 have been prepared in accordance with Sri Lanka Accounting Standard - SLFRS 9 (Financial Instruments), whereas prior period amounts have not been restated.

Exchange rate of US\$ was Rs 182.90 as at 31st December 2018 (Rs 153.50 as at 31st December 2017)

ECONOMIC VALUE ADDITION

ECONOMIC VALUE ADDITION - BANK

The economic value created by the Bank to its shareholders during the year is reflected in the below analysis.

For the year ended 31st December	2018 Rs Mn	2017 Rs Mn
Average shareholders' funds	74,020	54,069
Impairment Provision	22,050	8,643
	96,070	62,712
Profit attributable to shareholders	12,143	12,104
Impairment charge	11,223	2,376
Amounts written off - loans & other losses	(279)	(1,116)
	23,087	13,364
Economic cost (12 months average Treasury Bill rate plus 2% risk premium)	11.8%	12.1%
Economic cost	11,313	7,565
Economic value addition	11,774	5,799

DIRECT ECONOMIC VALUE GENERATED & DISTRIBUTED - BANK

Information on the creation and distribution of economic value provides a basic indication of how the Bank has created wealth for stakeholders.

For the year ended 31st December	2018 Rs Mn	2017 Rs Mn
Direct Economic Value Generated		
Interest income	97,934	79,625
Foreign exchange income	5,491	3,132
Commission income	11,606	9,505
Investment income	321	266
Other income	121	98
	115,473	92,626
Economic Value Distributed		
To Depositors and Lenders		
Interest expense	55,749	48,356
	55,749	48,356
Operating Costs		
Depreciation & amortisation	1,100	893
Fee & commission expense	1,687	1,349
Other operating expense	9,227	7,822
	12,014	10,064
To Employees		
Salaries	5,953	5,092
Other benefits	2,883	2,944
	8,836	8,036
Payments to Government		
Income tax expense	8,160	4,662
Taxes on financial services	4,863	4,079
Crop insurance levy	113	125
	13,136	8,866
To Community		
Social responsibility projects	27	40
Donations	4	2
	31	42
Payments to Providers of Capital		
Interest to debenture holders	4,131	2,905
Dividend to shareholders	4,565	4,598
	8,696	7,503
Economic Value Distributed	98,462	82,867
Economic Value Retained (after payment of dividend to shareholders)	17,011	9,759
	115,473	92,626

TEN YEARS AT A GLANCE

For the year ended 31st December	SLAS					SLFRS				
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018*
Operating results (Rs Mn)										
Gross income	25,213	24,333	27,577	38,796	47,509	44,597	47,032	67,585	92,590	115,310
Interest income	20,970	18,477	21,111	31,882	41,892	38,059	37,944	56,529	79,625	97,934
Interest expenses	13,165	9,953	12,168	20,269	26,556	22,335	20,542	33,776	51,261	59,880
Net interest income	7,805	8,525	8,943	11,613	15,336	15,724	17,402	22,754	28,363	38,054
Exchange income	774	498	837	2,154	520	1,283	2,466	2,589	3,132	5,491
Other income	3,469	5,357	4,792	4,105	4,901	4,387	5,421	7,002	8,484	10,198
Total operating income	12,048	14,380	14,572	17,872	20,757	21,394	25,288	32,344	39,979	53,743
Operating expenses	5,484	6,320	8,059	9,248	10,634	11,729	13,339	15,471	16,918	19,307
Impairment charge	1,203	1,944	618	65	4,736	1,401	944	1,460	2,376	11,223
Profit before income tax	3,976	4,502	4,994	7,401	4,491	6,727	9,101	12,600	16,606	18,350
Income tax expense	1,878	1,199	1,606	2,170	1,061	1,813	2,967	3,475	4,502	6,207
Profit after tax	2,098	3,303	3,388	5,231	3,430	4,914	6,134	9,125	12,104	12,143
As at 31st December										
Assets (Rs Mn)										
Cash & cash equivalents including placements	5,868	6,048	16,073	19,220	10,094	13,348	18,781	25,814	25,494	27,799
Loans & advances	98,685	-	-	-	-	-	-	-	-	-
Loans to & receivables from banks	-	-	442	816	638	935	1,651	2,642	2,085	1,644
Loans to & receivables from other customers	-	124,067	169,681	208,184	259,402	301,435	375,697	456,189	560,799	648,369
Investment in associates & subsidiaries	992	992	1,055	1,060	1,060	1,060	1,080	1,228	1,356	2,320
Property, plant & equipment	3,420	4,278	4,528	4,560	5,135	5,142	5,313	5,972	7,270	7,918
Other assets	47,197	55,929	55,879	75,570	105,713	110,106	122,755	166,667	198,098	226,175
Total assets	156,162	191,314	247,658	309,410	382,042	432,026	525,277	658,512	795,102	914,225
Liabilities (Rs Mn)										
Due to banks & other customers (deposits only)	126,091	153,310	195,900	243,575	302,429	341,946	409,411	516,273	630,442	698,085
Refinance borrowings	4,819	-	-	-	-	-	-	-	-	-
Other liabilities evidenced by paper	3,102	-	-	-	-	-	-	-	-	-
Borrowings from banks & debt issued and other borrowed funds	-	8,702	20,225	29,206	39,194	36,846	57,347	72,446	76,215	91,143
Other liabilities	10,304	8,311	10,189	10,985	12,000	22,322	23,394	25,304	24,795	40,608
Total liabilities	144,316	170,323	226,314	283,766	353,623	401,114	490,152	614,023	731,452	829,836
Shareholders' Fund (Rs Mn)										
Stated capital	1,582	1,786	2,744	3,564	4,460	4,470	5,381	6,471	16,308	32,796
Reserves	10,265	19,204	18,600	22,080	23,958	26,442	29,744	38,018	47,342	51,593
Investor Information										
Dividend paid / proposed (Rs Mn)	473.6	1,235.8	1,427.0	1,954.1	1,342.6	1,847.0	2,240.0	3,362.1	4,598.4	4,564.7
Dividend cover (times)	4.4	2.7	2.4	2.6	2.6	2.6	2.7	2.7	2.6	2.7
Net asset value per share (Rs)	77.52	131.18	129.00	152.96	169.37	179.39	198.47	238.94	293.02	300.42
Market price per share (Rs) - High	205.00	550.00	307.00	216.00	242.00	252.00	279.90	268.70	352.20	335.50
Market price per share (Rs) - Low	65.00	201.00	191.00	148.50	161.60	164.20	235.20	210.00	253.50	218.00
Market price as at 31st December (Rs)	204.25	271.90	195.00	200.50	171.90	236.30	248.00	260.40	315.70	235.00
Other Information										
Exchange rate (USD)	114.47	110.95	113.90	127.65	130.75	131.20	144.20	150.00	153.50	182.90
Number of staff as at 31st December	2,388	2,688	3,230	3,455	3,688	4,000	3,993	3,960	4,011	4,189
Number of branches as at 31st December	131	171	206	209	212	220	225	229	229	229
Ratios										
Growth in income (%)	13.4	(3.5)	13.3	40.7	22.5	(6.1)	5.5	43.7	37.0	24.5
Cost to income ratio with VAT, NBT & DRL on financial services (%)	57.0	55.8	61.5	58.2	55.5	62.0	60.3	56.5	52.5	45.0
Cost to income ratio without VAT, NBT & DRL on financial services (%)	45.5	44.0	55.3	51.7	51.2	54.8	52.7	47.8	42.3	35.9
Growth in deposits (%)	17.5	19.4	27.8	24.3	24.2	13.1	19.7	26.1	22.1	10.7
Growth in advances (%)	3.2	30.3	37.1	22.9	24.4	16.3	24.8	21.6	22.7	15.5
Dividend per share (Rs)	6.25	8.09	9.00	12.00	8.00	11.00	13.00	18.75	17.20	16.25
Return on average assets (before tax) (%)	2.70	2.64	2.60	2.66	1.29	1.69	1.90	2.14	2.29	2.13
Return on average assets (after tax) (%)	1.42	1.94	1.55	1.88	0.98	1.23	1.28	1.55	1.67	1.41
Return on average equity (after tax) (%)	19.41	24.59	16.17	22.26	12.88	16.35	18.42	23.47	23.35	16.02
Property, plant & equipment to shareholders' fund (%)	28.9	20.4	21.2	17.8	18.1	16.6	15.1	13.4	11.4	9.4
Total assets to shareholders' fund (Times)	13.2	9.1	11.6	12.1	13.4	14.0	15.0	14.8	12.5	10.8
Liquid assets ratio										
- Domestic Banking Unit (%)	30.2	25.9	22.8	21.5	27.2	24.4	21.8	21.2	22.2	21.5
- Off-Shore Banking Unit (%)	29.6	36.8	58.4	23.7	30.4	23.8	27.2	33.4	24.9	25.8
(As specified in Banking Act No. 30 of 1988 & any subsequent amendments thereto)										
Capital adequacy ratios										
	Basel II					Basel III				
- Common equity Tier I (%)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	10.26	12.08
- Total Tier I (%)	10.40	10.71	10.24	11.80	10.08	8.83	7.90	8.31	10.26	12.08
- Total capital (Tier I + Tier II) (%)	13.45	12.91	11.45	13.61	14.22	13.62	12.26	12.87	14.41	15.73

* The amounts for the year ended 31st December 2018 have been prepared in accordance with Sri Lanka Accounting Standard - SLFRS 9 (Financial Instruments), whereas prior period amounts have not been restated.

QUARTERLY STATISTICS

As at	2018				2017			
	*31st December Rs Mn	30th September Rs Mn	30th June Rs Mn	31st March Rs Mn	31st December Rs Mn	30th September Rs Mn	30th June Rs Mn	31st March Rs Mn
Statement of Financial Position								
Total assets	914,225	890,407	865,610	846,457	795,102	752,771	725,280	692,120
Loans to & receivables from banks	1,644	2,087	1,920	2,173	2,085	2,247	2,437	2,672
Loans to & receivables from other customers	648,369	629,362	615,863	602,286	560,799	536,169	512,370	485,914
Due to other customers	690,379	671,352	670,468	643,731	625,814	605,842	571,398	537,526
Total equity	84,389	84,177	81,335	65,381	63,650	53,450	50,482	47,131
For the quarter ended								
	*31st December Rs Mn	30th September Rs Mn	30th June Rs Mn	31st March Rs Mn	31st December Rs Mn	30th September Rs Mn	30th June Rs Mn	31st March Rs Mn
Statement of Profit or Loss								
Net interest income	10,901	9,499	9,355	8,299	7,912	7,303	6,811	6,337
Net fee & commission income	2,638	2,568	2,412	2,302	2,285	2,078	1,854	1,939
Net trading (loss) / gain	(833)	(1,236)	(30)	(169)	49	251	46	(6)
Net gain on financial assets	14	14	9	123	1	8	136	-
Other operating income	2,643	2,838	1,122	1,274	636	539	1,024	776
Total operating income	15,363	13,683	12,868	11,829	10,883	10,179	9,871	9,046
Less: Impairment charge	4,629	3,753	1,743	1,098	261	760	655	700
Net operating income	10,734	9,930	11,125	10,731	10,622	9,419	9,216	8,346
Less: Total operating expenses	5,233	4,602	4,799	4,673	4,705	4,346	3,917	3,950
Taxes on finance services	1,394	1,055	1,230	1,184	1,148	1,020	1,006	905
Income tax expenses	1,578	1,503	1,563	1,564	1,127	1,296	928	1,151
Profit for the period	2,529	2,770	3,533	3,310	3,642	2,757	3,365	2,340
Other comprehensive income for the period	(200)	73	(112)	(936)	(1,045)	211	(14)	1,424
Total comprehensive income for the period	2,329	2,843	3,421	2,374	2,597	2,968	3,351	3,764

* The Sri Lanka Accounting Standard – SLFRS 9 (Financial Instruments) is effective for annual periods beginning on or after 01st January 2018. However, as permitted by the Statement of Alternative Treatment (SoAT) of CA Sri Lanka, the Bank prepared the interim financial statements for the first three quarters of the year 2018 continuing the application of LKAS 39 (Financial Instruments: Recognition and Measurement). Interim financial statements for the fourth quarter is prepared applying SLFRS 9 and hence the resultant additional provisions have been charged to the fourth quarter.

QUARTERLY STATISTICS

For the quarter ended	2018			2017			
	31st December	30th September	30th June	31st March	30th September	30th June	31st March
Market price per share (Rs)							
Highest	247.00	304.90	320.00	335.50	311.00	300.00	285.00
Lowest	218.00	236.30	294.00	289.00	266.20	253.50	256.00
Closing	235.00	239.90	303.10	300.00	308.50	286.40	259.00
As at							
	*31st December	30th September	30th June	31st March	30th September	30th June	31st March
Profitability							
Interest margin (%)	4.41	4.27	4.26	4.10	3.91	3.87	3.81
Return on assets (before tax) (%)	2.13	2.24	2.41	2.41	2.29	2.24	2.10
Return on equity (after tax) (%)	16.02	17.46	19.68	20.81	23.35	23.14	20.72
Basel III							
Common Equity Tier 1 Capital Ratio (%)	12.08	11.88	12.25	9.48	10.26	8.46	n/a
Tier 1 Capital Ratio (%)	12.08	11.88	12.25	9.48	10.26	8.46	n/a
Total Capital Ratio (%)	15.73	15.92	16.70	14.42	14.41	11.85	n/a
Basel II							
Core Capital Adequacy Ratio (%)	n/a	n/a	n/a	n/a	n/a	n/a	7.68
Total Capital Adequacy Ratio (%)	n/a	n/a	n/a	n/a	n/a	n/a	11.93
Assets Quality							
Gross NPA ratio (%)	3.69	4.25	2.96	1.95	1.64	1.74	1.73
Net NPA ratio (%)	2.39	3.12	1.97	1.02	0.75	0.84	0.73
Regulatory Liquidity							
Domestic Banking Unit (%)	21.50	21.17	21.64	21.18	22.22	21.15	21.43
Off-Shore Banking Unit (%)	25.78	24.28	29.39	28.76	24.90	24.51	28.36
Liquidity Coverage Ratio (%) - Rupee	125.03	122.20	157.98	127.65	133.52	122.23	124.04
Liquidity Coverage Ratio (%) - All Currency	125.42	100.08	119.45	100.01	118.81	104.01	94.18

* The Sri Lanka Accounting Standard – SLFRS 9 (Financial Instruments) is effective for annual periods beginning on or after 01st January 2018. However, as permitted by the Statement of Alternative Treatment (SoAT) of CA Sri Lanka, the Bank prepared the interim financial statements for the first three quarters of the year 2018 continuing the application of LKAS 39 (Financial Instruments: Recognition and Measurement). Interim financial statements for the fourth quarter is prepared applying SLFRS 9 and hence the resultant additional provisions have been charged to the fourth quarter.

CAPITAL ADEQUACY

Capital Adequacy is one of the key financial indicators which illustrates the soundness and the stability of a bank. The Capital Adequacy Ratio is a measure used to determine if the Bank has sufficient capital to withstand unexpected losses arising from various risks during the course of business, such as credit risk, market risk, operational risk etc. Thus the Capital Adequacy acts as a “cushion” or “buffer” in absorbing potential losses arising from these risks and safeguarding the depositors’ funds.

At present, Capital Adequacy Ratios of the licensed banks in Sri Lanka are computed based on the Banking Act Direction No. 1 of 2016 issued by Central Bank of Sri Lanka (CBSL) based on the “Basel III Accord: Global Regulatory Framework for More Resilient Banks and Banking System”. The Basel III Accord was issued by the Basel Committee on Banking Supervision (BCBS) of the Bank for International Settlement (BIS) in December 2010 (Revised in June 2011).

INTRODUCTION TO “BASEL III ACCORD”

In the aftermath of 2008/2009 financial crisis, the BCBS agreed on reforms to strengthen global capital and liquidity rules with the goal of promoting a more resilient banking sector, giving rise to the Basel III accord. This Accord is in effect a regulatory response to strengthen the resilience of banks, with the objective of minimising the possibility of occurrence of a financial crisis.

Under the Basel III framework, banks are required to compute Capital Adequacy Ratios (CARs) in three tiers as mentioned below,

- Common Equity Tier I (CET I) Capital Ratio
- Total Tier I Capital Ratio
- Total Capital Ratio

BASEL III TRANSITION PHASE-IN-ARRANGEMENT OF CAPITAL REQUIREMENT

The calibration of capital framework and transitional phased-in-arrangement of Basel III capital adequacy requirement for Domestic Systemically Important Banks (DSIBs) in Sri Lanka is tabulated below:

Components of Capital	Standard in Force		
	01.07.2017	01.01.2018	01.01.2019
Common Equity Tier I (CET I) Capital Ratio with Buffers (CCB & D-SIBs)	6.25%	7.375%	8.50%
Total Tier I Capital Ratio with Buffers (CCB & D-SIBs)	7.75%	8.875%	10.00%
Total Capital Ratio with Buffers (CCB & D-SIBs)	11.75%	12.875%	14.00%

TIER I CAPITAL

Tier I Capital consists of followings,

- Common Equity Tier I capital (CET I)
- Additional Tier I capital (AT I)

The Common Equity Tier I capital mainly consists of stated capital, other capital and revenue reserves. CET I is the element of capital which has the highest quality and the most effective in absorbing losses.

The Additional Tier I (AT I) capital is a supplementary form of Total Tier I capital. AT I includes capital instruments other than the instruments included in CET I capital.

CAPITAL BUFFERS

Basel III has introduced new capital buffers as mentioned below:

- Capital Conservation Buffer (CCB)
- Surcharge for Domestic Systemically Important Banks (D-SIBs) (Banks with total assets of Rs 500 Bn and above)
- Countercyclical Buffer

All banks are required to hold additional capital buffers over & above the minimum CET I & Total Capital Adequacy levels.

TIER II CAPITAL

Tier II Capital includes revaluation reserve approved by CBSL, general loan loss provision, and subordinated term debts approved by CBSL.

RISK WEIGHTED ASSETS (RWA)

Risk Weighted Assets are a measure of the value of the bank’s assets and off-balance sheet exposures, weighted according to their risks, with each asset class assigned a different risk weightage.

THE THREE PILLARS UNDER THE BASEL III FRAMEWORK

Three pillars introduced under the Basel II regime continue to be applied in the Basel III regime as mentioned below,

Pillar 1 - Minimum Capital Requirement

Pillar 2 - Supervisory Review Process

Pillar 3 - Market Discipline

PILLAR 1 - MINIMUM CAPITAL REQUIREMENT

Pillar-1 deals with maintenance of regulatory capital needed to support the banks’ three major risk categories, namely: credit risk, market risk and operational risk.

Pillar 1 capital requirements shall be maintained as a percentage of Risk Weighted Assets (RWA) calculated based on the following approaches:

- The Standardised Approach for Credit Risk
- The Standardised Measurement Method for Market Risk
- The Basic Indicator Approach, the Standardised Approach or the Alternative Standardised Approach (ASA) for Operational Risk

PILLAR 2 – SUPERVISORY REVIEW PROCESS

Pillar - 2 sets forth the framework for the Supervisory Review Process (SRP) to assess the banks’ capital adequacy and to determine whether a bank should hold additional capital to cover risks that are not covered or adequately covered by the minimum capital

CAPITAL ADEQUACY

requirements under Pillar I. The process encourages banks to:

- Utilise better risk management techniques
- Enhance the risk-based supervision in order to accurately assess the capital adequacy
- Continuously evaluate the banks' Internal Capital Adequacy Assessment Process (ICAAP) to determine the level of capital to be maintained against all risks and ensure adequate capital is available to support all risks.

PILLAR 3 - MARKET DISCIPLINE

Pillar - 3 presents a number of disclosure requirements aimed at raising the level of market discipline by increasing the level of transparency. Pillar 3 disclosures give external stakeholders a better understanding of capital adequacy calculations by providing an insight into the internal computation procedures followed within the bank. Disclosures under these requirements broadly include; the regulatory capital requirements and liquidity, risk weighted assets, linkages between financial statements and regulatory exposures.

Shown below are the Basel III disclosures with regard to regulatory capital, liquidity and risk management linkages with the published financial statements along with comparative information (individual and consolidated).

BASEL III DISCLOSURE REQUIREMENTS

TABLE - 1 : KEY REGULATORY RATIOS AS AT 31ST DECEMBER - CAPITAL AND LIQUIDITY

Item	Bank		Group	
	2018	2017	2018	2017
Regulatory Capital (Rs 000)				
Common Equity Tier I Capital	79,238,528	57,623,760	84,151,213	60,632,711
Total Tier I Capital	79,238,528	57,623,760	84,151,213	60,632,711
Total Capital	103,161,168	80,909,517	108,866,759	85,126,976
Regulatory Capital Ratios (%)				
Common Equity Tier I Capital Ratio (minimum requirement - 2018 : 7.375%, 2017 : 6.25%)	12.08	10.26	12.13	10.21
Tier I Capital Ratio (minimum requirement - 2018 : 8.875%, 2017 : 7.75%)	12.08	10.26	12.13	10.21
Total Capital Ratio (minimum requirement - 2018 : 12.875%, 2017 : 11.75%)	15.73	14.41	15.69	14.33
Regulatory Liquidity				
Statutory Liquid Assets (Rs 000) - Bank	173,516,297	157,291,328	n/a	n/a
Statutory Liquid Assets Ratio (minimum requirement - 20%)				
Domestic Banking Unit (%)	21.50	22.22	n/a	n/a
Off-Shore Banking Unit (%)	25.78	24.90	n/a	n/a
Total Stock of High - Quality Liquid Assets (Rs 000)	111,973,104	106,340,392	n/a	n/a
Liquidity Coverage Ratio (%) – Rupee (minimum requirement - 2018 : 90%, 2017 : 80%)	125.03	133.52	n/a	n/a
Liquidity Coverage Ratio (%) – All currency (minimum requirement - 2018 : 90%, 2017 : 80%)	125.42	118.81	n/a	n/a

TABLE - 2 : BASEL III COMPUTATION OF CAPITAL RATIOS AS AT 31ST DECEMBER

Item	Bank		Group	
	2018 Rs 000	2017 Rs 000	2018 Rs 000	2017 Rs 000
Common Equity Tier I (CET I) Capital after adjustments	79,238,528	57,623,760	84,151,213	60,632,711
Common Equity Tier I (CET I) Capital	82,227,786	58,677,652	85,647,361	61,647,651
Stated capital	32,795,952	16,307,722	32,795,952	16,307,722
Statutory reserves	3,470,000	2,860,000	3,609,000	2,973,000
Published retained earnings/(Accumulated retained losses)	6,922,653	5,756,827	10,203,227	8,613,825
Published accumulated other comprehensive income (OCI)	129,280	52,078	129,280	52,078
General and other disclosed reserves	38,909,901	33,701,025	38,909,902	33,701,026
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 CET I Capital	2,989,258	1,053,892	1,496,148	1,014,940
Goodwill (net)	-	-	-	-
Intangible assets (net)	1,137,422	946,845	1,225,519	996,703
Deferred tax assets (net)	989,343	-	-	-
Others (Investments in the capital of banking & financial institutions)	862,493	107,047	270,629	18,237
Additional Tier I (AT I) Capital after adjustments	-	-	-	-
Additional Tier I (AT I) Capital	-	-	-	-
Qualifying Additional Tier I Capital instruments	-	-	-	-
Instruments issued by consolidated banking and financial subsidiaries of the Bank and held by third parties	-	-	-	-
Total adjustments to AT I Capital	-	-	-	-
Investment in own shares	-	-	-	-
Others (specify)	-	-	-	-
Tier II Capital after adjustments	23,922,640	23,285,757	24,715,546	24,494,264
Tier II Capital	23,922,640	23,285,757	24,715,546	24,494,264
Qualifying Tier II capital instruments	20,574,135	20,320,767	21,367,041	21,529,274
Revaluation gains	453,703	453,703	453,703	453,703
Loan loss provisions	2,894,802	2,511,287	2,894,802	2,511,287
Instruments issued by consolidated banking and financial subsidiaries of the Bank and held by third parties	-	-	-	-
Total adjustments to Tier II	-	-	-	-
Investment in own shares	-	-	-	-
Others (specify)	-	-	-	-
CET I Capital	79,238,528	57,623,760	84,151,213	60,632,711
Total Tier I Capital	79,238,528	57,623,760	84,151,213	60,632,711
Total Capital	103,161,168	80,909,517	108,866,759	85,126,976
Total Risk Weighted Assets (RWA)	655,869,274	561,583,770	693,801,164	594,068,734
RWAs for Credit Risk (refer table No. 3)	622,589,204	533,061,406	656,982,044	562,707,814
RWAs for Operational Risk (refer table No. 5)	28,669,934	24,969,975	32,208,984	27,808,531
RWAs for Market Risk (refer table No. 6)	4,610,136	3,552,389	4,610,136	3,552,389
CET I Capital Ratio (including Capital Conservation Buffer, Countercyclical Capital Buffer & Surcharge on D-SIBs) (%)	12.08	10.26	12.13	10.21
of which: Capital Conservation Buffer (%)	1.88	1.25	1.88	1.25
of which: Countercyclical Buffer (%)	-	-	-	-
of which: Capital Surcharge on D-SIBs (%)	1.00	0.50	1.00	0.50
Total Tier I Capital Ratio (%)	12.08	10.26	12.13	10.21
Total Capital Ratio (including Capital Conservation Buffer, Countercyclical Capital Buffer & Surcharge on D-SIBs) (%)	15.73	14.41	15.69	14.33
of which: Capital Conservation Buffer (%)	1.88	1.25	1.88	1.25
of which: Countercyclical Buffer (%)	-	-	-	-
of which: Capital Surcharge on D-SIBs (%)	1.00	0.50	1.00	0.50

CAPITAL ADEQUACY

TABLE - 3 (A) BANK : CREDIT RISK AS AT 31ST DECEMBER 2018 UNDER STANDARDISED APPROACH – CREDIT RISK EXPOSURES AND CREDIT RISK MITIGATION (CRM) EFFECTS

Asset Class	Exposures before Credit Conversion Factor (CCF) and CRM		Exposures post CCF and CRM		RWA and RWA density	
	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA density
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	(%)
Claims on central government and CBSL	167,376,981	-	167,376,981	-	10,970,132	7
Claims on public sector entities	492,300	1,716,404	492,300	1,340,508	1,832,808	100
Claims on banks exposures	14,918,664	2,200,000	14,918,664	2,200,000	6,865,288	40
Claims on financial institutions	43,118,097	1,113,883	43,118,097	1,112,941	24,350,525	55
Claims on corporates	334,188,191	360,845,484	334,188,191	48,463,925	376,760,336	98
Retail claims	173,282,348	7,200,388	173,282,348	3,992,738	128,841,800	73
Claims secured by residential property	43,729,306	-	43,729,306	-	36,011,626	82
Non-performing assets (NPAs)	18,839,046	-	18,839,046	-	26,002,665	138
Higher-risk categories	801,010	-	801,010	-	2,002,526	250
Cash items and other assets	68,394,399	-	24,120,546	-	8,951,498	37
	865,140,342	373,076,159	820,866,489	57,110,112	622,589,204	71

TABLE - 3 (B) GROUP : CREDIT RISK AS AT 31ST DECEMBER 2018 UNDER STANDARDISED APPROACH – CREDIT RISK EXPOSURES AND CREDIT RISK MITIGATION (CRM) EFFECTS

Asset Class	Exposures before Credit Conversion Factor (CCF) and CRM		Exposures post CCF and CRM		RWA and RWA density	
	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA density
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	(%)
Claims on central government and CBSL	169,140,028	-	169,140,028	-	10,970,132	6
Claims on public sector entities	492,300	1,716,404	492,300	1,340,508	1,832,808	100
Claims on banks exposures	14,927,767	2,200,000	14,927,767	2,200,000	6,868,614	40
Claims on financial institutions	37,892,289	1,113,883	37,892,289	1,112,941	21,757,891	56
Claims on corporates	365,166,834	360,845,484	365,166,834	48,463,925	407,738,978	99
Retail claims	173,282,348	7,200,388	173,282,348	3,992,738	128,841,800	73
Claims secured by residential property	43,729,306	-	43,729,306	-	36,011,626	82
Non-performing assets (NPAs)	19,709,223	-	19,709,223	-	27,307,931	139
Higher-risk categories	-	-	-	-	-	-
Cash items and other assets	75,255,032	-	30,981,179	-	15,652,264	51
	899,595,127	373,076,159	855,321,274	57,110,112	656,982,044	72

TABLE - 4 (A) BANK : CREDIT RISK AS AT 31ST DECEMBER 2018 (POST CCF & CRM) UNDER STANDARDISED APPROACH : EXPOSURES BY ASSET CLASSES AND RISK WEIGHTS

Asset Classes	Risk Weight										Total credit exposures amount Rs 000	
	0%	20%	50%	60%	75%	100%	150%	>150%	Rs 000			
Claims on central government and CBSL	112,526,322	54,850,659	-	-	-	-	-	-	-	-	-	167,376,981
Claims on public sector entities	-	-	-	-	-	1,832,808	-	-	-	-	-	1,832,808
Claims on banks exposures	-	7,600,387	8,346,134	-	-	1,172,143	-	-	-	-	-	17,118,664
Claims on financial institutions	-	3,527,074	34,117,707	-	-	6,586,257	-	-	-	-	-	44,231,038
Claims on corporates	-	4,627,123	5,196,296	-	-	372,012,566	816,131	-	-	-	-	382,652,116
Retail claims	22,382,067	2,551,449	-	11,087,153	78,300,797	62,953,620	-	-	-	-	-	177,275,086
Claims secured by residential property	-	-	15,435,359	-	-	28,293,947	-	-	-	-	-	43,729,306
Non-performing assets (NPAs)	-	-	21,440	-	-	4,468,928	14,348,678	-	-	-	-	18,839,046
Higher-risk categories	-	-	-	-	-	-	-	-	-	801,010	-	801,010
Cash items and other assets	15,011,247	197,250	-	-	-	8,912,049	-	-	-	-	-	24,120,546
	149,919,636	73,353,942	63,116,936	11,087,153	78,300,797	486,232,318	15,164,809	801,010	-	-	-	877,976,601

TABLE - 4 (B) GROUP : CREDIT RISK AS AT 31ST DECEMBER 2018 (POST CCF & CRM) UNDER STANDARDISED APPROACH : EXPOSURES BY ASSET CLASSES AND RISK WEIGHTS

Asset Classes	Risk Weight										Total credit exposures amount Rs 000	
	0%	20%	50%	60%	75%	100%	150%	>150%	Rs 000			
Claims on central government and CBSL	114,289,369	54,850,659	-	-	-	-	-	-	-	-	-	169,140,028
Claims on public sector entities	-	-	-	-	-	1,832,808	-	-	-	-	-	1,832,808
Claims on banks exposures	-	7,605,924	8,348,830	-	-	1,173,013	-	-	-	-	-	17,127,767
Claims on financial institutions	-	3,527,074	28,851,359	-	-	6,626,797	-	-	-	-	-	39,005,230
Claims on corporates	-	4,627,123	5,196,296	-	-	402,991,209	816,131	-	-	-	-	413,630,759
Retail claims	22,382,067	2,551,449	-	11,087,153	78,300,797	62,953,620	-	-	-	-	-	177,275,086
Claims secured by residential property	-	-	15,435,359	-	-	28,293,947	-	-	-	-	-	43,729,306
Non-performing assets (NPAs)	-	-	21,440	-	-	4,468,928	15,218,855	-	-	-	-	19,709,223
Higher-risk categories	-	-	-	-	-	-	-	-	-	-	-	-
Cash items and other assets	15,171,114	197,250	-	-	-	15,612,815	-	-	-	-	-	30,981,179
	151,842,550	73,359,479	57,853,284	11,087,153	78,300,797	523,953,137	16,034,986	801,010	-	-	-	912,431,386

TABLE - 5 : OPERATIONAL RISK FOR THE PERIOD ENDED 31ST DECEMBER 2018 UNDER THE ALTERNATIVE STANDARDISED APPROACH

Business lines	Bank				Group					
	Capital charge factor	Fixed factor	Gross income/Average loans & advances 1st Year Rs 000	2nd Year Rs 000	3rd Year Rs 000	Capital charge factor	Fixed factor	Gross income/Average loans & advances 1st Year Rs 000	2nd Year Rs 000	3rd Year Rs 000
The Alternative Standardised Approach										
Corporate finance	18%		1,536,935	2,145,909	3,089,486	18%		1,536,935	2,145,909	3,089,486
Trading and sales	18%		3,501,194	4,194,261	5,350,739	18%		5,113,376	6,687,222	8,839,807
Payment and settlement	18%		1,680	2,793	4,603	18%		1,680	2,793	4,603
Agency services	15%		5,404	6,117	4,293	15%		5,404	6,117	4,293
Asset management	12%		-	-	-	12%		-	-	-
Retail brokerage	12%		-	-	-	12%		-	-	-
Retail banking	12%	3.50%	191,485,574	233,051,857	280,851,368	12%	3.50%	191,485,574	233,051,857	280,851,368
Commercial banking	15%	3.50%	157,389,080	202,489,014	251,660,060	15%	3.50%	157,389,080	202,489,014	251,660,060
Capital charge for Operational Risk (Rs 000)			3,691,254					4,146,907		
Risk Weighted Amount for Operational Risk (Rs 000)			28,669,934					32,208,984		

TABLE - 6 : MARKET RISK AS AT 31ST DECEMBER 2018 UNDER STANDARDISED MEASUREMENT METHOD

Item	Bank Rs 000	Group Rs 000
(a) Capital Charge for Interest Rate Risk	356,528	356,528
General interest rate risk	356,528	356,528
Net long or short position	356,528	356,528
Specific interest rate risk	-	-
(b) Capital Charge for Equity	16,048	16,048
General equity risk	9,401	9,401
Specific equity risk	6,647	6,647
(c) Capital Charge for foreign exchange & gold	220,979	220,979
(d) Capital charge for Market Risk (a) + (b) + (c)	593,555	593,555
RWA for Market Risk (d) * 100/12.875	4,610,136	4,610,136

SUMMARY DISCUSSION ON ADEQUACY/MEETING CURRENT AND FUTURE CAPITAL REQUIREMENTS OVERVIEW

Having understood that proper “Capital management” is vital in ensuring the long-term stability of the business, Sampath Bank has continued to maintain Capital Adequacy Ratios at healthy levels by keeping a significant margin over and above the regulatory minimum requirements.

Increasing competition and growing market complexity in recent times have called for stricter regulatory requirements to bring greater focus on the Capital Management function. The Basel III Capital Standards introduced by the CBSL with effect from 1st July 2017 provides stringent framework for banks to enhance the quality, consistency and the transparency of their “capital” through the introduction of new capital buffers, new mandatory disclosure requirements and revised definitions for capital instruments. Under the CBSL Basel III directive, minimum Regulatory Requirements for Tier I Capital Ratio (5%) and Total Capital Ratio (10%) have been increased significantly

to 10% and 14% respectively, with banks required to comply with these requirements over a period of 18 months, to meet the 01st January 2019 international time line for the implementation of Basel III.

CAPITAL MANAGEMENT PROCESS

In order to comply with the new Basel III guidelines, Sampath Bank’s Capital Management Process was also revamped and the three-year (2019 – 2021) Capital Management Plan was rolled out.

The Capital Management Plan has been integrated with the Internal Capital Adequacy Assessment Process (ICAAP) as well as the Bank’s Strategic Plan, taking cognizance of the estimated negative impact to the Bank’s capital structure arising from changes in new regulations such as SLFRS 9, Inland Revenue Act No. 24 of 2017, Debt Repayment Levy etc.

The timely implementation of the Capital Management Plan comes under the purview of the “Board Capital Planning Committee” which consists of the most senior and experienced Directors of the Bank.

Proactive efforts to comply with the Basel III regulations saw the Bank increase its capital levels by issuing Basel III compliant instruments. As a result of these efforts the Bank successfully:

- Issued Basel III compliant debenture amounting to Rs 7.5 Bn with the “convertibility option” in March 2018.
- Raised Rs 12.5 Bn worth of Tier I capital by way of a Rights Issue in April 2018

MOVING FORWARD

Moving forward with the Capital Management plan, the Bank will execute specific medium term and long term strategies to raise both Tier I and Tier II capital in line with Basel III minimum regulatory requirements. In addition, timely actions have been identified and will be executed during the coming years to optimise the Risk Weighted Assets for the purpose of improving the capital allocation of the Bank.

CAPITAL ADEQUACY

TABLE - 7 : BASEL III COMPUTATION OF LIQUIDITY COVERAGE RATIO AS AT 31ST DECEMBER - ALL CURRENCY

Item	2018		2017	
	Total Un-weighted Value Rs 000	Total Weighted Value Rs 000	Total Un-weighted Value Rs 000	Total Weighted Value Rs 000
Total Stock of High-Quality Liquid Assets (HQLA)	112,552,036	111,973,104	106,931,037	106,340,392
Total adjusted level 1 assets	112,326,851	112,326,851	105,049,760	105,274,160
Level 1 assets	111,035,561	111,035,561	105,049,760	105,049,760
Total adjusted level 2A assets	512,300	435,455	999,980	849,983
Level 2A assets	512,300	435,455	999,980	849,983
Total adjusted level 2B assets	1,004,175	502,088	881,297	440,649
Level 2B assets	1,004,175	502,088	881,297	440,649
Total Cash Outflows	906,411,402	183,185,755	761,156,509	167,634,094
Deposits	539,526,007	53,952,601	490,594,003	49,059,400
Unsecured wholesale funding	145,750,594	82,902,899	126,745,095	66,570,104
Secured funding transactions	13,412,901	-	3,444,004	-
Undrawn portion of committed (irrevocable) facilities and other contingent funding obligations	168,140,031	6,748,386	103,269,608	14,900,791
Additional requirements	39,581,869	39,581,869	37,103,799	37,103,799
Total Cash Inflows	101,578,762	93,905,610	87,574,177	78,131,751
Maturing secured lending transactions backed by collateral	36,698,629	35,944,875	34,950,526	33,420,261
Committed facilities	-	-	-	-
Other inflows by counterparty which are maturing within 30 days	21,572,430	18,449,004	10,014,364	7,427,794
Operational deposits	3,795,972	-	5,325,591	-
Other cash inflows	39,511,731	39,511,731	37,283,696	37,283,696
Total Net Cash Outflows	804,832,640	89,280,145	673,582,332	89,502,343
Liquidity Coverage Ratio (%) (Stock of High Quality Liquid Assets/ Total Net Cash Outflows over the next 30 calendar days) * 100		125.42		118.81

TABLE - 8 : MAIN FEATURES OF REGULATORY CAPITAL INSTRUMENTS

Description of the capital instrument	Capital instruments issued by the Bank					Capital instruments issued by the Subsidiary
	2014-2019 Listed Rated Unsecured Subordinated Redeemable Debentures	2015-2020 Listed Rated Unsecured Subordinated Redeemable Debentures	2016-2021 Listed Rated Unsecured Subordinated Redeemable Debentures	2017-2022 Basel III Tier II compliant Listed Rated Unsecured Subordinated Redeemable Debentures	2018-2023 Basel III Tier II compliant Listed Rated Unsecured Subordinated Redeemable Debentures	2014-2019 Listed Rated Unsecured Subordinated Redeemable Debentures
Issuer	Sampath Bank PLC	Sampath Bank PLC	Sampath Bank PLC	Sampath Bank PLC	Sampath Bank PLC	Siyapatha Finance PLC
Unique identifier	D0308-LK0090D22713 D0309-LK0090D22739	D0365-LK0090D23281 D0366-LK0090D23299	D0389-LK0090D23521 D0390-LK0090D23539	D0426-LK0090D23893	D0427-LK0090D23901	D0319- LK0432D22816
Governing law(s) of the instrument		Companies Act No. 07 of 2007 / CSE listing rules / Banking Act No. 30 of 1988 / Securities Exchange Commission Act				
Original date of issuance	15th December 2014	18th November 2015	10th June 2016	21st December 2017	20th March 2018	24th December 2014
Par value of instrument	Rs 100/- per Debenture	Rs 100/- per Debenture	Rs 100/- per Debenture	Rs 100/- per Debenture	Rs 100/- per Debenture	Rs 100/- per Debenture
Perpetual or dated	Dated	Dated	Dated	Dated	Dated	Dated
Original maturity date, if applicable	14th December 2019	18th November 2020	10th June 2021	21st December 2022	20th March 2023	24th December 2019
Amount recognised in regulatory capital (in Rs 000 as at the reporting date)	1,400,000	2,800,000	3,000,000	4,800,000	6,375,000	200,000
Accounting classification (Equity/Liability)	Liability	Liability	Liability	Liability	Liability	Liability
Issuer call subject to prior supervisory approval						
Optional call date, contingent call dates and redemption amount (Rs 000)	n/a	n/a	n/a	n/a	n/a	n/a
Subsequent call dates, if applicable	n/a	n/a	n/a	n/a	n/a	n/a
Coupon/Dividend						
Fixed or floating dividend/coupon	D0308-Fixed rate D0309-Fixed rate	D0365-Fixed rate D0366-Floating rate	D0389-Fixed rate D0390-Floating rate	D0426-Fixed rate	D0427-Fixed Rate	00319-Fixed rate
Coupon rate and any related index	D0308-8.25% p.a. D0309-8.10% p.a.	D0365-9.90% p.a. D0366-6 months net T Bill rate + 1.25%	D0389-12.75%p.a. D0390-6 months gross T Bill rate + 1.0%	D0426-12.50% p.a.	D0427-12.50% p.a.	00319-8.90% p.a.
Non-cumulative or cumulative	Cumulative	Cumulative	Cumulative	Cumulative	Cumulative	Cumulative
Convertible or Non-convertible	Non-Convertible	Non-Convertible	Non-Convertible	Convertible	Convertible	Non-Convertible
If convertible, conversion trigger (s)	n/a	n/a	n/a	*	*	n/a
If convertible, fully or partially	n/a	n/a	n/a	*	*	n/a
If convertible, mandatory or optional	n/a	n/a	n/a	*	*	n/a
If convertible, conversion rate	n/a	n/a	n/a	**	**	n/a

* In the event of an occurrence of a Trigger Event as determined at the sole discretion of the Monetary Board of the Central Bank of Sri Lanka, there would be a conversion of Debentures to ordinary voting shares by the Company without any requirement of approval by the Debenture Holders, in compliance with BASEL III requirements. Upon the occurrence of a Trigger Event, the outstanding balance of the Debentures including the total par value of the Debentures and Debenture Interest accrued and unpaid as at that date will be permanently converted to ordinary voting shares at the Conversion Price.

** The price will be based on the simple average of the daily Volume Weighted Average Price (VWAP) of an ordinary voting share as published by the Colombo Stock Exchange during the three months (03) period, immediately preceding the date of the Trigger Event.

CAPITAL ADEQUACY

TABLE - 9 : DIFFERENCES BETWEEN ACCOUNTING AND REGULATORY SCOPES AND MAPPING OF FINANCIAL STATEMENT CATEGORIES WITH REGULATORY RISK CATEGORIES AS AT 31ST DECEMBER 2018 - BANK

Item	Carrying values as reported in published financial statements Rs 000	Carrying values under scope of regulatory reporting Rs 000	Subject to credit risk framework Rs 000	Subject to market risk framework Rs 000	Not subject to capital requirements or subject to deduction from capital Rs 000
Assets	914,224,931	916,944,598	865,071,500	52,767,985	94,456
Cash and cash equivalents	19,051,955	18,945,125	18,945,125	-	-
Balances with Central Bank of Sri Lanka	36,557,776	36,557,776	36,557,776	-	-
Placements with banks	8,746,926	8,871,489	8,871,489	-	-
Reverse repurchase agreements	500,124	500,000	500,000	-	-
Derivative financial instruments	1,171,037	-	-	-	-
Financial assets recognised through profit or loss - measured at fair value	27,720,246	27,833,477	-	27,833,477	-
Loans to & receivables from banks	1,644,405	-	-	-	-
Loans to & receivables from other customers	648,369,233	661,169,386	664,064,188	-	(2,894,802)
Debt and other instruments	121,105,392	120,201,567	120,201,567	-	-
Financial assets - fair value through other comprehensive income	27,517,305	25,995,896	747,551	24,934,508	313,837
Investment in subsidiaries	2,320,429	1,929,702	1,381,046	-	548,656
Property, plant & equipment	7,917,993	7,917,993	7,917,993	-	-
Intangible assets	1,137,422	1,137,422	-	-	1,137,422
Deferred tax assets	989,343	-	-	-	989,343
Other assets	9,475,345	5,884,765	5,884,765	-	-
Liabilities	829,835,621	827,774,187	-	-	-
Due to banks	8,901,463	-	-	-	-
Derivative financial instruments	2,952,319	-	-	-	-
Securities sold under repurchase agreements	13,732,205	13,714,001	-	-	-
Due to other customers	690,378,552	681,919,260	-	-	-
Debt issued & other borrowed funds	53,335,830	52,766,245	-	-	-
Dividend payable	97,462	97,462	-	-	-
Current tax liabilities	9,540,868	10,939,352	-	-	-
Deferred tax liabilities	-	1,156,172	-	-	-
Other provisions	1,885,824	-	-	-	-
Other liabilities	12,398,522	31,366,815	-	-	-
Subordinated term debts	36,612,576	35,814,880	-	-	-
Total gross off-balance sheet liabilities	395,477,348	395,477,348	395,477,348	-	-
Guarantees	52,375,427	52,375,427	52,375,427	-	-
Documentary credit	17,586,545	17,586,545	17,586,545	-	-
Acceptance	17,473,251	17,473,251	17,473,251	-	-
Other contingent items	88,833,347	88,833,347	88,833,347	-	-
Commitment for unutilised facilities	214,699,648	214,699,648	214,699,648	-	-
Other commitments	4,509,130	4,509,130	4,509,130	-	-
Shareholders' equity	84,389,310	89,170,411	-	-	-
Stated capital	32,795,952	32,795,952	-	-	-
of which Amount Eligible for CET I	32,795,952	32,795,952	-	-	-
of which amount eligible for AT I	-	-	-	-	-
Retained earnings	5,643,642	16,664,937	-	-	-
Accumulated other comprehensive income	1,160,765	-	-	-	-
Other reserves	44,788,951	39,709,522	-	-	-

GRI CONTENT INDEX

GLOBAL REPORTING INITIATIVE (GRI) CONTENT INDEX – ‘IN ACCORDANCE COMPREHENSIVE’

GRI 102: General Disclosures

GRI Standard Disclosures		Page number(s) and/or URL(s)	Remarks
1. Organisational Profile			
102-1	Name of the organisation	Inner Back Cover	
102-2	Activities, brands, products and services	13-15	
102-3	Location of headquarters	Inner Back Cover	
102-4	Location of operations	101	
102-5	Ownership and legal form	Inner Back Cover	
102-6	Markets served	58	
102-7	Scale of the organisation	6,8	
102-8	Information on other employees and other workers	73	
102-9	Supply chain	Procurement Practices-(Please use the QR code in Inner Front Cover)	
102-10	Significant changes to the organisation and its supply chain	31-33	There are no significant changes to the supply chain during the reporting period.
102-11	Precautionary principle or approach	Environmental Management/ Customer Convenience- (Please use the QR code in Inner Front Cover)	
102-12	External initiatives	3	
102-13	Membership of associations	48	
2. Strategy			
102-14	Statement from senior decision-maker	34-37	
102-15	Key impacts, risks and opportunities	116-121	
3. Ethics and Integrity			
102-16	Values, principles, standards and norms of behaviour	12,43,156	
102-17	Mechanisms for advice and concerns about ethics	43	
4. Governance			
102-18	Governance structure	41,124	
102-19	Delegating authority	41,124	
102-20	Executive-level responsibility for economics, environmental and social topics	41,124	
102-21	Consulting stakeholders on economic, environmental and social topics	41,131,146,157	
102-22	Composition of the highest governance body and its committees	18-21,127,135	
102-23	Chair of the highest governance body	18,30-33,134	
102-24	Nominating and selecting the highest governance body	127,138,139	
102-25	Conflicts of interest	149,151,160,171-172,174	
102-26	Role of highest governance body in setting purpose, values and strategy	41,43,152	
102-27	Measures taken to develop and enhance the collective knowledge of the highest governing body on economic, environmental and social topics	133, 155	Bank takes measures to develop and enhance collective knowledge of its highest governing body as well as evaluating its overall performance and we will take a note of the requirement on economic, environmental and social topics for the future Board evaluations and knowledge enhancement.
102-28	Processes and actions taken in response to evaluation of the performance of the highest governance body's in respect to governance of performance economic, environmental and social topics	140,155	
102-29	Identifying and managing economic, environmental, and social impacts	41,131,155	
102-30	Effectiveness of risk management processes	116-121,182-183	

GRI CONTENT INDEX

GRI Standard Disclosures		Page number(s) and/or URL(s)	Remarks
102-31	Review of economic, environmental, and social topics	155	Each and every meeting pertaining to Board of Directors and Board Sub Committees are very much concerned over the economic, social and environmental impacts to the business decisions taken in such respective committees.
102-32	Highest governance body's role in sustainability reporting	4,131	
102-33	Communicating critical concerns	146,157,168	
102-34	Nature and total number of critical concerns		One Whistle Blowing received to be inquired in 2018 and it was a mixture of human resources and stakeholder relations related matter. It was channelled through a written document and yet to be addressed appropriately.
102-35	Remuneration policies	141-144,173-174	
102-36	Process for determining remuneration	141-144	
102-37	Stakeholders' involvement in remuneration		*
102-38	Annual total compensation ratio of highest paid individual		*
102-39	Percentage increase in annual total compensation ratio of highest paid individual		*
5. Stakeholder engagement			
102-40	List of stakeholder groups	45-48	
102-41	Collective bargaining agreements		There is no collective bargaining agreement exists between the Bank & SBEA. However, the relationship between two parties remain excellent.
102-42	Identifying and selecting stakeholders	45-48	
102-43	Approach to stakeholder engagement	45-48	
102-44	Key topics and concerns raised	45-48	
6. Reporting practice			
102-45	Entities included in the consolidated financial statements	104	
102-46	Defining report content and topic boundaries	3,4	
102-47	List of material topics	4-5	
102-48	Restatements of information		There are no restatements in sustainability reporting criteria.
102-49	Changes in reporting	4	In addition to the material topics identified through stakeholder survey executed in 2017, cyber security was identified as a new material topic of the Bank in 2018.
102-50	Reporting period	3	
102-51	Date of most recent report	3	
102-52	Reporting cycle	3	
102-53	Contact point for questions regarding the report	3	
102-54	Claims of reporting in accordance with the GRI Standards	3	
102-55	GRI content index	375-380	
102-56	External assurance	3,381	

* Information cannot be disclosed due to confidentiality reasons

GRI Specific Disclosures

GRI Specific Disclosures		Page number(s) and/or URL(s)	Remarks
Economic Topics			
GRI 201: Economic Performance			
103-1	Explain the material topics & its boundary	Profitability and Financial Stability-(Please use the QR code in Inner Front Cover) 4	
103-2	The Management Approach and its components		
103-3	Evaluation of the Management Approach		
201-1	Direct Economic Value generated and distributed	361	
201-2	Financial implications and other risks and opportunities due to climate change		Being in the business of Banking, climate change does not have a significant impact on our business. Accordingly during the reporting period, no records were maintained to catalogue the effect of climate change on our business.
201-3	Defined benefit plan obligations and other retirement plans	216,245-246	
201-4	Financial assistance received from government		As we are a private sector organisation, there is no direct or indirect financial assistance (grants) received from the government.
GRI 202: Market Presence			
103-1	Explain the material topics & its boundary	Profitability and Financial Stability-(Please use the QR code in Inner Front Cover) 4	
103-2	The Management Approach and its components		
103-3	Evaluation of the Management Approach		
202-1	Ratios of standard entry level wage by gender compared to local minimum wage		There is no entry level wage rate imposed on banking sector. However, Sampath Bank's entry level wage is higher than the national minimum wage rate.
202-2	Proportion of senior management hired from the local community	Profitability and Financial Stability-(Please use the QR code in Inner Front Cover)	All senior managers of the Bank are local hires (Sri Lankans).
GRI 203: Indirect Economic Impacts			
103-1	Explain the material topics & its boundary	Profitability and Financial Stability-(Please use the QR code in Inner Front Cover) 4	
103-2	The Management Approach and its components		
103-3	Evaluation of the Management Approach		
203-1	Infrastructure investments and services supported	79-82	
203-2	Significant indirect economic impacts	78-82	
GRI 205: Anti - Corruption			
103-1	Explain the material topics & its boundary	Anti-Corruption Practices-(Please use the QR code in Inner Front Cover) 4	
103-2	The Management Approach and its components		
103-3	Evaluation of the Management Approach		
205-1	Operations assessed for risks related to corruption	Customer Health and Safety-(Please use the QR code in Inner Front Cover), 119	
205-2	Communication and training about anti-corruption policies and procedures		15% of employees and 17% of Senior Management have received training on anti-corruption (inclusive of 3,217 e-learning user attempts)
205-3	Confirmed incidents of corruption and actions taken		No incidents of corruption were reported in 2018.

GRI CONTENT INDEX

GRI Specific Disclosures		Page number(s) and/or URL(s)	Remarks
Environmental Topics			
GRI 302: Energy			
103-1	Explain the material topics & its boundary	Environmental Management-	
103-2	The Management Approach and its components	(Please use the QR code in	
103-3	Evaluation of the Management Approach	Inner Front Cover)	
		5	
302-1	Energy consumption within the organisation	85	
302-2	Energy consumption outside the organisation	85	
302-3	Energy intensity	85	
302-4	Reduction of energy consumption	85	
302-5	Reduction of energy requirements of products and services		This cannot be accurately calculated or measured in relation to specific products or services of the Bank.
GRI 305: Emissions			
103-1	Explain the material topics & its boundary	Environmental Management-	
103-2	The Management Approach and its components	(Please use the QR code in	
103-3	Evaluation of the Management Approach	Inner Front Cover)	
		5	
305-1	Direct (Scope 1) GHG emissions	85	
305-2	Energy indirect (Scope 2) GHG emissions	85	
305-3	Other indirect (Scope 3) GHG emissions	85	
305-4	GHG emissions intensity	85	
305-5	Reduction of GHG emissions	85	
305-6	Emissions of ozone-depleting substances (ODS)		Emissions of Ozone Depleting Substances (ODS) are insignificant, considering the nature of our business.
305-7	Nitrogen oxides (NOx), sulphur oxides (SOx) and other significant air emissions	85	
GRI 306: Effluents and Waste			
103-1	Explain the material topics & its boundary	Environmental Management-	
103-2	The Management Approach and its components	(Please use the QR code in	
103-3	Evaluation of the Management Approach	Inner Front Cover)	
		5	
306-1	Water discharge by quality and destination	86	
306-2	Waste by type and disposal method	86	
306-3	Significant spills		Not relevant to the business of Banking.
306-4	Transport of hazardous waste		Not relevant to the business of Banking.
306-5	Water bodies affected by water discharges and/or runoff		No water bodies affected by water discharges and / or runoff.

GRI Specific Disclosures		Page number(s) and/or URL(s)	Remarks
Social Topics			
GRI 401: Employment			
103-1	Explain the material topics & its boundary	Talent Acquisition and	
103-2	The Management Approach and its components	Management-(Please use the	
103-3	Evaluation of the Management Approach	QR code in Inner Front Cover)	
		5	
401-1	New employee hires and employee turnover	69	
401-2	Benefits provided to full-time employees that are not provided to temporary or part time employees	72	
401-3	Parental leave	70	
GRI 402: Labour / Management Relations			
103-1	Explain the material topics & its boundary	Employee Relations-(Please	
103-2	The Management Approach and its components	use the QR code in Inner Front	
103-3	Evaluation of the Management Approach	Cover)	
		5	
402-1	Minimum notice periods regarding operational changes		No collective agreement in force, operational changes are informed in advance depending on the requirement.
GRI 403: Occupational Health and Safety			
103-1	Explain the material topics & its boundary	Employee Relations-(Please	
103-2	The Management Approach and its components	use the QR code in Inner Front	
103-3	Evaluation of the Management Approach	Cover)	
		5	
403-1	Workers representation in formal joint management-worker health and safety committees		We do not have an occupational health and safety committee, we have set-out clear guidelines to ensure the safety of all those within our premises at any given time.
403-2	Types of injury and rates of injury, occupational diseases, lost days and absenteeism and number of work-related fatalities		No reported incidents during the reporting period.
403-3	Workers with high incidence or high risk of diseases related to their occupation		Being a bank, no such employee categories observed. No reported incidents during the reporting period.
403-4	Health and safety topics covered in formal agreements with trade unions		No collective agreement in force. Health and Safety is covered from the Employee Relations Policy & Employee Welfare Policy.
GRI 404: Training and Education			
103-1	Explain the material topics & its boundary	Training and Development-	
103-2	The Management Approach and its components	(Please use the QR code in	
103-3	Evaluation of the Management Approach	Inner Front Cover)	
		5	
404-1	Average hours of training per year per employee	72	
404-2	Programmes for upgrading employee skills and transition assistance programmes	71	
404-3	Percentage of employees receiving regular performance and career development reviews	71	

GRI CONTENT INDEX

GRI Specific Disclosures		Page number(s) and/or URL(s)	Remarks
GRI 405: Diversity and Equal Opportunity			
103-1	Explain the material topics & its boundary	Talent Acquisition and	
103-2	The Management Approach and its components	Management-(Please use the	
103-3	Evaluation of the Management Approach	QR code in Inner Front Cover) 5	
405-1	Diversity of governance bodies and employees	73	
405-2	Ratio of basic salary and remuneration of women to men	72	
GRI 413: Local Communities			
103-1	Explain the material topics & its boundary	Community Development-	
103-2	The Management Approach and its components	(Please use the QR code in	
103-3	Evaluation of the Management Approach	Inner Front Cover) 5	
413-1	Operations with local community engagement, impact assessments and development programmes	42, 43-44, 78-82, 89	
413-2	Operations with significant actual and potential negative impacts on local communities		No any incident reported during the reporting period.
GRI 416 : Customer Health and Safety			
103-1	Explain the material topics & its boundary	Customer Health and Safety-	
103-2	The Management Approach and its components	(Please use the QR code in	
103-3	Evaluation of the Management Approach	Inner Front Cover) 5	
416-1	Assessment of the health and safety impacts of product and service categories		As a service organisation, health and safety impacts of our products & service categories cannot be assessed.
416-2	Incidents of non-compliance concerning the health and safety impacts of products and services		
GRI 417 : Marketing and Labelling			
103-1	Explain the material topics & its boundary	Marketing and Labelling-	
103-2	The Management Approach and its components	(Please use the QR code in	
103-3	Evaluation of the Management Approach	Inner Front Cover) 5	
417-1	Requirements for product and service information and labelling	Marketing and Labelling- (Please use the QR code in Inner Front Cover)	
417-2	Incidents of non-compliance concerning product and service information and labelling		No incident reported during the reporting period in this regard.
417-3	Incidents of non-compliance concerning marketing communications		No incident reported during the reporting period in this regard.
GRI 418 : Customer Privacy			
103-1	Explain the material topics & its boundary	Complaint Management/ Customer Privacy-(Please use	
103-2	The Management Approach and its components	the QR code in Inner Front	
103-3	Evaluation of the Management Approach	Cover) 5	
418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data		Received 16 complaints and all have been resolved by respective branches and departments.

INDEPENDENT ASSURANCE REPORT TO THE SHAREHOLDERS OF SAMPATH BANK PLC



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

Introduction and scope of the engagement

The management of Sampath Bank PLC ("the Company") engaged us to provide an independent assurance on the following elements of the sustainability reporting criteria presented in the annual report- 2018 ("the Report").

- Reasonable assurance on the information on financial performance as specified on page 361 of the Report.
- Limited assurance on other information presented in the Report, prepared in accordance with the requirements of the Global Reporting Initiative GRI Standards: 'In accordance' - Comprehensive 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' - Comprehensive guideline publication, publicly available at GRI's global website at "www.globalreporting.org".

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

engagement. Accordingly, we do not express an opinion providing reasonable assurance.

Management of the Company's responsibility for the Report

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

Ernst & Young's responsibility

Our responsibility is to express a conclusion as to whether we have become aware of any matter that causes us to believe that the Report is not prepared in accordance with the requirements of the Global Reporting Initiative, GRI Standards: 'In accordance' - Comprehensive guidelines. This report is made solely to the Company in accordance with our engagement letter dated 20 August 2018. 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 the relevant company's personnel to understand the process for collection, analysis, aggregation and presentation of data.
- Reviewing and validation of the information contained in the Report.
- Checking the calculations performed by the Company on a sample basis through recalculation.

- Reconciling and agreeing the data on financial performance are properly derived from the Company's audited financial statements for the year ended 31 December 2018.
- Comparison of the content of the Report against the criteria for a Global Reporting Initiative, GRI Standards: 'In accordance' - Comprehensive guidelines.

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

Limitations and considerations

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

Conclusion

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

- The information on financial performance as specified on page 361 of the Report are properly derived from the audited financial statements of the Company for the year ended 31 December 2018.
- Nothing has come to our attention that causes us to believe that other information presented in the Report are not fairly presented, in all material respects, in accordance with the Company's sustainability practices and policies some of which are derived from Sustainability Reporting Guideline, GRI Standards- 'In accordance' Comprehensive.

Ernst & Young
Chartered Accountants

14 February 2019
Colombo

Partners: W R H Fernando FCA FCMA M P D Cooray FCA FCMA R N de Saram ACA FCMA Ms. N A De Silva FCA Ms. Y A De Silva FCA W K B S P Fernando FCA FCMA
Ms. K R M Fernando FCA ACMA Ms. L K H L Fonseka FCA A P A Gunasekera FCA FCMA A Herath FCA D K Hulangamusa FCA FCMA LLB (Lond) H M A Jayasinghe FCA FCMA
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Principal T P M Ruberu FCMA FCCA

A member firm of Ernst & Young Global Limited

GLOSSARY OF FINANCIAL AND BANKING TERMS

A

ACCEPTANCES

The signature on a Bill of Exchange indicates that the person on whom it is drawn accepts the conditions of the Bill. In other words a Bill of Exchange that has been accepted.

ACCOUNTING POLICIES

The specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting Financial Statements.

ACCRUAL BASIS

Recognition of the effects of transactions and other events when they occur without waiting for receipt or payment of cash or its equivalents.

ACTUARIAL ASSUMPTIONS

An entity's unbiased and mutually compatible best estimates of the demographic and financial variable that will determine the ultimate cost of providing post-employment benefits.

ADDITIONAL TIER I (AT I) CAPITAL

It is a supplementary form of Tier I capital. AT I includes capital instruments other than the instruments included in CET I capital.

AMORTISATION

The systematic allocation of the depreciable amount of an intangible asset over its useful life.

AMORTISED COST

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectability.

ASSET AND LIABILITY COMMITTEE (ALCO)

A risk-management committee in a bank that generally comprises the senior-management levels of the institution. The ALCO's primary goal is to evaluate, monitor and approve practices relating to risk due to imbalances in the capital structure. Among the factors considered are liquidity risk, interest rate risk, operational risk and external events that may affect the bank's forecast and strategic balance sheet allocations.

ASSOCIATE COMPANY

An associate is an entity, including an unincorporated entity such as a partnership, over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

AVAILABLE FOR SALE (AFS) FINANCIAL ASSETS

Non derivative financial assets that are designated as available for sale or are not classified as (a) loans and receivables, (b) held to maturity investments or (c) financial assets at fair value through profit or loss.

AVERAGE WEIGHTED DEPOSIT RATE (AWDR)

AWDR is calculated by the Central Bank monthly based on the weighted average of all outstanding interest bearing deposits of commercial banks and the corresponding interest rates.

AVERAGE WEIGHTED PRIME LENDING RATE (AWPLR)

AWPLR is calculated by the Central Bank weekly based on commercial banks' lending rates offered to their prime customers during the week.

B

BASEL II

The capital adequacy framework issued by the Basel Committee on Banking Supervision (BCBS) in the form of the 'International Convergence of Capital Measurement and Capital Standards'.

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.

BILLS SENT FOR COLLECTION

A bill of exchange drawn by an exporter usually at a term, on an importer overseas and brought by the exporter to his bank with a request to collect the proceeds.

C

CAPITAL ADEQUACY RATIO

The percentage of risk-adjusted assets supported by capital as defined under the framework of risk-based capital standards developed by the Bank for International Settlement (BIS) and as modified to suit local requirements by the Central Bank of Sri Lanka.

CAPITAL CONSERVATION BUFFER (CCB)

It is designed to ensure that banks build up capital buffers outside periods of stress which can be drawn down as losses are incurred.

CASH EQUIVALENTS

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

CASH FLOWS

Cash flows are inflows and outflows of cash and cash equivalents.

COLLECTIVELY ASSESSED LOAN IMPAIRMENT PROVISIONS

Also known as portfolio impairment provisions. Impairment assessment on a collective basis for homogeneous groups of loans that are not considered individually significant and to cover losses that has been incurred but has not yet been identified at the reporting date. Typically assets within the consumer banking business (housing, personal, vehicle loans, credit cards etc) are assessed on a portfolio basis.

COMMERCIAL PAPER (CP)

An unsecured, short-term debt instrument issued by a corporation, typically for the financing of accounts receivable, inventories and meeting short-term liabilities. The debt is usually issued at a discount, reflecting prevailing market interest rates.

COMMON EQUITY TIER I (CET I) CAPITAL

Consists of stated capital, other capital and revenue reserves. CET I is the element of capital which has the highest quality and the most effective in absorbing losses.

COMMITMENTS

Credit facilities approved but not yet utilised by the clients as at the reporting date.

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated financial statements are the financial statements of a group in which the assets, liabilities, equity, income, expenses and cash flows of the parent and its subsidiaries are presented as those of a single economic entity.

CONTINGENCIES

A condition or situation, the ultimate outcome of which (gain or loss) will be confirmed only on the occurrence or non-occurrence of one or more uncertain future events.

CONTRACT

An agreement between two or more parties that creates enforceable rights and obligations.

CONTROL

An investor controls an investee when the investor 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.

CORPORATE GOVERNANCE

The process by which corporate entities are governed. It is concerned with the way in which power is exercised over the management and direction of entity, the supervision of executive actions and accountability to owners and others.

CORRESPONDENT BANK

A bank in a foreign country that offers banking facilities to the customers of a bank in another country.

COST METHOD

A method of accounting whereby the investment is recorded at cost. The Income Statement reflects income from the investment only to the extent that the investor receives distributions from accumulated net profits of the investee arising subsequent to the date of acquisition.

COST-PUSH INFLATION

A continuous increase in average price levels due to an increase in production costs.

COST TO INCOME RATIO

Operating expenses excluding impairment charge for loans and other losses as a percentage of total operating income.

COUNTRY RISK

The risk that a foreign government will not fulfil its obligations or obstructs the remittance of funds by debtors, either for financial reasons (transfer risk) or for other reasons (political risk).

CREDIT RATING

An evaluation of a corporate's ability to repay its obligations or 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 debt 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.

CUSTOMER DEPOSITS

Money deposited by account holders. Such funds are recorded as liabilities.

D

DEFERRED TAX

Sum set aside in the financial statements for taxation that may become payable/receivable in a financial year other than the current financial year. It arises because of temporary differences between tax rules and accounting conventions.

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'.

DEPRECIATION

The systematic allocation of the depreciable amount of an asset over its useful life.

DERECOGNITION

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

DERIVATIVES

A derivative is a financial instrument or other contract, the value of which changes in response to some underlying variable (e.g. an interest rate), that has an initial net investment smaller than would be required for other instruments that have a similar response to the variable, and that will be settled at a future date.

DISCOUNT RATE

A rate used to place a current value on future cash flows. It is needed to reflect the fact that money has a time value.

DIVIDEND COVER

Profit after tax divided by gross dividend. 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.

DOCUMENTARY LETTERS OF CREDIT (LCS)

Written undertakings by a bank on behalf of its customers, authorising a third party to draw on the Bank up to a stipulated amount under specific terms and conditions. Such undertakings are established for the purpose of facilitating international trade.

DOMESTIC SYSTEMICALLY IMPORTANT BANKS (D-SIBS)

Licensed banks with total assets equal to or greater than Rs 500 billion

E

EARNINGS PER SHARE (EPS)

The profit attributable to each ordinary share in the Bank, based on the profit for the period after tax and after deducting minority interest and preference share Dividend.

ECONOMIC VALUE ADDED (EVA)

A measure of productivity which takes into consideration cost of total invested equity.

EFFECTIVE INTEREST RATE (EIR)

Rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instruments or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

EFFECTIVE TAX RATE (ETR)

Provision for taxation excluding deferred tax divided by the profit before taxation.

EQUITY INSTRUMENT

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

EQUITY METHOD

The equity method is a method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the investor's share of net assets of the investee. The profit or loss of the investor includes the investor's share of the profit or loss of the investee.

ESOP (EMPLOYEE SHARE OWNERSHIP PLAN)

A method of giving employees shares in the business for which they work.

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.

EXPECTED CREDIT LOSSES (ECLS)

ECLs are probability-weighted estimate of the present value of cash shortfalls (i.e. the weighted average credit losses, with respective risks of defaults occurring in a given time period used as the weights). ECL measurements are unbiased (i.e. neutral, not conservative and not biased towards optimism or pessimism) and are determined by evaluating a range of possible outcomes.

EXPOSURE AT DEFAULT (EAD)

This 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 & interest and expected drawdowns of committed facilities.

EXPOSURE

A claim, contingent claim or position which carries a risk of financial loss.

F

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 between market participants at the measurement date.

FINANCE LEASE

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred.

FINANCIAL GUARANTEE CONTRACT

A 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.

GLOSSARY OF FINANCIAL AND BANKING TERMS

FIRM COMMITMENT

A firm commitment is a binding agreement for the exchange of a specified quantity of resources at a specified price on a specified future date or dates.

FOREIGN EXCHANGE INCOME

The realised gain recorded when assets or liabilities denominated in foreign currencies are translated into Sri Lankan Rupees on the reporting date at prevailing rates which differ from those rates in force at inception or on the previous reporting date. Foreign exchange income also arises from trading in foreign currencies.

FORWARD EXCHANGE CONTRACT

Agreement between two parties to exchange one currency for another at a future date at a rate agreed upon today.

G

GLOBAL REPORTING INITIATIVE (GRI)

GRI is a leading organisation in the sustainability field. GRI promotes the use of sustainability reporting as a way for organisations to become more sustainable and contribute to sustainable development.

GOING CONCERN

The financial statements are normally prepared on the assumption that an entity is a going concern and will continue in operation for the foreseeable future. Hence, it is assumed that the entity has neither the intention nor the need to liquidate or curtail materially the scale of its operations.

GROSS DIVIDEND

The portion of profits distributed to the shareholders including the tax withheld.

GROUP

A group is a parent and its subsidiaries.

GUARANTEES

A promise made by a third party (guarantor), who is not a party to a contract between two others, that the guarantor will be liable if the guarantee fails to fulfil the contractual obligations.

H

HEDGING

A strategy under which transactions are effected with the aim of providing cover against the risk of unfavourable price movements (interest rate, foreign exchange rate, commodity prices, etc)

HELD TO MATURITY (HTM) FINANCIAL ASSETS

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and a fixed maturity that an entity has the positive intention and ability to hold to maturity.

HIGH QUALITY LIQUID ASSETS (HQLA)

HQLA are assets that can be easily and immediately converted into cash at little or no loss of value, that can be readily sold or used as collateral to obtain funds in a range of stress scenarios and are unencumbered, i.e., without legal, regulatory or operational impediments.

I

IMPAIRED LOANS

Impaired loans are 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.

IMPAIRMENT

This occurs when recoverable amount of an asset is less than its carrying amount.

IMPAIRMENT PROVISIONS

Impairment provisions are provisions held on the Statement of Financial Position as a result of the raising of a charge against profit for the incurred loss.

Individually Significant Loan Impairment Provision (Specific Impairment Provision)

Impairment is measured individually for assets that are individually significant to the Group.

INTANGIBLE ASSET

An intangible asset is an identifiable non-monetary asset without physical substance.

INTEREST COVER

A ratio showing the number of times interest charges is covered by earnings before interest and tax.

INTEREST MARGIN

Net interest income expressed as a percentage of average interest earning assets.

INTEREST RATE RISK

The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

INTEREST RATE SWAP

An agreement between two parties where one stream of future interest payments is exchanged for another stream of future interest payments based on a specified principal amount.

INTEREST SPREAD

This represents the difference between the average interest rate earned and the average interest rate paid on funds.

INVESTMENT PROPERTIES

Investment property is property (land or a building - or part of a building - or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for use in the production or supply of goods or services or for administrative services; or sale in the ordinary course of business.

K

KEY MANAGEMENT PERSONNEL

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity.

L

LIFETIME EXPECTED CREDIT LOSSES

The expected credit losses that result from all possible default events over the expected life of a financial instrument.

LIQUIDITY COVERAGE RATIO (LCR)

Banks are required to maintain an adequate level of unencumbered High Quality Liquid Assets (HQLA) that can be converted into cash to meet their liquidity needs for a 30 calendar day time horizon under a significantly severe liquidity stress scenario. LCR is computed by dividing the stock of HQLA by the total net cash outflows over the next 30 calendar days.

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 and treasury bills and bonds.

LIQUIDITY RISK

The risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

LOANS AND RECEIVABLES

Non derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those intended to sell immediately or in the near term and designated as fair value through profit or loss or available sale on initial recognition.

LOSS GIVEN DEFAULT (LGD)

LGD is the percentage of an exposure that a lender expects to lose in the event of obligor defaults. It is based on the difference between the contractual cash flows due and those that the lender would receive including any collateral.

M

MARKET CAPITALISATION

The value of a company obtained by multiplying the number of ordinary shares in issue by its market value as at a date.

MARKET RISK

Market risk is the risk that changes in market prices, such as interest rates, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's/issuer's credit standing) will affect the Bank's income or the value of its holdings of financial instruments.

MATERIALITY

The relative significance of a transaction or an event, the omission or misstatement of which could influence the decisions of users of financial statements.

N

NET ASSET VALUE PER SHARE

Shareholders' funds divided by the number of ordinary shares in issue.

NET-INTEREST INCOME (NII)

The difference between what a bank earns on assets such as loans and securities and what it pays on liabilities such as deposits, refinance funds and inter-bank borrowings.

NOSTRO ACCOUNT

A bank account held in foreign country by a domestic bank, denominated in the currency of that country. Nostro accounts are used to facilitate the settlement of foreign exchange trade transactions.

NON-CONTROLLING INTEREST

Non controlling interest is the equity in a subsidiary not attributable, directly or indirectly to a parent.

O

OPERATIONAL RISK

Operational risk refers to the losses arising from fraud, negligence, oversight, human error, process errors, system failures, external events, etc.

P

PARENT

A parent is an entity that controls one or more entities.

POWER

The Power is the existing rights that give the current ability to direct the relevant activities.

PRICE EARNINGS RATIO (P/E RATIO)

The current market price of the share is divided by the earnings per share of the Bank.

PROBABILITY OF DEFAULT (PD)

PD is an estimate of likelihood of default over a given time horizon.

PROJECTED UNIT CREDIT METHOD (PUC)

An actuarial valuation method that sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.(sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method). Prudence

Inclusion of a degree of caution in the exercise of judgment needed in making the estimates required under conditions of uncertainty, such that assets or income are not overstated and liabilities or expenses are not understated.

R

RELEVANT ACTIVITIES

Relevant activities are activities of the investee that significantly affect the investee's returns.

REPURCHASE AGREEMENT

This is a contract to sell and subsequently repurchase government securities at a given price on a specified future date.

RETURN ON AVERAGE ASSETS (ROA)

Profit after tax expressed as a percentage of average total assets, used along with ROE, as a measure of profitability and as a basis of intra-industry performance comparison.

RETURN ON AVERAGE EQUITY (ROE)

Profit after tax less preferred share dividends if any, expressed as a percentage of average ordinary shareholders' equity.

REVENUE RESERVES

Reserves set aside for future distribution and investment.

REVERSE REPURCHASE AGREEMENT

Transaction involving the purchase of government securities by a bank or dealer and resale back to the seller at a given price on a specific future date.

RIGHTS ISSUE

Issue of shares to the existing shareholders at an agreed price, generally lower than market price.

RISK-WEIGHTED ASSETS

Used in the calculation of risk-based capital ratios. The face amount of lower risk assets is discounted using risk weighting factors in order to reflect a comparable risk per rupee among all types of assets. The risk inherent in commitment & contingencies is also recognised, first by adjusting notional values to Statement of Financial Position (or credit) equivalents and then by applying appropriate 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.

SHAREHOLDERS' FUNDS

Total of issued and fully paid share capital and capital and revenue reserves.

SINGLE BORROWER LIMIT

30% of capital base.

STATUTORY RESERVE FUND

A capital reserve created as per the provisions of the Banking Act No. 30 of 1988.

SUBSIDIARY

A Subsidiary is an entity that is controlled by another entity.

SUBSTANCE OVER FORM

The consideration that the accounting treatment and the presentation in financial statements of transactions and events should be governed by their substance and financial reality and not merely by legal form.

T

TIER I CAPITAL

Tier I Capital consists of Common Equity Tier I Capital (CET I) and Additional Tier I Capital (AT I).

TOTAL CAPITAL (CAPITAL BASE)

Capital base is summation of the core capital (Tier I) and the supplementary capital (Tier II).

TWELVE MONTH EXPECTED CREDIT LOSSES

The portion of lifetime expected credit losses that represent the expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

U

UNIT TRUST

An undertaking formed to invest in securities under the terms of a trust deed.

USEFUL LIFE

Useful life is the period over which an asset is expected to be available for use by an entity or the number of production or similar units expected to be obtained from the asset by an entity.

V

VALUE ADDED

Wealth created by providing banking and other services less the cost of providing such services. The value added is allocated among the employees, the providers of capital, to government by way of taxes and retained for expansion and growth.

VOSTRO ACCOUNT

A local currency account maintained by a local bank for a foreign (correspondent) bank. For the foreign bank, it is a Nostro account. The domestic bank acts as custodian or manages the account of a foreign counterpart.

Y

YIELD TO MATURITY

Discount rate at which the present value of future payments would equal the security's current price.

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the 33rd Annual General Meeting of Sampath Bank PLC (the Company) will be held at the "Balmoral", The Kingsbury, No. 48, Janadhipathi Mawatha, Colombo 01, on 29th March 2019 at 9.30 a.m. for the following purposes:

1. To receive and consider the Annual Report of the Board of Directors on the affairs of the Company.
2. To receive and consider the Statement of Audited Accounts for the year ended 31st December 2018 with the Report of the Auditors thereon.
3. To approve the dividend recommended by the Board of Directors of Rs 16.25 per share as the first and final dividend for the financial year 2018 payable as follows:
 - a. a Cash Dividend of Rs 5.00 per share; and
 - b. a Scrip Dividend of Rs 11.25 per share

and therefore to consider and if thought fit, to pass the following resolutions by way of an Ordinary Resolution.

"It is hereby resolved that a dividend of Rs 16.25 per share for the financial year 2018 payable as follows;

- Rs 5.00 be distributed in the form of cash amounting to a total payment of a sum of Rupees One Billion Four Hundred and Four Million Five Hundred and Eleven Thousand Two Hundred and Forty (Rs 1,404,511,240.00). Rupees One Billion Three Hundred and Ninety Two Million One Hundred and Ninety Eight Thousand Seven Hundred and Fifty Eight and cents Fifteen (Rs 1,392,198,758.15) of the cash Dividend shall be subject to dividend tax at the rate of 14% whilst the remainder is exempt from dividend tax; and

- Rs 11.25 be distributed in the form of scrip amounting to total sum of Rupees Three Billion One Hundred and Sixty Million One Hundred and Fifty Thousand Two Hundred and Ninety (Rs 3,160,150,290.00). Rupees Three Billion One Hundred and Thirty Two Million Four Hundred and Forty Seven Thousand Two Hundred and Five and cents Eighty Five (Rs 3,132,447,205.85) of the scrip dividend shall be subject to dividend tax at the rate of 14% whilst the remainder is exempt from dividend tax. The shares issued in the scrip dividend shall be valued at Rs 235.66 per share which result in one (01) share being issued for each existing Twenty Four decimal Three Two Two Nine One Two One Seven (24.32291217) shares held by the shareholders at the end of trading on the Colombo stock exchange on the date of the Annual General Meeting. Consequently, the total number of shares to be issued under the scrip dividend shall be Eleven Million Five Hundred and Forty Eight Thousand Eight Hundred and Seventy Four (11,548,874) Ordinary shares."

"It is further resolved that the shares issued for the scrip dividend be listed on the Colombo Stock Exchange."

"It is further resolved that the shares arising from the aggregation of the residual fractions consequent to the scrip dividend be disposed of in the market by a trustee to be nominated by the Board of Directors and the proceeds to be distributed amongst those shareholders entitled to the fraction of such shares."

4. To elect Mr Dilip Kumar de Silva Wijeyeratne who was appointed to the Board to fill up a casual vacancy in the Board in terms of Article No. 93 of the Articles of Association of the Company.

5. To re-elect Mr Ranil Pathirana who retires by rotation at the Annual General Meeting as a Director in terms of Article No. 87 of the Articles of Association of the Company.
6. To re-elect Mr Deepal Sooriyaarachchi who retires by rotation at the Annual General Meeting as a Director in terms of Article No. 87 of the Articles of Association of the Company.
7. To re-elect Prof Malik Ranasinghe who retires by rotation at the Annual General Meeting as a Director in terms of Article No. 87 of the Articles of Association of the Company.
8. To re-elect Mrs Dhara Wijayatilake who retires by rotation at the Annual General Meeting as a Director in terms of Article No. 87 of the Articles of Association of the Company.
9. To approve the donations and contributions made by the Directors during the year under review.
10. To re-appoint Messrs Ernst & Young, Chartered Accountants as Auditors of the Company for the ensuing year and to authorize the Directors to determine their remuneration.

By Order of the Board

R. L. S. Senarathne

LASANTHA SENARATNE
Company Secretary

Colombo, Sri Lanka
14th February 2019

Note: A member is entitled to appoint a Proxy to attend and vote on his/her/its behalf and a Proxy need not be a member of the Company. A Form of Proxy is enclosed for this purpose. The instrument appointing a Proxy must be deposited at the Registered Office of the Company at No. 110, Sir James Peiris Mawatha, Colombo 02, **not less than forty eight (48) hours before** the time fixed for holding of the Meeting and **no registration of Proxies will be accommodated at the venue on the date of the Annual General Meeting.**

You are kindly requested to bring with you, your National Identity Card or any valid source of identification.
(E.g: Driving license, Passport)

STAKEHOLDER FEEDBACK FORM

To request information or submit a comment / query to the Bank, please complete the following and return this page to:

COMPANY SECRETARY,

Sampath Bank PLC,
No. 110, Sir James Peiris Mawatha,
Colombo 02, Sri Lanka.
e-mail: company_secretary@sampath.lk
Tel : +94 11 4730652 / 420 / 548
Fax : +94 11 2303070

We also appreciate your comments on this Annual Report.

WHICH STAKEHOLDER GROUP/S DO YOU BELONG TO? (YOU MAY TICK MORE THAN ONE)

Employee	<input type="checkbox"/>	Public Authority	<input type="checkbox"/>
Shareholder	<input type="checkbox"/>	Regulatory Body	<input type="checkbox"/>
Investor	<input type="checkbox"/>	Student	<input type="checkbox"/>
Customer	<input type="checkbox"/>	Journalist	<input type="checkbox"/>
Supplier	<input type="checkbox"/>	NGO	<input type="checkbox"/>
Service Provider	<input type="checkbox"/>	Special Interest Group	<input type="checkbox"/>
Community	<input type="checkbox"/>	Other	<input type="checkbox"/>

RATE YOUR OVERALL IMPRESSION OF THIS REPORT IN TERMS OF:

	Excellent	Good	Fair	Poor
Content and Scope				
Informative	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Transparent	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Trustworthy	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Comprehensive	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
User Friendly	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Design and Layout	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

CORPORATE INFORMATION

NAME OF COMPANY

Sampath Bank PLC

LEGAL FORM

A Public Limited Liability Company incorporated in Sri Lanka on 10th March 1986 under the Companies Act No. 17 of 1982 and listed on the Colombo Stock Exchange, Re-registered on 28th April 2008 under the Companies Act No. 7 of 2007. A Licensed Commercial Bank under the Banking Act No. 30 of 1988.

COMPANY REGISTRATION NUMBER

PQ 144

HEAD OFFICE & REGISTERED OFFICE

No.110, Sir James Peiris Mawatha,
Colombo 02, Sri Lanka

TELEPHONE

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WEB PAGE

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AUDITORS

Messrs Ernst & Young
Chartered Accountants

LAWYERS

Messrs Nithya Partners
Attorneys-at-Law

COMPANY SECRETARY

Mr Lasantha Senaratne
Attorney-at-Law

ASSISTANT COMPANY SECRETARY

Mr Muditha Walpola
Attorney-at-Law

STOCK EXCHANGE LISTINGS

280,902,248 Ordinary Shares

70,000,000 Listed Rated Unsecured
Subordinated Redeemable Debentures of
Rs 100/- each - 2014/2019

70,000,000 Listed Rated Unsecured
Subordinated Redeemable Debentures of
Rs 100/- each - 2015/2020

60,000,000 Listed Rated Unsecured
Subordinated Redeemable Debentures of
Rs 100/- each - 2016/2021

60,000,000 Basel III compliant - Tier 2
Listed Rated Unsecured Subordinated
Redeemable Debentures with a Non-
Viability Conversion of Rs 100/- each -
2017/2022

75,000,000 Basel III compliant - Tier 2
Listed Rated Unsecured Subordinated
Redeemable Debentures with a Non-
Viability Conversion of Rs 100/- each -
2018/2023

VAT REGISTRATION NUMBER

134001194 - 7000

CREDIT RATING

Fitch Rating: Fitch Rating Lanka Limited
has affirmed National Long Term Rating of
A+ (Ika) with stable outlook to Sampath
Bank PLC

Moody's Rating: Moody's Investors
Service has assigned an Issuer and Long
Term Local Currency Deposit Rating of B2
with stable outlook

BOARD OF DIRECTORS

Mr Channa Palansuriya

Chairman/Non-Independent, Non-
Executive Director

Prof Malik Ranasinghe

Deputy Chairman/Independent, Non-
Executive Director

Mr Sanjiva Senanayake

Senior Independent Director,
Non-Executive Director

Mr Deepal Sooriyaarachchi

Non-Independent, Non-Executive
Director

Mrs Dhara Wijayatilake

Independent, Non-Executive Director

Miss Annika Senanayake

Independent, Non-Executive Director

Mr Ranil Pathirana

Independent, Non-Executive Director

Mrs Saumya Amarasekera

Non-Independent, Non-Executive Director

Mr Rushanka Silva

Non-Independent, Non-Executive Director

Mr Dilip de S Wijeyeratne

Non-Independent, Non-Executive Director

Mr Nanda Fernando

Managing Director

SUBSIDIARY COMPANIES

Name of the Company	Holding %	Nature of Business
Sampath Centre Ltd	100.00	Renting of commercial property
SC Securities (Pvt) Ltd	100.00	Stock broking
Siyapatha Finance PLC	100.00	Granting leasing, hire purchase, factoring & other loan facilities & accepting deposits
Sampath Information Technology Solutions Ltd	100.00	Software development, renting of IT equipments, IT services outsourcing and document management services

FOR INVESTOR RELATIONS AND CLARIFICATIONS ON THE REPORT, PLEASE CONTACT

The Company Secretary,
Sampath Bank PLC,
No. 110, Sir James Peiris Mawatha,
Colombo 02, Sri Lanka

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Sampath Bank

WE PRESENT YOUR FUTURE

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