

# Annual Report of the Board of Directors on the Affairs of the Company

## General

The Directors have pleasure in presenting to the shareholders the Annual Report of the SANASA Development Bank PLC together with the Audited Financial Statements for the year ended 31 December 2018 and the Auditors' Report on those Financial Statements conforming to all relevant statutory requirements. This Report provides the information as required by the Companies Act No. 07 of 2007, Banking Act No. 30 of 1988 and amendments thereto and the Directions issued thereunder including the Banking Act Direction No. 12 of 2007 on "Corporate Governance for Licensed Specialised Banks in Sri Lanka" and subsequent amendments thereto, the Listing Rules of the Colombo Stock Exchange (the CSE) and the recommended best practices.

The Financial Statements of the Bank for the year ended 31 December 2018, including the comparatives for 2017 were approved and authorised for issue by the Board of Directors on 8 March 2019 in accordance with the Resolution of the Directors. The appropriate number of copies of the Annual Report will be submitted to the CSE and to the Sri Lanka Accounting and Auditing Standards Monitoring Board within the statutory deadlines.

SANASA Development Bank PLC ("The Bank") is a licensed specialised bank registered under the Banking Act No. 30 of 1988 and was incorporated as a public limited liability company in Sri Lanka on 6 August 1997 under the Companies Act No. 17 of 1982. The Bank was reregistered as per the requirements of the Companies Act No. 07 of 2007 ("Companies Act") on 30 October 2007. The reregistration number of the Bank is PB 62 PQ. The Registered Office as well as the Head Office of the Bank is at No. 12, Edmonton Road, Kirulapone, Colombo 6, Sri Lanka.

The ordinary voting shares of the Bank are listed on the Main Board of the Colombo Stock Exchange since May 2012. The Senior, Rated Guaranteed Debentures issued by the Bank are also listed on the CSE. The Bank has been assigned a National Long-Term Rating of BB+(lka) with a stable outlook by Fitch Ratings Lanka Ltd., and the SL (BBB-) with stable outlook by ICRA Lanka Limited.

## Vision, mission, goals, values and corporate conduct

The Bank's Vision and Mission statements are exhibited on page 5 of the Annual Report.

The business activities of the Bank are conducted in keeping with the highest level of ethical standards in achieving its Vision and Mission.

The Bank issues a copy of its Code of Ethics to each and every staff member and all employees are required to abide by the Bank's Code of Conduct.

## Principal business activities

The principal activities of the Bank include accepting deposits at competitive rates of interest and the investment of these deposits in community-based lending programmes, with special focus on Cooperative Societies, their members and other micro enterprises, issuing of local and international debit cards. The Bank's range of products includes Special Deposits, Credit, Pawning, Leasing and Re-finance Loan Schemes.

The Bank has established delivery points across all districts of the country. During the year under review, 3 new delivery points were added (3 in 2017), bringing the total number of delivery points within the country to 94 at the end of 2018 (91 at the end of 2017).

## Review of operations

The "Chairperson's Review" on pages 10 to 12 the "Chief Executive Officer's Review" on pages 13 to 15, and the "Performance and value creations" on pages 39 to 49, together with the Audited Financial Statements provide an overall review of business performance and the state of affairs of the Bank together with important events that took place during the year as required by the Section 168 of the Companies Act No. 07 of 2007 and the recommended best accounting practices.

## Future developments

The Bank intends expanding its network of delivery channels by employing client-focused strategy with effective management of capital, liquidity and risks. The Bank is planning to launch its online and mobile banking platforms in 2019 enabling customers to easily access to most banking services 24/7. Please refer sections on "Chairperson's Review", "Chief Executive Officer's Review" on pages 10 to 15 and "Performance and value creations" on pages 39 to 49 for initiatives taken in this regard.

## Financial Statements

The Financial Statements of the Bank have been prepared in accordance with Sri Lanka Accounting Standards (SLFRSs/LKASs) laid down by The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and they comply with the requirements of Companies Act No. 07 of 2007 and Banking Act No. 30 of 1988. The Financial Statements of the Bank for the year ended 31 December 2018 duly signed by the Chief Financial Officer and Chief Executive Officer, two Directors of the Bank and the Company Secretary are given on pages 121 to 184, which form an integral part of the Annual Report of the Board of Directors.

### Director's responsibility for financial reporting

The Directors are responsible for the preparation of the Financial Statements of the Bank, which reflect a true and fair view of the financial position and performance of the Bank. The Directors are of the view that the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows, Significant Accounting Policies and Notes thereto appearing on pages 121 to 184 have been prepared in conformity with the requirements of the SLFRSs and LKASs as mandated by the Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995 and the Companies Act No. 07 of 2007. Further, these Financial Statements also comply with the requirements of the Banking Act No. 30 of 1988 and amendments thereto and the Listing Rules of the Colombo Stock Exchange. The "Statement of Directors' Responsibility" appearing on page 120 forms an integral part of this Report.

### Auditors' report

The External Auditors' of the Bank are Messrs Ernst and Young, Chartered Accountants. Messrs Ernst & Young, Chartered Accountants carried out the Audit on the Financial Statements of the Bank for the year ended 31 December 2018 and their report on these Financial Statements, as required by the Section 168 (1) (c) of the Companies Act is given on page 121 of this Annual Report. The Auditors' remuneration details are stated in Note 10 to the Financial Statements on page 145. As per the knowledge of the Directors the Auditors are independent and do not have any relationships or any interest in contracts with the Bank.

### Significant accounting policies

The Significant Accounting Policies adopted in the preparation of the Financial Statements are given on pages 128 to 142 and comply with Section 168 (1) (d) of the Companies Act No. 07 of 2007.

### Going concern

The Directors have made an assessment of the Bank's ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, the Directors are not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern, such as restrictions or plans to curtail operations.

### Financial results and appropriations

#### Gross income

The gross income of the Bank for 2018 was LKR 13.64 Bn. (2017: LKR 11.37 Bn.). An analysis of the gross income is given in Note 3 to the Financial Statements on pages 143 to 144.

### Profits and appropriations

The net profit before tax of the Bank amounted to LKR 644 Mn. in 2018 (2017: LKR 753 Mn.) and this has reduced by 14% when compared to 2017. Further, the net profit after tax of the Bank amounted to LKR 357 Mn. in 2018 (2017: LKR 508 Mn.) and this was a decrease of 30% when compared to 2017. A detailed breakup of profits and appropriations of the Bank is given below:

Description	2018 LKR	2017 LKR
<b>Profit for the year</b>		
Profit for the year ended 31 December after payment of all operating expenses and provision for depreciation and contingencies	644,142,473	752,601,109
Less: Taxation	(287,192,354)	(244,777,577)
<b>Net profit after tax</b>	<b>356,950,119</b>	<b>507,823,532</b>
<b>Other Comprehensive Income (OCI)</b>		
Actuarial Gain/(losses) on defined benefit plans	(45,995,306)	2,885,075
Gains/(losses) on remeasuring available-for-sale financial assets	(3,388,111)	-
Deferred tax relating to other comprehensive income	12,878,686	(807,812)
<b>Total comprehensive income for the year</b>	<b>320,445,388</b>	<b>509,900,786</b>
Unappropriated profit brought forward from previous year	1,328,049,884	1,237,288,175
<b>Balance available before adjustment</b>	<b>1,648,495,272</b>	<b>1,747,188,961</b>
<b>Impact of adoption of SLFRS 9 as at 1 January 2018</b>		
	(37,054,387)	-
<b>Appropriations</b>		
Transfer to statutory reserve fund	(17,847,506)	(25,391,177)
<b>Dividend</b>		
Final cash dividend – 2016 (LKR 2.50) per share	-	(131,249,300)
Final scrip dividend – 2016 (LKR 5.00) per share	-	(262,498,600)
Final cash dividend – 2017 (LKR 2.50 per share)	(136,947,168)	-
Final scrip dividend – 2017 (LKR 3.50 per share)	(191,726,035)	-
Unappropriated balance carried forward as at 31 December	1,264,920,177	1,328,049,884

## Taxation

The income tax rate applicable on the Bank's domestic operations is 28% (2017: 28%). Details of tax payments are given in Note 11 to the Financial Statements on page 146.

The Bank 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". Details of deferred tax provisions made are given in Note 11.2 to the Financial Statements on pages 146 and 147.

The Bank is liable for VAT and NBT on financial services at 15% (2017: 15%) and 2% (2017: 2%) respectively. With effect from 1 October 2018 the Bank is liable for the Debt Repayment Levy (DRL) at 7% and from 1 April 2013, the Bank is liable for Crop Insurance Levy at 1% which is payable to the National Insurance Trust Fund Board.

## Statutory payments

The Directors, to the best of their knowledge and belief are satisfied that all statutory payments (including all taxes, duties and levies payable by the Bank) due to the Government, other regulatory institutions and related to the employees have been made on time or where relevant provided for.

## Reserves

A summary of the Bank's reserves position is as given below:

As at 31 December	2018 LKR	2017 LKR
Statutory reserve fund	215,611,469	197,763,963
Other reserves	30,814,883	34,202,994
Retained profits	1,280,762,267	1,340,503,863

Information on the movement of reserves is given in the Statement of Changes in Equity on page 126 and in Notes 30 to 32 to the Financial Statements on pages 162 and 163.

## Capital expenditure

The total capital expenditure on acquisition of property, plant and equipment of the Bank amounted to LKR 216,934,546 (2017: LKR 272,786,130). Details are given in Note 20 to the Financial Statements.

## Capital commitments

The contracted and approved capital expenditure as at the date of the reporting is given in Note 20 to the Financial Statements.

## Property, plant and equipment, intangible assets and leasehold property

Information on property, plant and equipment and leasehold property of the Bank are given in Note 20 to the Financial Statements on page 154. Particulars of intangible assets are given in Note 22 to the Financial Statements on page 156.

Investment properties of the Bank are disclosed in accordance with Sri Lanka Accounting Standard – 40 – "Investment Property". Specific information on extent, location of the land and buildings held by the Bank are given under Note 21 to the Financial Statements on pages 155 and 156.

## Stated capital

The stated capital of the Bank as at 31 December 2018 amounted to LKR 5,921,538,126 consisting of 56,308,252 ordinary voting shares (2017: LKR 5,758,689,211 consisting of 54,778,867 ordinary voting shares).

The number of shares in issue of the Bank increased from 54,778,867 ordinary shares to 56,308,252 ordinary shares as a result of the scrip dividend of one ordinary share for every 35.3754159668 ordinary shares held by shareholders. The details of the shares issued are given in Note 29 to the Financial Statements.

## Debt Capital

The Bank has issued Rated Guaranteed Redeemable Debentures of LKR 100 each in 2015 which are guaranteed by Sampath Bank PLC and Seylan Bank PLC to the total outstanding value of LKR 4,198,547,716 as at 31 December 2018 (2017: LKR 4,189,812,218), which are listed on the Colombo Stock Exchange. The details of the debentures outstanding as at 31 December 2018 are given in Note 26 to the Financial Statements.

## Share information

Information in relation to earnings, net assets, dividends and market value per share etc., is given on page 58. Information on the trading of shares and movement in the number of shares represented by the stated capital is given in the section on "Investor Relations" on pages 51 to 58 to this Report.

Details on shareholding distribution, share ownership composition and substantial shareholding are as follows:

### Distribution schedule of shareholdings

Shareholder	As at 31 December 2018		As at 31 December 2017	
	Number of shareholders	Number of shares	Number of shareholders	Number of shares
Individual	34,060	16,516,455	34,710	16,242,578
Institution				
Foreign	4	12,289,797	3	11,942,201
Local and other institutions	50	11,847,519	47	10,927,204
SANASA Federation				
Acc 1	1	720,024	1	764,730
Acc 2		28,439		27,658
SANASA societies	3,372	7,047,079	3,360	6,365,985
SANASA unions	35	1,242,645	34	1,147,359
MPCCS	21	156,595	21	152,301
Trust companies	105	6,459,699	107	7,208,851
<b>Total</b>	<b>37,648</b>	<b>56,308,252</b>	<b>38,283</b>	<b>54,778,867</b>

### Composition of share ownership

	31 December 2018				31 December 2017			
	Number of shareholders	%	Number of shares	%	Number of shareholders	%	Number of shares	%
1 – 1000	36,003	95.63	4,404,185	7.82	36,659	95.76	4,472,661	8.17
1001 – 10000	1,286	3.42	3,556,285	6.32	1,282	3.35	3,530,007	6.44
10001 – 100000	313	0.83	9,447,858	16.78	294	0.77	9,237,897	16.86
100001 – 1000000	38	0.10	8,607,818	15.29	40	0.10	9,277,569	16.94
1000001 – and above	8	0.02	30,292,106	53.79	8	0.02	28,260,733	51.59
	37,648	100	56,308,252	100	38,283	100	54,778,867	100

### Substantial shareholdings

Names of the twenty largest shareholders, with their respective shareholdings and percentage holdings as at 31 December 2018 with their Comparative Shareholding as at 31 December 2017 are as follows:

No. Shareholder name	31 December 2018		31 December 2017	
	No. of shares	%	No. of shares	%
1. Seylan Bank PLC/Dr Thirugnanasambandar Senthilverl	6,936,510	12.32	6,203,204	11.32
2. Ayenka Holdings (Pvt) Ltd.	6,779,840	12.04	–	–
3. SBI FMO Emerging Asia Financial Sector Fund (PTE) LTD.	5,045,636	8.96	4,906,926	8.96
4. CB NY S/A International Finance Corporation	4,991,644	8.86	4,854,419	8.86
5. Nederlandse Financierings Maatschappij Voor Ontwikkelingslanden N.V	2,242,504	3.98	2,180,856	3.98
6. People's Leasing & Finance PLC	2,094,012	3.72	2,036,446	3.72
7. Seemasahitha SANASA Rakshana Samagama (General)	1,162,630	2.06	1,130,669	2.06
8. Kegalle SANASA Shareholders Trust Company Limited	1,039,330	1.85	1,010,758	1.85
9. Seemasahitha SANASA Rakshana Samagama (Life)	910,708	1.62	885,672	1.62
10. Sampath Bank PLC/Dr T Senthilverl	871,885	1.55	835,005	1.52
11. SANASA Federation Ltd.	720,024	1.28	764,730	1.40
12. Polgahawela Sanasa Societies Union Ltd.	387,314	0.69	351,804	0.64
13. Hambanthota DTCCS Union Ltd.	384,257	0.68	373,694	0.68
14. Warakapola SANASA Shareholders Trust Company Ltd.	380,249	0.67	511,257	0.93
15. Dr T Senthilverl	373,598	0.66	34,837	0.06
16. Kolonnawa SANASA Shareholders Trust Company Ltd.	257,370	0.46	250,295	0.46
17. Mr D P Pieris	257,067	0.46	343,107	0.63
18. Polgahawela SANASA Shareholders Trust Company Ltd.	238,667	0.42	234,256	0.43
19. Sampath Bank PLC/Mr Arunasalam Sithampalam	224,333	0.40	26,093	0.05
20. Dr S Yaddehige	205,653	0.37	265,466	0.48

### Equitable treatment to shareholders

The Bank has at all times ensured that all shareholders are treated equitably.

## Information on the Directors of the Bank

The Board of Directors of the Bank consists of Nine (2017: Ten) Directors with wide financial and commercial knowledge and experience. The names of the Directors of the Bank as at 31 December 2018 are given below as per Section 168 (1) (h) of the Companies Act. Their brief profiles appear on pages 16 to 20 of the Annual Report. The classification of Directors into Executive Director (ED), Non-Executive Director (NED) and Independent Director (ID), Non-Independent Director (NID) is given against the names as per Listing Rules and Corporate Governance Rules of Colombo Stock Exchange and Banking Act Direction No. 12 of 2007 issued by the Central Bank of Sri Lanka.

Name of the Director	Executive/ Non-Executive status	Independent/ Non-Independent status
Ms S Kiriwandeniya	Non-Executive	Non-Independent
Mr Lakshman Abeysekera	Non-Executive	Independent
Prof Sampath Amaratunge	Non-Executive	Independent
Mr Prabhash Subasinghe	Non-Executive	Non-Independent
Mr K G Wijerathne	Non-Executive	Non-Independent
Mr S Lionel Thilakarathne	Non-Executive	Non-Independent
Mr Arnoldus de Vette	Non-Executive	Non-Independent
Mr Chaaminda Kumarasiri	Non-Executive	Independent
Mr H Prasanna Premaratna	Non-Executive	Independent

### New appointments made during 2018

Mr K G Wijerathne – Appointed w.e.f. 22 May 2018	Non-Executive	Non-Independent
Mr Chaaminda Kumarasiri – Appointed w.e.f. 1 June 2018	Non-Executive	Independent
Mr H Prasanna Premaratna – Appointed w.e.f. 12 September 2018	Non-Executive	Independent

### Resignations/Retirements during 2018

Mr H M G B Herath (Retired w.e.f. 22 May 2018)	Non-Executive	Non-Independent
Mr M K L Fernando (Retired w.e.f. 9 June 2018)	Non-Executive	Independent
Mr D J K Newunhella (Resigned w.e.f. 31 July 2018)	Non-Executive	Independent
Mr N Liyanaarachchi (Resigned w.e.f. 29 August 2018)	Non-Executive	Non-Independent

## Retirement by rotation and Re-election/Re-appointment of Directors

- i. In terms of Article 6 (4) of the Articles of Association, one-third of the aggregate of Non-Executive Directors shall retire by rotation at each Annual General Meeting. Article 6 (4) provides that the Directors to retire by rotation at an AGM shall be those who (being subject to retirement by rotation), have been longest in office, since their last election or appointment, and Mr B R A Bandara who has appointed by board to fill casual vacancy will be subject to election at the 22nd AGM, and he is eligible to be re-elected.
- ii. The Board recommended the re-election of the following Directors, after considering the contents of the Affidavits and Declarations submitted by them and all other related issues:
  - a) Mr P Subasinghe
  - b) Mr S Lionel Thilakarathne
  - c) Mr B R A Bandara
- iii. Directors who served on the Board for over nine years.

In terms of the Banking Act Direction No. 12 of 2007 (Corporate Governance for Licensed Specialised Banks in Sri Lanka), the total period of service of a Director (other than a Director who holds the position of Chief Executive Officer) shall not exceed nine years. As of 31 December 2018 during the period under review Mr H M G B Herath completed nine years.

## Board subcommittees

The Board of Directors of the Bank formed four mandatory Board subcommittees namely, The Board Selection and Nomination Committee, The Board Human Resources and Remuneration Committee, The Board Integrated Risk Management Committee and The Board Audit Committee as required by the Banking Act Direction No. 12 of 2007 on “Corporate Governance for Licensed Specialised Banks in Sri Lanka” issued by the CBSL.

The Board formed a Related Party Transactions Review Committee in 2014 to assist the Board in reviewing all related party transactions carried out by the Bank by early adopting the Code of Best Practice on Related Party Transactions as issued by the Securities and Exchange Commission of Sri Lanka (the SEC) which became mandatory from 1 January 2016.

The Board of Directors also has formed three other voluntary Board subcommittees to assist the Board. These committees play a critical role in order to ensure that the activities of the Bank at all times are conducted with the highest ethical standards and in the best interest of all its stakeholders. The Terms of Reference of these subcommittees confirm to the recommendations made by various regulatory bodies, such as the Central Bank of Sri Lanka, The Institute of Chartered Accountants of Sri Lanka, the Securities and Exchange Commission, and the Colombo Stock Exchange.

The composition of both mandatory and voluntary Board subcommittees, as at 31 December 2018 and the details of the attendance by Directors at meetings are tabulated on page 113 while the reports of these subcommittees are found on page 112 in this Report.

### Board subcommittees and its composition

Committee	Composition	Mandate
Board Integrated Risk Management Committee	Prof S Amaratunge (Chairman) Mr C Kumarasiri Mr P Subasinghe	Quarterly
Board Audit Committee	Mr L Abeysekera (Chairman/Senior Director) Prof S Amaratunge Mr K G Wijerathne Mr C Kumarasiri	Monthly
Board Human Resources and Remuneration Committee	Mr C Kumarasiri (Chairman) Ms S Kiriwandeniya Mr L Abeysekera (Senior Director)	At least 6 times annually
Board Selection and Nomination Committee	Mr L Abeysekera (Chairman/Senior Director) Prof S Amaratunge Ms S Kiriwandeniya	If and when it is required
Board-Related Party Transactions Review Committee	Mr C Kumarasiri (Chairman) Prof S Amaratunge Mr H P Premaratna	Quarterly
Board ICT and Business Strategic Committee	Ms S Kiriwandeniya (Chairperson) Mr L Abeysekera (Senior Director) Prof S Amaratunge Mr P Subasinghe Mr A P J de Vette	Quarterly
Board Credit Committee	Mr H P Premaratna (Chairman) Ms S Kiriwandeniya Mr S L Thilakarathne Mr A P J de Vette	Monthly
Board Co-operative Development Committee	Mr K G Wijerathne (Chairman) Mr L Abeysekera (Senior Director) Mr S L Thilakarathne	Quarterly

## Director's meetings

Details of the meetings of the Board of Directors which comprises with Board Meetings, Board Audit Committee Meetings, Board Selection and Nomination Committee Meetings, Board Human Resource and Remuneration Committee Meetings, Board Credit Committee Meetings, Board Integrated Risk Management Committee Meetings, Board ICT and Business Strategic Committee Meetings, Board-Related Party Transactions Review Committee Meetings and Board Co-operative Development Committee Meetings and the attendance of Directors at these meetings are given below:

Name of the Director	Board Meeting	Board Credit Committee (BCC)	Board Audit Committee (BAC)	Board Human Resources and Remuneration Committee (BHRRC)	Board Integrated Risk Management Committee (BIRMC)	Board Selection and Nomination Committee (BS and NC)	Board ICT and Business Strategic Committee (BICT & BSC)	Board Related Party Transactions Review Committee (BRPTRC)	Board Co-operative Development Committee (BCDC)	Total
Ms S Kiriwandeniya	14/15	12/13	–	14/14	–	13/14	4/4	–	–	57/60
Mr L Abeysekera	15/15	–	18/18	13/14	3/5	14/14	4/4	–	3/6	70/76
Mr H M G B Herath	5/15	6/13	–	–	–	–	–	–	3/6	14/34
Mr D J K Newunhella	9/15	2/13	10/18	10/14	3/5	5/14	–	3/4	–	42/83
Prof S Amaratunge	10/15	–	13/18	6/14	4/5	5/14	1/4	3/4	–	42/74
Mr M K L Fernando	6/15	6/13	–	–	–	–	–	2/4	3/6	17/38
Mr P Subasinghe	13/15	–	–	–	1/5	5/14	3/4	–	–	22/38
Mr N Liyanaarachchi	9/15	–	–	0/14	2/5	–	–	–	4/6	15/40
Mr S L Thilakarathne	15/15	12/13	–	–	–	–	–	–	6/6	33/34
Mr A P J de Vette	12/15	11/13	–	–	–	–	1/4	–	–	24/32
Mr K G Wijerathne	7/15	–	7/18	–	–	–	–	–	3/6	17/39
Mr C Kumarasiri	8/15	–	8/18	4/14	2/5	4/14	–	2/4	–	28/70
Mr H P Premaratna	5/15	4/13	–	–	–	–	–	1/4	–	10/32

Mr L Abeysekera	Appointed to the BCDC w.e.f. – 20 June 2018 Retired from the BHRRC, BIRMC w.e.f. – 20 June 2018 Reappointed to the BHRRC w.e.f. – 26 September 2018
Mr H M G B Herath	Retired from the Board, BCDC, BCC w.e.f. – 22 May 2018
Mr D J K Newunhella	Resigned from the Board w.e.f. – 31 July 2018 Appointed to the BCC w.e.f. – 20 June 2018 Resigned from BS & NC, BAC, BIRMC w.e.f. – 20 June 2018 Resigned from BHRRC, BRPTRC, BCC w.e.f. – 31 July 2018
Prof S Amaratunge	Retired from the BHRRC w.e.f. – 20 June 2018 Appointed to the BS & NC, BICT & BSC w.e.f. – 20 June 2018
Mr M K L Fernando	Retired from the Board w.e.f. – 9 June 2018 Retired from the BCC, BRPTRC, BCDC, BICT & BSC w.e.f. – 9 June 2018
Mr P Subasinghe	Appointed to the BIRMC w.e.f. – 20 June 2018
Mr N Liyanaarachchi	Resigned from the Board w.e.f. – 29 August 2018 Appointed to the BHRRC w.e.f. – 20 June 2018 Resigned from the BHRRC, BCDC, BIRMC w.e.f. – 29 August 2018
Mr A P J de Vette	Appointed to the BICT & BSC w.e.f. – 20 June 2018
Mr K G Wijerathne	Appointed to the Board w.e.f. – 22 May 2018 Appointed to the BAC, BCDC w.e.f. – 20 June 2018
Mr C Kumarasiri	Appointed to the Board w.e.f. – 1 June 2018 Appointed to the BAC, BHRRC, BIRMC, BRPTRC w.e.f. – 20 June 2018
Mr H P Premaratna	Appointed to the Board w.e.f. – 12 September 2018 Appointed to the BRPTRC, BCC w.e.f. – 12 September 2018

### Disclosure of Directors' dealing in shares

Individual ordinary voting shareholdings of persons who were Directors of the Bank at any time during the financial year are as follows:

#### Number of shares

Name of the Director	As at 31 December 2018	As at 31 December 2017
Ms S Kiriwandeniya	5,785	5,627
Mr L Abeysekera	-	-
Prof S Amaratunge	-	-
Mr P Subasinghe	69,341	67,435
Mr S L Thilakarathne	-	-
Mr A P J de Vette	-	-
Mr K G Wijerathne	117	-
Mr C Kumarasiri	-	-
Mr H P Premaratna	-	-

#### Public shareholding percentage

	As at 31 December 2018 %	As at 31 December 2017 %
Public	99.87	99.87
Directors	0.13	0.13

### Directors' Interests in Contracts or Proposed Contracts

The Bank maintains Directors' Interests Register as required under the provisions of Section 168 (1) (e) of the Companies Act No. 07 of 2007. The Directors of the Bank have disclosed their interests in contracts or proposed contracts, in terms of Section 192 (1) and 192 (2) of the Companies Act. These interests have been recorded in the interests' register which is available for inspection in terms of the provisions of the Companies Act. As a practice, Directors have refrained from voting on matters in which they were materially interested. Directors have no direct or indirect interest in any other contract or proposed contract with the Bank.

### Directors' remuneration

As required under the Section 168 (1) (f) of the Companies Act No. 07 of 2007, Directors' remuneration and other benefits in respect of the Bank for the financial year ended 31 December 2018 are given in Note 10 to the Financial Statements on page 145.

### Related party transactions

Directors have 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 are given in Note 35 to the Financial Statements which form an integral part of the Annual Report of the Board of Directors.

Bank has also 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.

### Directors' and officers' insurance

The Bank has, during the financial year, paid an insurance premium in respect of an insurance policy for the benefit of the Bank and the Directors, secretaries, officers and certain employees of the Bank as defined in the insurance policy. In accordance with commercial practice, the insurance policy prohibits disclosure of the terms of the policy, including the nature of the liability insured against and the amount of the premium.

### Environmental Protection

To the best of knowledge of the Board, the Bank has complied with the relevant environmental laws and regulations. The Bank has not engaged in any activity that is harmful or hazardous to the environment.

### Events after the reporting period

No event of material significance that require adjustments to the Financial Statements, has occurred subsequent to the reporting period, other than those disclosed in Note 34 to the Financial Statements on page 165.

### Appointment of Auditors and their remuneration

The Bank's Auditors during the period under review were Messrs Ernst & Young, Chartered Accountants. Audit fees and reimbursement of expenses paid to Ernst & Young during the year under review by the Bank amounted to LKR 2,876,530 (2017: LKR 2,265,973). Further LKR 708,400 (2017: LKR 708,410) were paid by the Bank for audit-related and non-audit services including reimbursement of expenses. Details of the audit fees paid are given on Note 10 to the Financial Statements on page 145.

Based on the declaration provided by Messrs Ernst & Young, and as far as the Directors are aware, the Auditors do not have any relationship or interest with the Bank that in our judgement, may reasonably be thought to have a bearing on their independence within the meaning of the Code of Professional Conduct and Ethics issued by The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka), applicable on the date of this Report.

The retiring Auditors, Messrs Ernst & Young, have expressed their willingness to continue in office. Hence they may come up for re-election at the Annual General Meeting, with the recommendation of Board Audit Committee and the Board of Directors. In accordance with the Companies Act, a resolution proposing the reappointment of Messrs Ernst & Young, Chartered Accountants, as Auditors is being proposed at the Annual General Meeting.

### Information on ratios, market prices of shares and credit ratings

Information that requires disclosures as per Rule 7.6 (xi) of the Listing Rule of the CSE are given in the Section on “Investor Relations” on pages 51 to 58.



### Risk management and internal control

The Bank has an ongoing process in place to identify, evaluate and manage the risks that are faced by the Bank. The Directors continuously review this process through the Board Integrated Risk Management Committee. Specific steps taken by the Bank in managing both banking and non-banking risks are detailed in the Section on “Managing Risks” on pages 60 to 65 and in Note 41 to the Financial Statements on pages 174 to 183.

The Directors have taken reasonable steps open to them to safeguard the assets of 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 throughout the year and it is being 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 the frauds and other irregularities and secure as far as practicable the accuracy and reliability of the records.

### Board of Directors on the Affairs of the Company

The Board has issued a report on the internal control mechanism of the Bank as per Section 3 (8) (ii) (b) of Banking Act Direction No. 12 of 2007 on Corporate Governance. The Board has confirmed that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of the financial reporting, and that the preparation of Financial Statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements. The above report, which forms an integral part of the Annual Report of the Board of Directors, is given on page 116 and 117.

The Board has obtained an assurance report from the External Auditors on Directors’ Statement on Internal Control which is given on page 118 of the Annual Report.

### Outstanding litigations

In the opinion of the Directors and the Bank’s Lawyers, pending litigation against the Bank disclosed in Note 33.2 of the Financial Statements given on pages 164 and 165 will not have a material impact on the financial position of the Bank or its future operations.

### Corporate Governance

Directors’ declarations:

- i. the Bank complied with all applicable laws and regulations in conducting its business and have not engaged in any activity contravening the relevant laws and regulations. Officers responsible for ensuring compliance with the provisions in various laws and regulations, confirm compliance in each quarter to the Board Integrated Risk Management Committee;
- ii. the Directors have declared all material interests in contracts involving the Bank and refrained from voting on matters in which they were materially interested;
- iii. all endeavours have been made to ensure that shareholders in each category have been treated equitably in accordance with the original Terms of Issue;

- iv. the business is a going concern with supporting assumptions or qualifications as necessary, and that the Board of Directors has reviewed the Bank’s Corporate/Business Plans and is satisfied that the Bank has adequate resources to continue its operations in the foreseeable future. Accordingly, the Financial Statements of the Bank are prepared based on the going concern assumption; and
- v. they have conducted a review of internal controls covering financial, operational and compliance controls, risk management and have obtained a reasonable assurance of their effectiveness and proper adherence. The measures taken and the extent to which the Bank has complied with the Code of Best Practice on Corporate Governance issued by the CA Sri Lanka and the SEC, the CSE and the CBSL are given on pages 72 to 94.


### Annual General Meeting and the Notice of Meeting

The 22nd Annual General Meeting of the Bank will be held at SANASA Uththamavi Hall, Paragammana, Hettimulla, Kegalle at 9.00am on the 30 May 2019.

### Acknowledgement of the Contents of the Report

As required by Section 168 (1) (k) of the Companies Act No. 07 of 2007, the Board of Directors hereby acknowledges the contents of this Annual Report.

For and on behalf of the Board of Directors,



**Samadanie Kiriwadeniya**  
Chairperson



**Lakshman Abeysekera**  
Senior Director



**Tamarika Rodrigo**  
Company Secretary

8 March 2019