

Composition of the Integrated Risk Management Committee

The Committee consists of three Non-Executive Directors, the Chief Executive Officer, Head Group Risk, Head of Operational Risk, Head of Market Risk and Head of Strategic Risk (CFO). As at year end Committee comprised of the following:

Chairman	Mr Sarath Wikramanayake
Members	Mr Sunil G Wijesinha, Ms G D Chandra Ekanayake, Mr Rajendra Theagarajah, Mr Faizan Ozman (Group Chief Financial Officer), Ms Nirmala Rayen (Head - Group Risk Management), Ms Chamila Chandrapala (Head- Market Risk), Mr Priyantha Gamage (Head - Operational Risk)

Charter of the Integrated Risk Management Committee

The Integrated Risk Management Committee was formed in June 2008 replacing the Risk & Credit Committee of the Board, in compliance with the Section 3 (6) of Direction No. 11 of 2007, on the subject "Corporate Governance for Licensed Commercial Banks in Sri Lanka", issued by the Monetary Board of the Central Bank of Sri Lanka under the powers vested in the Monetary Board, in terms of the Banking Act No. 30 of 1988. The composition and the scope of work of the Committee are in conformity with the provisions of the said Direction.

The Charter of the IRMC was approved by the Board of Directors and is reviewed annually. As part of the annual review process, Committee reviewed the charter in May 2014 and there were no material changes made. As per the Charter, the scope of work include the following:

- Assess all risks of the Bank and Group on a monthly basis through appropriate risk indicators and management information.
- Submit a risk assessment report within a week of each meeting to the Board seeking the Board's views, concurrence and/or specific directions.
- Review the work carried out and decisions made by all management level committees such as the Credit Committee, Asset-Liability Committee, Credit and Market Risk Policy Committee and the Operational Risk Policy Committee to address specific risks and to manage those risks within quantitative and qualitative risk limits
- Take prompt corrective action to mitigate the effects of specific risks in the case such risks are at levels beyond the prudent levels decided by the Committee/Board on the basis of the Bank's policies and regulatory and supervisory requirements.
- Take appropriate action against the officers who fail to identify specific risks, and/or take prompt corrective actions as recommended by the Committee, and/or as directed by the Director of Bank Supervision. The course of action to be taken against staff would be governed by the HR disciplinary action procedure in force.

- Review and discuss the scope of work of the Group Risk Management Department.
- Receive copies of regulatory examination reports pertaining to matters that are within the purview of the Committee and Management's responses thereto.

Committee Guiding Principles

- Responsible to the Board of Directors and the Committee's role is one of oversight.
- Management is responsible for designing, implementing and monitoring an effective risk program.
- Line business managers are responsible for managing risks in the areas for which they are responsible.
- Each member of the Committee shall be entitled to rely in good faith on the integrity of those persons from whom he or she receives information.

Meetings

The Committee held four meetings, during the year under review to discuss the normal scope of work and one additional meeting to discuss the ICAAP Framework of the Bank. The attendance of Committee Members at meetings is given below:

The Committee reviews all key risks of the Bank such as Credit, Market, Liquidity, Operational Risks and the Key Risk Indicators of the Group Companies on a monthly basis through the monthly KRI statements. Group Companies covered are NDB Investment Bank, NDB Capital Holdings PLC, NDB Wealth Management Ltd., NDB Securities (Pvt.) Ltd., and NDB Capital Bangladesh.

The discussions and conclusions reached at the meetings are recorded in minutes and circulated to the Board of Directors for their information and necessary action.

Key members of the staff participate at the meetings as appropriate.

Name of Board Committee Member	Directorship Status	Membership Status	Number of Meetings Attended
Sarath Wikramanayake	Non-Executive Director	C	05/05
Sunil G Wijesinha	Non-Executive Director	M	03/05
G D Chandra Ekanayake	Non-Executive Director	M	03/05
Rajendra Theagarajah	Executive Director	M	05/05

C - Chairman M - Member I - On invitation

Methodology Used by the Committee

- Work closely with Key Management Personnel and make decisions on behalf of the Board within the framework of the authority and responsibility assigned to the committee.
- Assess all risks faced by the Bank, its subsidiaries and associate companies, through appropriate risk indicators and management information.
- Specify Risk Appetite and recommend prompt corrective action to mitigate the effects of specific risks in case such risks are at levels beyond the prudent levels decided by the Committee on the basis of Bank's/Group's policies and regulatory and supervisory requirements.

Summary of Activities

Credit Risk

Reviewed and approved policies and operating guidelines related to impairment policy and Bank's Risk Management Policy on Exposure to Stock Market Activities.

Reviewed portfolio quality covering

- The amount, characteristics, concentrations and quality of the Bank's loan portfolio, large credit exposures, sector and geographical distribution of portfolio.
- Exposure to Stock Market Activities/Margin Trading Exposures Reports
- Pawning Portfolio/Raththaran Ithurum
- Collections and Recoveries
- Movements in Commodity Prices
- Portfolio Value at Risk
- Top Credit & Market Risks

Reviewed work carried out by the Executive Credit Committees (ECC), Credit and Market Risk Policy Committee by reviewing the decisions taken by each committee.

Operational Risk

Reviewed and approve, policies and operating guidelines related to Operational Risk Policy, Risk & Control Self Assessment & Key Operational Risk Controls, Key Risk Indicators Methodology Paper, Operational Risk Data Collection, Business Continuity Management.

Reviewed operational risk issues, including but not limited to:

- Significant Operational Risks, Risk breakdown by control type, KRIs related to HR, Operational Losses due to cash shortages and frauds, IT related incidents, Account Reconciliations and Compliance, Operational Losses

- The adequacy of the Bank's Business Continuity and Disaster Recovery planning including the review of test results

Review work carried out by the Operational Risk Policy Committee by reviewing the decisions taken by committee.

Liquidity and Market Risk

Reviewed and approved policies and operating guidelines related to Liquidity Risk Management Liquidity Contingency Funding Plan, Asset Liability Management, Investment Policy, Interest Rate Risk Management Policy, Treasury Dealing Room Limits, Individual Dealer & Authorisation Limits.

Reviewed information and monitored the effectiveness of the management of asset and liabilities, including local and foreign currency maturity mis-matches, price sensitivity, FX Risk Report, Country Risk Report, Debt/ equity/commodity exposure, Securities portfolio, MRM/ALM Limit Compliance Report.

Reviewed work carried out by the Asset Liability Committee (ALCO) by reviewing the decisions taken by Committee.

Compliance

Assessed the Bank's compliance with laws, regulations and regulatory guidelines, internal policies in all areas of business operations.

Reviewed and approved the annual work plan of Compliance function and assess work carried out.

Others

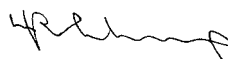
Review Risk Dashboards of the Group Companies through the monthly KRI statements and quarterly Risk Assessment Report.

Review and approve Annual Review of Internal Capital Adequacy Assessment Process (ICAAP) Document for 2014.

Review performance against Risk Appetite.

Review progress on Integrated Risk Management Framework Implementation and new guidelines issued on Stress Testing and Baseline Security Standard for Information Security Management.

Quarterly updates on the Regulatory Examination Report.



Sarath Wikramanayake
Chairman - Integrated Risk Management Committee
Colombo

13 February 2015