THRIVING IN PROGRESS

UNION BANK

ANNUAL REPORT 2019

THRIVING IN PROGRESS

As we step into a landmark year for Union Bank, we celebrate 25 years of service to the nation. Supported by a strong foundation that has shaped our transformational journey of growth for over two decades, we will continue to reinforce our future progression.

The steadfast partnerships built with our stakeholders over the years have cemented our ascent as one of the fastest growing banks in the country that fulfills financial aspirations of a diverse clientele.

Through the years, we have built a trusted bank that delivers customised solutions, personalised attention and modern conveniences to its customers.

With time, we have augmented our presence, progressed towards technological leadership, invested in our people and continued to uphold good corporate governance – all of which have contributed to our transformational journey and secured strong relationships with our customers, shareholders, employees, communities and other stakeholders.

With the traction gained over the years, in this 25th year of Union Bank we resolve to thrive in progress by setting a sustainable growth path that will ably fulfill our responsibilities towards all our stakeholders.

01-19

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www.unionb.com

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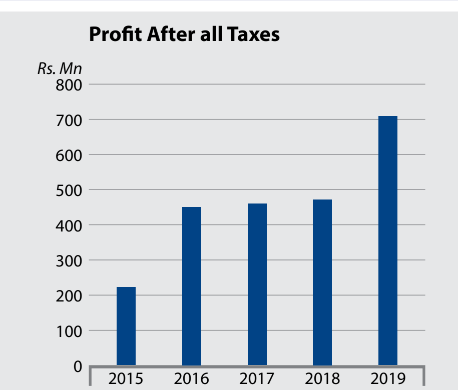
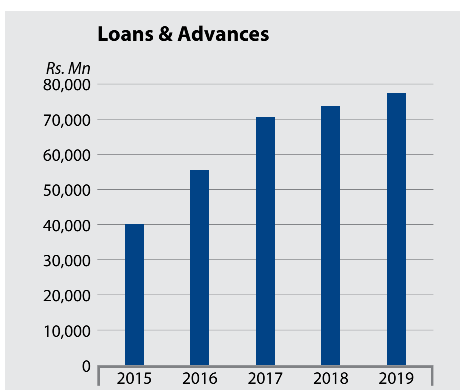
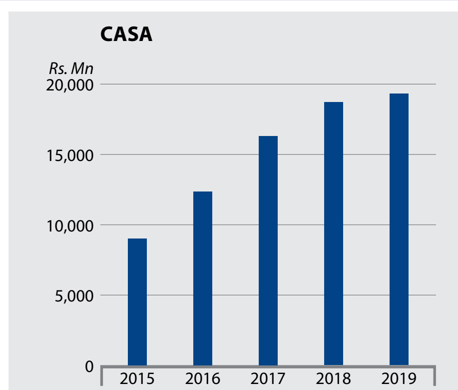
FINANCIAL HIGHLIGHTS

	BANK			GROUP		
	2019	2018	Change %	2019	2018	Change %
Results for the year (Rs.'000)						
Gross income	14,712,069	13,910,425	5.8%	16,781,718	16,075,953	4.4%
Total operating income	6,020,594	5,285,261	13.9%	6,916,154	6,257,985	10.5%
Results from operating activities	1,800,305	1,213,504	48.4%	1,982,878	1,415,180	40.1%
Profit for the year	710,347	472,548	50.3%	804,218	534,650	50.4%
Profit attributable to equity holders of the parent	710,347	472,548	50.3%	765,133	517,750	47.8%
Gross dividends	-	109,141	-	-	158,141	-
Assets and Liabilities (Rs.'000)						
Gross loans and receivables to customers	79,316,043	75,787,035	4.7%	87,397,947	85,452,541	2.3%
Due to customers	76,532,012	79,251,073	-3.4%	82,751,668	86,266,123	-4.1%
Total assets	121,753,659	125,920,154	-3.3%	129,839,965	135,031,708	-3.8%
Total liabilities	104,243,203	109,292,806	-4.6%	112,400,694	118,558,674	-5.2%
Total equity attributable to equity holders of the Bank	17,510,456	16,627,348	5.3%	17,198,626	16,260,733	5.8%
Profitability (%)						
Net Interest Margin	3.62%	2.98%		NA	NA	
Non-performing loans ratio (Gross)	5.03%	3.68%		NA	NA	
Return on average shareholders' funds - (ROE)	4.16%	2.74%		4.57%	3.07%	
Return on average assets - (ROA)	0.57%	0.39%		0.58%	0.39%	
Information per ordinary share						
Earnings - Basic (Rs.)	0.65	0.43		0.70	0.47	
Net asset value (Rs.)	16.16	15.23		15.87	14.90	
Market value as at 31 December (Rs.)	13.30	11.00		NA	NA	
Dividend (Rs.)	-	0.10		NA	NA	
Dividend Yield (%)	-	0.91		NA	NA	
Regulatory Ratios (%)						
Capital Adequacy Ratio (%)						
Common Equity Tier 1 Capital Ratio (Minimum Requirement - 2019 - 7.0% & 2018 - 6.375%)	16.61%	17.41%		16.12%	16.47%	
Tier 1 Capital Ratio (Minimum Requirement - 2019 - 8.5% & 2018 - 7.875%)	16.61%	17.41%		16.12%	16.47%	
Total Capital Ratio (Minimum Requirement - 2019 - 12.5% & 2018 - 11.875%)	16.75%	17.41%		16.36%	16.47%	
Leverage Ratio (Minimum Requirement 3%)	10.64%	NA		10.36%	NA	
Liquid Asset Ratio (%) (Minimum Requirement 20%)						
Domestic Banking Unit (%)	22.95%	21.77%		NA	NA	
Foreign Currency Banking Unit (%)	21.95%	21.14%		NA	NA	







CORPORATE PROFILE

UNION BANK

Established in 1995 as the 8th indigenous bank, Union Bank records 25 years of service to the nation in the year 2020. Today, it is one of the fastest growing commercial banks in the country, offering a wide range of financial products and services to Retail, SME and Corporate segments.

Organisational Profile

Established in 1995 as the 8th indigenous bank, Union Bank records 25 years of service to the nation in the year 2020. Today, it is one of the fastest growing commercial banks in the country, offering a wide range of financial products and services to Retail, SME and Corporate segments. Listed in the Colombo Stock Exchange, Union Bank is synonymous with progressiveness and potential for growth and is an entity that has attracted global and local investors. The global investment company TPG's investment of USD 117 Mn in Union Bank in 2014, acquiring 70% of the Bank's equity through its affiliate Culture Financial Holdings Ltd., marked a milestone in the financial services industry as one the largest foreign direct investments to Sri Lanka.

With a solid foundation etched with financial stability and international know-how, Union Bank is a full service bank offering a comprehensive range of products and services to financially empower individuals, entrepreneurs and corporates in Sri Lanka. Following the capital infusion the Bank implemented a cohesive plan for accelerated growth with substantial innovations and developments to its product offering, technological and delivery platforms with the view of providing a differentiated banking experience to its clientele.

Union Bank's growth is further augmented by the extensive investments made in network development initiatives. The Bank's network stands at 67 branches at present, provisioning unsurpassed service experiences to a diverse clientele across the island. The brick and mortar presence of the Bank is ably supplemented by alternate channels that include, dedicated sales forces for Asset and Liability products, a 24 hour call centre, a digital banking platform and a rapidly-growing island-wide ATM network of 115 bank-owned ATMs and access to over 99.95% of all ATMs in Sri Lanka through LankaPay, providing our clients with convenient access to financial services.

Union Bank's renewed positioning as a fully-fledged commercial bank providing a comprehensive range of financial products and services is further enhanced with its strategic diversifications within the financial services sphere. Union Bank's subsidiaries include National Asset Management Limited, Sri Lanka's premier asset management company and UB Finance Company Limited. Delivering a unique value proposition and backed by the strength of TPG, the US-based global private investment firm with over USD 100 Bn in capital under management and an extensive global network, today, Union Bank continues to expand its horizons as a preferred financial solutions provider.

About TPG

TPG is a leading global private investment firm founded in 1992 with over $ 100 Bn of assets under management and offices in San Francisco, Fort Worth, Austin, Beijing, Hong Kong, Houston, London, Luxembourg, Melbourne, Moscow, Mumbai, New York, São Paulo, Seoul and Singapore. TPG has been present in Asia since 1994 and is currently investing out of its seventh Asia-focused fund.

TPG has extensive experience with global public and private investments executed through leveraged buyouts, recapitalisations, spinouts, growth investments, joint ventures and restructurings. The firm's investments span a variety of industries including financial services, travel and entertainment, technology, energy, industrials, retail, consumer, real estate, media and communications, and healthcare.

Vision

To be the innovator of banking solutions to the wider Corporate, SME and Retail segments and to be their Bank of choice, through professional and empowered people.

Mission

- To our customers we provide the means of economic upliftment through customised banking and financial services.
- To our shareholders we provide a return on their investment above industry norm.
- To our staff we are a learning and innovative organisation providing opportunities for faster career progression within a pleasant work environment.
- We adhere to the practice of good Corporate Governance in the eyes of the regulatory authorities.
- We are conscious of the need to be a responsible corporate citizen for the betterment of our society.

Values

- We value and believe in a high degree of integrity, honesty and ethical behaviour in all our dealings
- We respect the dignity of people
- We are passionate about delivering the highest level of service quality to our external and internal customers
- We encourage and respect diversity among our team while creating a feeling of belongingness across the organisation
- We believe in leading by example

PROGRESS

Our solid foundation and strong capital base has aptly supported our continued and steadfast progress to become one of Sri Lanka's fastest growing banks.

REPORT PROFILE

Overview

{GRI 102-4/102-50/102-51/102-52/102-54}

The report reviews the operations of the Bank and its respective subsidiaries during the financial year from 1st of January 2019 to 31st of December 2019, complying with all the due financial and non-financial requirements. The report precisely exhibits the Bank's strategy, operational performance and stakeholder management processes which contributes significantly to the Bank's sustainable growth journey to achieve its strategic objectives within identified boundaries. Currently, the Bank functions only within the territory of Sri Lanka, and provides a comprehensive range of financial solutions to its customer bases within the respective boundaries. Union Bank publishes its financial and non-financial performance on an annual basis, the most recent previous report published was for the financial year 2018.

This report has been prepared in accordance with the GRI Standards: Core option. According to the GRI sustainability reporting guidelines, the Bank's prioratisation of GRI content aspects have been based on the principle of materiality and stakeholder inclusiveness. The GRI content index is set out on pages 138-139 of this report.

The financial statements appearing in this report have been prepared in accordance with the Sri Lanka Accounting Standards (LKASs/SLFRSs) in effect as at 31 December 2019, issued by the Institute of Chartered Accountants of Sri Lanka. The Bank operates in compliance with the requirements of the Companies Act No.07 of 2007, Banking Act and the listing rules of the Colombo Stock Exchange.

Endorsement or Subscription to externally developed Charters and Principles

{GRI 102-12}

In addition to all the relevant legal and regulatory frameworks and charters the Bank also endorses and or subscribes to the following,

- Code of Best Practices on Corporate Governance issued jointly by the Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka.
- The Global Reporting Initiatives for Sustainability Reporting (GRI)

External Assurance

{GRI 102-56}

We have appointed M/s Ernst & Young Chartered Accountants, an independent external auditor, to provide an assurance on the Bank's integrated sustainability initiatives and financial performance included in the report. The Board of Directors' recommendation is obtained in determining the external assurance provider and shareholders' approval has been obtained at the Annual General Meeting to appoint an independent external auditor.

Reporting Boundaries and Material Topics

{GRI 102-48/102-10/102-46}

This report is primarily about the performance of Union Bank's operations within the boundaries of Sri Lanka. Reporting is mainly focused on indicators that reflect on the Bank's performance against defined core sustainability focus areas such as economic, environmental and social impacts or that would influence the assessment and decisions of its stakeholders. The material assessment attached here further reveals details on the material topics and setting of aspect boundaries with regard to each factor. There have been no restatements to the information provided in previous reports or to the scope and aspect boundaries.

There were no significant changes regarding the Bank's size, structure and ownership or its supply chain, including changes in the location of or changes in the operations, changes in the capital structure and other capital formation, maintenance, and alteration operations and changes in the location of suppliers, the structure of the supply chain, or in relationships with suppliers, including selection and termination.

REPORT PROFILE

Material Topics and Boundaries

{GRI 102-47/102-49/103-1/103-2/103-3}

The materiality is defined by considering the significant impact, which the Bank's operations impose on its internal and external stakeholders and the influences the Bank receives from externalities. The Bank's operations have been reviewed considering both financial and non-financial aspects, in comparison with the previous year's assessment and no significant changes have taken effect to the materialistic topics and topic boundaries which are being considered on this report. The significance of materiality topics discussed herein are detailed below.

Economic Performance

Reasons for Materiality	Economic performance entails the organisation's considerations towards its stakeholders in terms of strategic decision making, which in turn enable the stakeholders to make long-term employment decisions, investment decisions and partnering decisions with the organisation. This would generate impacts on both internal and external stakeholders and hence the significance and relevance of economic performance being materialistic to the Bank.
Management Strategy	Measurement of the performance would be through evaluation of annual goals and objectives set based on the budgeted performance for the year reviewed. Quantitative measures of this aspect are presented through the Key Performance Indicators, illustrated on pages 16-17. The Bank continues to place high significance to this aspect as it impacts the Bank's long-term sustainable growth, and the performance is reported in line with the Sri Lanka Accounting Standards.
Evaluation Mechanism	Annual internal and external audits would provide in-depth analysis on the performance of the Bank, and the assurance provided following the audit proceedings would ensure that the Bank stands in accordance with the statutory and regulatory compliance requirements and facilitates a space to recognise the Bank's achievement against comparative competitor performance during the reporting year.

Energy *{GRI 302-1}*

Reasons for Materiality	Energy is recognised as an essential requirement to maintain uninterrupted, efficient organisational performance at pre-determined levels. The significance is high from both internal and external stakeholder perspectives, as the absence of energy would disrupt banking operations while limiting its customers from carrying out their daily banking requirements in a timely manner.
Management Strategy	The Bank currently does not maintain a branch-wise mechanism to count energy consumption details, but a preliminary phase has been initiated to record the Head Office data. Due to the higher significance of the topic, an appropriate branch-wise energy consumption monitoring process will be implemented in the future.
Evaluation Mechanism	With the implementation of the aforementioned management strategy for monitoring the energy consumption of the Bank, suitable evaluation mechanisms are being rolled out progressively.

REPORT PROFILE

Employment/Anti-Competitive Behaviour

Reasons for Materiality	The Bank values its employees as important assets, as the experience and skills to provide required services to customers are of paramount importance to the Bank's performance. The Bank believes in selecting the right person for the right job, be it through internal or external resources. Competition would be the drive which elevates the corporate unit to the next level, hence every business unit should ensure to maintain fair competitive conditions.
Management Strategy	The annual head count planning exercise, which is aligned to the Bank's strategy, provided direction regarding the roles that need to be resourced either internally or externally. The Bank follows a meticulous recruitment process to ensure that it provides career development opportunities to internal candidates through transfers and promotions. Further, the recruitment process is geared to select the suited candidates with the required knowledge, skills and abilities. The management has established sound processes and policies to ensure that employment is provided to the most suited candidates whilst constant efforts are made to ensure that all employees are rewarded and compensated on par with industry standards. The Bank's HR policy guides the direction in respect to this aspect and the HR department stands responsible for successful implementation of specific HR activities of the Bank. The Bank maintains sound compliance policies and negative competitive attempts, the same would be evaluated through periodical audits take up by the Compliance department and the Internal Audit unit.
Evaluation Mechanism	The policies relevant to the selection of employees and anti-competitive activities are periodically reviewed by the audit and compliance teams and recommendations are provided to address gaps, if any. The Bank also conducts an employee engagement surveys and remunerations surveys periodically, to gauge employee sentiment and evaluate the positioning of the Bank against the market.

Occupational Health and Safety

Reasons for Materiality	Providing a safe and healthy environment for employees to work is of utmost importance to the Bank. The Bank has thus established systems and processes across all locations to ensure employees are confident of the security provided, so that they are able to perform at their best in their respective roles.
Management Strategy	The Bank established security personnel and security devices such as CCTV cameras and access control across all locations, including the entire branch network. In addition a metal screening device was installed at the Head Office in 2019. The Bank conducts regular fire-drills, whilst selected employees are trained as fire wardens and on basic first aid skills periodically. In addition, all employees on the permanent cadre are covered by personal accident, critical illness and life covers along with surgical and hospitalisation insurance as well as reimbursements of OPD bills. The HR department stands responsible to ensure the full implementation of employee well-being by aligning the grievance mechanism and the HR policy in line with the industry norms.
Evaluation Mechanism	The effectiveness of fire drills is periodically assessed to ensure the Bank's readiness to safeguard employees during an emergency situation. All security equipments is checked and maintained frequently. In addition, an annual review of the surgical and hospitalisation insurance service provider is conducted to ensure that the best facilities are extended to employees.

REPORT PROFILE

Training and Education/Labour Management Relations

Reasons for Materiality	The Bank believes in equipping its employees with the skills and tools necessary to perform in their respective job roles at an optimum, in a bid to gear them towards delivering a remarkable service experience to its customers. Hence, the Bank invests significantly in providing opportunities for employees to learn and grow within the organisation. The Bank further ensures that employees receive sufficient training and upgraded knowledge on product information, operational procedures and regulatory compliance, so that the Bank's interests with regard to good governance are preserved at all times. Further communication could also be known as a prominent factor which facilitates the flow of information across various levels of the organisation.
Management Strategy	The scope for learning and development initiatives is reviewed annually and aligned to the Bank's strategy as well as regulatory requirements. The annual training budget is optimised to provide specific staff development interventions throughout the year. These interventions include internal training, external forums as well as selected overseas exposures. Further any changes to the operations or the existing designation changes of the Bank will be informed to the staff through global emails and town hall meetings. Town hall meetings are held on a bi-annual basis where all employees will provide an update relevant to financial and non-financial aspects of the Bank.
Evaluation Mechanism	The effectiveness of internal training interventions is assessed by obtaining spot feedback from employees subsequent to each training programme. The annual employee performance review exercise also allows the employee and line manager to highlight any particular training requirements needed during the year. This information is considered at the time of deciding on nominating employees for programs or when designing learning interventions. Overall sentiments of employees regarding learning and development are also obtained through the feedback of the employee engagement survey. All employee updates with respective to operations will be given by the HR department on a timely basis.

Customer Privacy /Marketing and Labeling and Socio Economic Compliance

Reasons for Materiality	As one of the fastest growing commercial banks in Sri Lanka with a growing network of 67 branches, the Bank serves a significant number of customers each day – thus the significance of the materiality of this aspect. All banks have a legal duty to protect the confidentiality of existing and former customers under the Banking Act and the Bank's responsibility for protecting customer data is continuing to grow in importance. External stakeholders would get adversely affected in the event customer information is exposed to an unauthorised party, leading on to breach of trust and confidence in the customers, which would bear a negative influence on the corporate image of the organisation. Communicating the exact nature of the service to the customer becomes vital and essential in order to maintain transparency and enhance the strength of customer relationships in the long run. Further, steps against customer privacy breach attempts would enhance customer trust towards the Bank.
Management Strategy	All Bank staff are responsible to ensure the Bank's operations remain within the scope of the Banking Act and Directions issued by the Central Bank. Further, the Bank has implemented processes and systems to ensure that customer confidentiality is safeguarded to the maximum from potential internal and external threats imposed.
Evaluation Mechanism	Reviews carried out by Internal Audit, Compliance Department and Operational Risk Management teams ensure continuous evaluation of the Bank's processes and systems add value to the evaluation mechanism.

REPORT PROFILE

Diversity and Equal Opportunity

Reasons for Materiality	The Bank is committed to providing equal opportunities throughout an employee's career and encourages diversity in the workplace at all times. This enables a healthy work environment where diverse individuals bring in different skill sets and experiences.
Management Strategy	The Bank consistently encourages equal opportunity and diversity throughout the employee life-cycle. The Bank has also ensured that appropriate policies and processes are in place to provide employees with an environment where they are comfortable. The Whistleblowing Policy and the process for handling disciplinary issues and grievances ensure that the employees' best interest is maintained and respected at all times.
Evaluation Mechanism	Regular audits are conducted to ensure the aforementioned policies and processes are in place. Internal investigations are attentively conducted in to any incidents which are reported. The management of the Bank has zero tolerance towards any form of discrimination and ensures appropriate action is taken with due diligence, at all times.

Non-discrimination/Child Labour and Forced or Compulsory Labour

Reasons for Materiality	The Bank does not tolerate discrimination of any form. Being an organisation that fosters diversity and equality, the Bank believes in encouraging employees to accept and value each other's differences. Being a service-oriented organisation, it is of importance that employees themselves foster an environment of non-discrimination as it has a direct bearing on how we treat our customers. The Bank strictly against child labour, forced labour and compulsory labour utilisation with any cost, which further directs the Bank towards creating a discrimination-free corporate platform.
Management Strategy	As mentioned in the previous section, the Bank has policies and processes to handle grievances and disciplinary issues.
Evaluation Mechanism	All issues reported are investigated by the audit teams and all policies are reviewed periodically to ensure they are current and are supportive of the Bank's approach to prevent any form of discrimination.

Other GRI Prospects

{GRI 102-11/102-16/402-1}

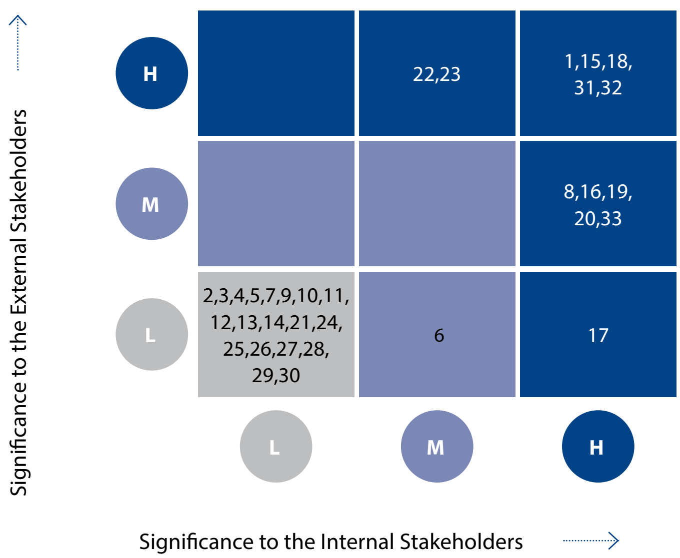
According to the nature of services being facilitated, in order to establish a sustainable corporate entity, the Bank should ensure social and environmental well-being through its direct and indirect commercial endeavours. The indirect phase may be applied through initiatives such as including the social and environmental criteria to the initial customer screening process and establishing a clear process for determining sustainable feasibility prior to launching new products and services in the forthcoming years.

Employees who step in to the Bank as trainee banking assistants would receive a comprehensive induction conducted by the Head of Learning and Development, prior to confirmation to the permanent cadre, where the prominence is given to inculcate the unique values, principles and norms of the Bank in employees' behaviour. Employees for the other grades are recruited considering their prior experience in the industry, hence would get used to the Bank norms and values through experience that they gain over time. All heads of departments and branch managers are responsible to overlook sustainability practices and ensure that the Bank's operations are aligned with industry-accepted sustainability norms and practices.

All the operational changes and the significant designation variations are informed to the employees on a timely basis through a global mail. All significant operational changes are initially executed under a User Acceptance Testing (UAT) environment, and are implemented in a live environment subsequent to obtaining approval from authorities. The minimum notice period with regard to operational changes vary according to the nature of the change and the impact it would have on the ongoing operations. Further, employment contracts of the Bank precisely disclose the terminating mechanism and notice periods have been imposed in due course, enabling employees to make informed decisions with regard to their profession.

REPORT PROFILE

{GRI 102-46}



- Issues indicated in this area are of high significance and impact on both the stakeholders and the organisation. All indicators shown in this are fully discussed on the Annual Report.
- Issues indicated in this area have a relatively moderate impact on our business. They too were addressed during the reporting period and are fully or partially reported on the Annual Report.
- Issues found in this area of the grid have only minor impact thus may only be reported on the Annual Report.

1. Economic Performance	12. Effluents and Waste	23. Forced and Compulsory Labour
2. Market Presence	13. Environmental Compliance	24. Security Practices
3. Indirect Economic Impacts	14. Supplier Environmental Assessment	25. Rights of Indigenous People
4. Procurement Practices	15. Employment	26. Human Rights Assessment
5. Anti-corruption	16. Labour/Management Practices	27. Local Communities
6. Anti-competitive Behaviour	17. Occupational Health and Safety	28. Supplier Social Assessment
7. Materials	18. Training and Education	29. Public Policy
8. Energy	19. Diversity and Equal Opportunity	30. Customer Health and Safety
9. Water	20. Non-discrimination	31. Marketing and Labelling
10. Bio-diversity	21. Freedom of Association and Collective Bargaining	32. Customer Privacy
11. Emissions	22. Child Labour	33. Socio Economic Compliance

Contact

{GRI 102-53}

With regard to concerns and clarifications on this integrated Annual Report, please contact:

Acting Head of Finance,
Union Bank of Colombo PLC
No. 64, Galle Road,
Colombo 03, Sri Lanka.
Tel: 0112374100
E-mail: info@unionb.com

To facilitate better engagement and formal feedback, an investor/stakeholder can communicate through the feedback form attached on page 309 in this report.

STAKEHOLDER ENGAGEMENT

Creating Sustainable Corporate Values

{GRI 102-40}

	MISSION	GOALS
Shareholders	• Provide favourable returns on their investment	• Growth in share price • Increase in ROE
Customers	• Provide means of economic upliftment through customised financial products and services	• Reduce customer service complaints • Improve customer satisfaction and retention
Employees	• Provide opportunities for faster career progression with a pleasant working environment	• Maintain a high staff retention ratio • Strengthen the performance based culture • Maintain a higher staff engagement rate
Society	• Be conscious of the need to be a responsible corporate citizen for the betterment of our society	• Provide financial solutions towards developing the SMEs in rural areas • Financial inclusion through channel/market development • Focus on philanthropic/social development activities that resonate with the Bank's strategic CSR intent
Regulatory Authorities	• Adhere to the practice of good Corporate Governance in the eyes of the regulatory authorities	• Conduct business in accordance with the guidelines set by regulators • Due compliance and reporting of requested information
Environment	• Be environmentally responsible to reduce both direct and indirect impacts by our operations	• Reduce wastage and energy consumption • Adopt responsible lending practices

STAKEHOLDER ENGAGEMENT

The table below illustrates how we engage with our important stakeholder groups
{GRI 102-43/102-44}

Stakeholder	Engagement Method	Key topics/Issues raised	Responses/ Action Plan	Frequency
Shareholders	➲ Annual General Meetings ➲ Investor Feedback Form ➲ Publications and announcements through CSE ➲ Access via email/telephone to contact point	➲ Financial results ➲ Strategy and goals ➲ Enhancing shareholder wealth ➲ Return on equity and share price	➲ Implementation of planned business strategy	➲ Quarterly/ Annually
Customers	➲ One-to-one interviews and feed-back from customers who visit the Bank ➲ Customer surveys ➲ SMS alerts and Call Centre ➲ Internet banking ➲ Social media interactions ➲ Official web-site	➲ Relationship management ➲ Products and services ➲ Accessibility and reach ➲ Return on investments and cost of borrowing	➲ Customer Charter ➲ Seasonal offers ➲ Investment in ATMs across Sri Lanka ➲ Customer suggestions and recommendations approach	➲ Ongoing
Employees	➲ Town hall meetings ➲ Open door Policy ➲ Circulars, email notifications ➲ Employee survey by third party ➲ Employee intranet ➲ Exit Interview upon resignation	➲ Career path and development opportunities ➲ Work-life balance ➲ Ethical employee practices ➲ Talent management approach ➲ Promotions and salary increments	➲ Adhering to the HR policy of the Bank	➲ Ongoing
Society & Environment	➲ Feedback forms ➲ Call centre ➲ Employee involvement in local community projects ➲ CSR projects ➲ Registration of suppliers	➲ SME development ➲ Community development ➲ Employment opportunities	➲ Focused SME lending practices ➲ Green procurement practices ➲ Funding towards relevant causes through CSR/ sponsorships ➲ Reduce wastage and energy consumption	➲ Ongoing
Regulators	➲ Industry forums ➲ Meetings with the Central Bank ➲ Reporting to the Central Bank and CSE to ensure compliance	➲ Compliance with the regulatory requirements ➲ Mergers and acquisitions ➲ Compliance with the Code of Best Practices	➲ Strengthening relationships with public and professional institutions ➲ Monitoring and responding on time	➲ Monthly/ Quarterly/ and whenever required

STAKEHOLDER ENGAGEMENT

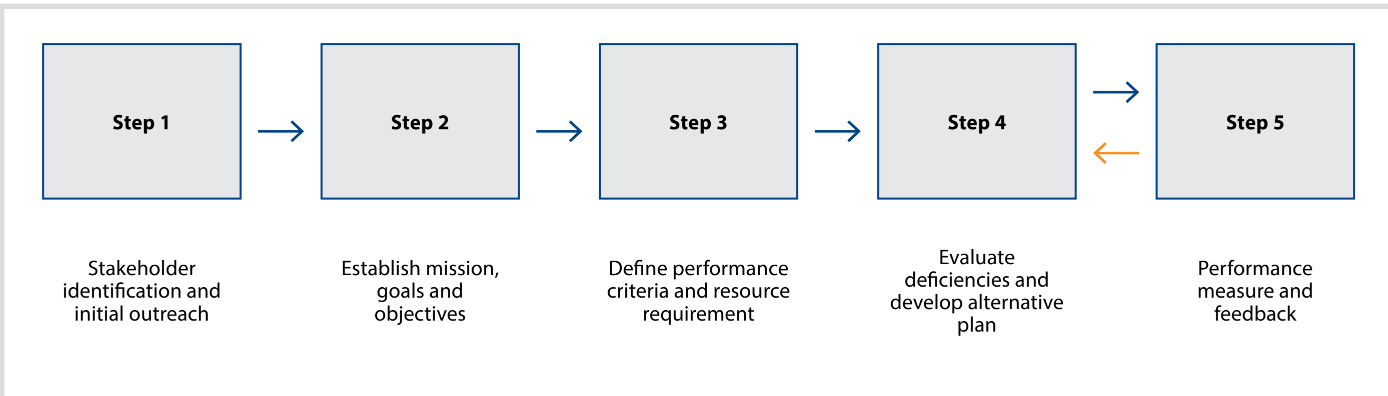
Stakeholder Identification and Engagement Process

{GRI 102-42}

As a financial services provider we regard stakeholder management as a strategic focus in the process of building a sustainable business and promoting good governance. All our stakeholders are considered as key partners that contribute to and witness the successive growth achieved over the years. In its stakeholder identification process, the Bank outlines its stakeholders along two main categories as described below;

- Primary stakeholders – direct beneficiaries and users of banking services (shareholders, customers and employees).
- Secondary stakeholders – intermediary and external authorities that bear influence over the banking activities (regulators, society and environment).

Both of the above segments relate to the stakeholder engagements process as follows;



Feedback

We value your suggestions to enhance our processes, for your suggestions please find attached the Stakeholder Feedback Form on page 309 in this report.

KEY PERFORMANCE INDICATORS

ENVIRONMENT

394
No. of trees saved

92,887
KWH of energy

70
Cubic metres of land fill

35,841
Oil litres

655,996
Water litres

EMPLOYEES

44%
Growth
Per employee contribution to PBT

1:1.4
Female : Male
Employee composition ratio

1,344
Work force

NETWORK

67
No. of branches

115
On-site/Off-site ATMs

SHAREHOLDERS

11.16%
ROE - Before

4.16%
ROE - After

KEY PERFORMANCE INDICATORS

REGULATORS

RS. 774 MN
Taxes paid to Government

RS. 374 MN
Taxes collected on behalf of the Government

FINANCIAL

RS. 1,192 MN
53% Growth
Profit Before Tax

RS. 710 MN
50% Growth
Profit After Tax

16.75%
Total capital ratio

5.03%
Gross NPA Ratio

RS. 121,754 MN
Assets

RS. 77,358 MN
Loans

RS. 76,532 MN
Deposits

RS. 19,332 MN
CASA

SUSTAINABILITY IMPACTS, RISKS AND OPPORTUNITIES

{GRI 102-15/201-2}

Economic Impact

- Supporting sustainable economic development through nurturing and encouraging entrepreneurship.
- Actively support SMEs and empower self employment by offering a comprehensive portfolio of products (Micro Finance, Project Finance and Working Capital solutions).
- Enhancing skills and knowledge to empower entrepreneurs.
- Instilling the habit of savings by offering a range of savings and deposit products across all customer segments.
- Meeting the financial needs of the commercial and corporate sectors.

Social Impact

- Directing the Bank's operations and offering financial solutions that enable enhanced living standards for society.
- Empowering the employees by facilitating financial, healthcare and educational support.

Environmental Impact

- Initiatives related to minimising impact on the environment are addressed within the Bank's business operations.
- Achieving optimum consumption through energy efficient processes and effective waste management.
- Encouraging environmental responsibility with suppliers.

SUSTAINABILITY IMPACTS, RISKS AND OPPORTUNITIES

Economic Risks/ Opportunities

- Opportunities for business growth in terms of increased deposits and lending due to enhanced network.
- Limitations in reaching the preferred target segments due to higher poverty levels and low literacy levels which obstruct these segments from appreciating the benefits of financial schemes.
- Ensuring the repayment of facilities granted is a challenge for which the Bank has put in place stringent credit screening processes.

Social Risks/ Opportunities

- With an enhanced network and a comprehensive product portfolio we reach out to a wider segment of society thereby strengthening our links with the community.

Environmental Risks/ Opportunities

- The nature of our business does not directly place an impact on climate change and is also not directly impacted by climate change. However, if in case the Bank's customers are affected by climate change, the Bank's performance would be indirectly impacted.
- We act as a change agent to minimise impact on the environment through effective screening and communication processes with our stakeholders.

Responsive Business Processes

- Implementation of KYC (Know Your Customer) and effective anti-money laundering policies.
- Risk & Compliance.
- Encourage responsible lending practices.
- Stepping towards an eco-friendly business environment via implementation of effective waste management attempts.
- Proceed with an efficient Environmental and Social Management System.
- Focus on energy conservation initiatives in day-to-day operations and promoting the concept across branches to reduce the level of electricity and water consumption.
- Promote e-Banking, to encourage a paperless environment.
- Enhancing the effectiveness of the supplier screening process to ensure the selection of most appropriate suppliers.
- Placing more focus on promoting women engagement, providing space for disabled labour, and encouraging diversity in the process of expanding the Bank's labour force.

RELATIONSHIPS

With partnerships that have stood the test of time, and keep growing with each year, our indelible success is created with the support of our customers, shareholders, employees and other stakeholders.

CHAIRMAN'S MESSAGE

"The Retail, SME, Corporate and Treasury business segments collectively contributed towards revenue buildup with consistent growth in core banking activities while safeguarding portfolio quality that paved the way for Union Bank's steady financial performance despite external shocks."

CHAIRMAN'S MESSAGE

Dear stakeholder,
I am pleased to present the Annual Report on the Bank's performance for the year ended 31 December 2019. This was a year that tested the resilience of businesses across all industries amidst the tough operating environment that prevailed due to economic and political volatility. Your Bank persisted with its growth efforts despite the tough market conditions and recorded noteworthy results.

Sustained Growth in a Challenging Environment

The highly-volatile macro-economic environment weighed down on the banking industry leading to moderate asset growth, low private credit demand and increased deterioration of credit quality that led to pressure on profitability.

Although the expansive monetary policy of the Central Bank was continued through the year supplemented by policy rate cuts, the demand for private credit still remained flat owing to the challenging market conditions. The overall impact of the Easter Sunday attacks and the resultant economic slowdown was felt across all industries through most part of 2019, with the SMEs facing the brunt of the challenges. The low investor confidence and rupee fluctuations were other contributing factors to a rather stagnant economy which showed gradual signs of recovery after the completion of the Presidential Elections in November, which brought in some much needed political stability by end of the year.

I'm pleased to state that amidst these challenges, your Bank was able to sustain growth through cost optimisation and prudent portfolio management. We successfully overcame these tough times by banking on the solid partnerships built with our customers, suppliers and all other stakeholders. A clear focus on building profitable portfolios, strategic realignment of products and processes as well as a commitment to delivering enhanced value to all stakeholders were the key pillars that sustained the business model of the Bank in 2019. Cost optimisation across the organisation remained a key management priority and the Bank was successful in meeting its objectives to this end recording a cost to income ratio of 64%. The Retail, SME, Corporate and Treasury business segments collectively contributed towards revenue buildup with consistent growth in core banking activities while safeguarding portfolio quality that paved the way for Union Bank's steady financial performance despite external shocks. This is a clear affirmation of the Bank's mid-term strategic direction for sustainable growth in spite of volatile market conditions with its proactive focus on sound risk management practices and good governance.

In the year 2020 and beyond, growth prospects of Sri Lanka are seen to be positive, largely based on the anticipated political stability (post General Elections) which is expected to restore both domestic and foreign investor confidence. With a healthy capital base and a team of competent professionals at its helm, your Bank is geared to take advantage of these macro-economic opportunities.

We believe that our strategic intent of delivering sustainable growth, optimum return on equity, prudent risk management and superior customer experiences will enable us to thrive in this environment. We will continue to be a responsible corporate citizen focused on a framework that creates long-term value to all our stakeholders, which includes shareholders, employees, customers, regulators and the communities we engage with.

Serving the nation for 25 years and beyond

2020 is a milestone year for us as we celebrate 25 years of service to the nation as a banking partner. Since its inception in 1995, Union Bank has seen many phases of growth in its evolution from a single-focused SME bank to a full-fledged commercial bank. Today, with a gamut of products and services that are designed to meet financial needs of a diverse customer base, Union Bank is at a threshold of accelerated growth and expansion.

We believe that our success lies in the success of our customers and to this end, we will endeavour to continuously deliver enhanced value to our customer segments with products that are relevant, affordable and versatile. Our key focus will be on scalable and profitable business segments whilst aligning our business priorities with the national agendas. We will continue to invest in technology to improve efficiency, foster innovation and drive cost-efficient growth. We will invest further in our people to nurture and grow our team to be best in class. We will add further vigour to our growth momentum by harnessing on group synergies for deeper wallet shares. We will continue to leverage on our strengths of a sound capital base, an inimitable team and the ability for swift execution and adaption of strategies to drive the Bank towards its next level of growth in 2020 and beyond.

I would like to thank all our stakeholders for your trust placed in us over the past 25 years and look forward to your continued support.

Appreciation

The Bank has received support from multiple stakeholders through the year 2019.

The Central Bank, particularly the Governor and the Deputy Governors, have provided astute counsel which has been greatly beneficial. Customers, whose success goes hand in hand with our success, have continued to place their trust in the Bank, strengthening existing relationships and forming new partnerships of growth.

Within the Bank, members of the Board of Directors and the Chairpersons and members of Board Committees, have provided able guidance which has chartered the successful direction of the Bank's growth. We bade farewell to two board members during the year 2019, and it is apt to place on record my sincere gratitude to Ranvir Dewan and Sow Lin Chiew for their unstinted service to Union Bank as members of the Board of Directors. I take this opportunity to also welcome eminent banker Sarath Wikramanayake who joined the Bank's Board of Directors during 2019.

To all these institutions and individuals, and many other-parties and well-wishers, I would like to record the Bank's deep appreciation of the support provided. In addition, I would like to thank our shareholders, both retail and institutional, for continuing to place their trust in the Bank. Finally, a big thank you to the Union Bank employees at all levels for their unstinted support and hard work in extremely trying circumstances.

Wishing you all the very best in the year 2020.

Atul Malik
Chairman

CHIEF EXECUTIVE OFFICER'S MESSAGE

"Through the years, we have built a trusted bank that delivers customised solutions, personalised attention and modern conveniences to its customers. With time, we have augmented our presence, progressed towards technological leadership, invested in our people and continued to uphold good corporate governance – all of which have contributed to our transformational journey and secured strong relationships with our stakeholders."

CHIEF EXECUTIVE OFFICER'S MESSAGE

Dear Shareholder,
Your Bank has withstood a difficult year to deliver strong financial results. The year 2019 posed many challenges to the Sri Lankan economy and moreover to the banking industry. Despite the external shocks that affected growth, Union Bank recorded a profit before all taxes of Rs. 1,904 Mn which was an increase of 52.6% over 2018. The heavy taxes imposed on the industry continued to weigh down the Profits after Taxes (PAT) across the industry during the year under review and despite this, Union Bank recorded a PAT of Rs. 710 Mn for the year ended 31 December 2019, an increase of 50.3% over 2018.

The core banking operations of the Bank continued to perform despite market challenges and lacklustre credit demand, giving rise to a total operating income growth of Rs. 735.3 Mn within the year under review. Cost optimisation was a key management priority that aided the sustained financial performance of the Bank. Operational efficiencies, productivity improvements, outsourcing of ancillary functions, and maximising on IT capabilities supported the cost optimisation objectives of the Bank. Net Interest Margins (NIM) compressed under macroeconomic impacts and policy rate revisions, however prudent management of portfolios and strategic realignment of facilities enabled the Bank to minimise this effect. Net Interest Income of the Bank grew by 22.6% during the year under review, as a result of consistent core banking growth while the fee income grew to Rs. 1,069 Mn reflecting the increased contribution from Credit Cards and Union Bank BizDirect Transaction Banking business propositions.

Corporate, SME and Retail Banking segments of the Bank continued to propel the Bank's portfolio expansion with selective acquisition strategies deployed on focused client segments that were identified as strategically significant. Despite challenges in the macro-economy, the Treasury performed at its optimum within the year 2019 contributing to the Bank's revenue via significant capital gains as well as fee and commission income. Unfavourable market conditions had the greatest impact on the SME sector. Union Bank maintained its support to this sector with greater focus on supporting their long term funding requirements while managing the portfolio quality through sound underwriting and risk management initiatives. In view of the challenges faced by SME industries specially impacted by the Easter Sunday attacks, the Bank extended relief programmes and moratoriums towards the clients who were impacted with a view to support and uphold their business operations during this difficult period. Corporate Banking recorded an impressive performance through focused efforts on prudent management of portfolio yields, supported by new acquisitions and increased wallet share in strategically identified segments.

Union Bank BizDirect continued to be extended to the Bank's Corporate and SME clients, facilitating best-in-class cash management convenience. A strategic decision was made in the year under review to enhance the Union Bank BizDirect platform and this project would be completed within the first quarter of 2020. This enhancement is expected to deliver exceptional cash management conveniences at affordable rates to the Corporate and SME clients of the Bank, while making significant contributions to the Bank's revenue build up through fee and interest income.

The drive for low cost funding remained a key strategic priority and the Bank's liability book ended the year with a portfolio value of Rs. 76,532 Mn. The Current and Savings (CASA) average balances reported a healthy year on year (YoY) growth of 16% despite consumer demand shifting towards alternate investment options. A higher contribution for CASA growth stemmed primarily from the Bank's Retail and Corporate banking operations and was aptly supported by the SME business. The growth has also come in from an increase in payroll and cash management accounts acquired through the digital Transaction Management system – Union Bank BizDirect.

Asset quality continued to be a challenge owing to the lacklustre market conditions, and the Bank made focused efforts to maintain portfolio quality within the year under review. Sound risk management, selective lending strategies and overall efforts for maintaining a balanced portfolio, assisted us in this endeavour. The net NPL rate was 3.6% as at year end.

In 2019, Union Bank continued to deploy strategic investments towards the expansion of its IT capabilities and channel strength while driving operational efficiencies for optimum outcomes. The Bank invested in enhancing its mobile banking platform with a view to provide a more inclusive banking experience to its retail banking clients while investments for a planned enhancement to the Union Bank BizDirect system was deployed towards the benefit of corporate and SME clientele. Optimisation of costs across strategic investments in infrastructure, process and system enhancements along with opportune investments in development and acquisition of required skills of staff, resulted in a rise in operating costs by Rs. 101 Mn within the year under review. The successful cost management efforts resulted in the Bank's cost to income ratio to significantly reduce to 64%. Our capital ratios remain well above statutory requirements giving us the impetus to execute aggressive growth in the coming years.

Looking ahead towards 2020 and beyond

Union Bank marks its 25th anniversary in the year 2020 – a significant milestone that indicates our successful journey of growth over the years, since the inception in 1995.

Reflecting back on the history of this dynamic organisation, it is worthy to note that the Bank has seen many phases of evolution over the years, each of which has brought in challenges, opportunities and growth for the Bank as well as its customers, partners, employees and other stakeholders. Union Bank, which was incorporated 25 years ago as a bank dedicated to serve the Small and Medium Enterprises (SMEs), has today evolved into a fully-fledged commercial bank dedicated to the task of financially empowering corporates, SMEs and individuals with a wide range of customised products and services.

Through the years, we have built a trusted bank that delivers customised solutions, personalised attention and modern conveniences to its customers. With time, we have augmented our presence, progressed towards technological leadership, invested in our people and continued to uphold good corporate governance – all of which have contributed to our transformational journey

CHIEF EXECUTIVE OFFICER'S MESSAGE

and secured strong relationships with our stakeholders. Our solid foundation and strong capital base have aptly supported our continued progress to become one of Sri Lanka's fastest growing Banks.

In our 25th year and beyond, we will continue to uphold the trust of our customers, partners, employees and other stakeholders by strengthening our bonds and delivering sustainable value that will power accelerated growth for Union Bank.

During the year 2020 and beyond the Bank's mid-term growth strategy will be furthered with a view to become a preferred banking partner to the target client segments served. The Bank will further reinforce its Retail, Corporate, SME and Treasury businesses while capitalising on the clear competitive advantages to generate sustainable earnings. The Bank will remain committed towards the task of partnering the growth of SMEs and this sector identified as the growth engine of the economy, remains a key priority within the commercial banking agenda of the Bank in the years to come. Leveraging on our existing customer relationships to explore cross-sell opportunities and exploring internal collaboration opportunities along with up-sell opportunities will be a significant part of our growth strategy. The focus on strategic growth segments, prudent portfolio expansion and inclusive banking approaches would pave the way for Union Bank's progress in the coming years.

The digitalisation of products and services is advancing at a rapid pace. Amid this trend, Union Bank will continue to actively adopt new technologies and promote digitalisation in various areas of its business with a vision to enhance customer experience, generate new businesses, improve productivity and efficiency, and upgrade the management infrastructure. To this end, improving IT capabilities, enhancing process efficiencies through automation as well as capitalising on digital channels for distribution will play a key role in the Bank's key investments in the year 2020 and beyond. We believe that our plans to introduce state-of-the-art IT infrastructure that enable accurate reporting and tracking of business management data and strengthening of the safety and security of the Bank's data and systems will deliver greater competitive advantages to the Bank in the ensuing years.

Our people - our pride

The Bank's success for the past 25 years, has been etched with the dedication and commitment of its valued employees. Union Bank takes pride in its unique workforce which has grown over the years in tandem with the Bank's progress and expansion. In its 25th year the Bank will celebrate its people and their commitment towards the success of Union Bank.

In the year 2020 and beyond, the Bank will continue to place its employees at the heart of its growth plans in line with its commitment to become a preferred employer under the 'Great Place to Work' initiative. The anticipated future growth of the Bank will bring opportunities for career growth and advancement for our employees. We will continue to boost careers by providing training and development opportunities to identified key employee groups, rewarding high performers and empowering our employees with necessary tools to perform better in their roles. In the ensuing years, Union Bank will further its people strategy with focus on increasing engagement within and across the organisation while providing an enhanced work environment enabling our staff to perform, thrive and grow within a pleasant and progressive workplace.

Thrive in Progress

Having understood that our customers' financial requirements are fast evolving, Union Bank will strive to serve them better and in more innovative ways. Our investments on transforming our digital banking capabilities will allow us to improve our efficiencies and to respond better to our customers' expectations. We will place greater emphasis in strengthening and nurturing our client relationships to help them 'Thrive in progress' along with the evolution of the Bank in the milestone year of 2020 and beyond.

Delivering augmented shareholder value will remain a top priority and to this end, portfolio profitability, stringent risk management and opportune deployment of capital will be critical areas on which the Bank will place continued emphasis.

As a responsible corporate citizen we would continue to comply and be guided by the regulatory standards while maintaining the highest levels of corporate governance possible within the organisation. In line with our corporate social responsibility agenda, Union Bank will engage with the communities in which it operates, while focusing on the empowerment of children and youth of the country.

The course is now set for our next phase of growth. Looking into the future the prospects seem promising and I invite all our stakeholders to 'Thrive in progress' with us as we turn another exciting page in our story of evolution and growth.

Appreciation

Our journey in 2019 would not have been possible without the support of our stakeholders, especially our valued clientele who have continued to place their confidence in us and built stronger relationships with us.

I wish to take this opportunity to place on record my deep regret on the sudden loss of one of our leadership team members during the year under review. I remember with great gratitude the services of Mr. Malinda Samaratunga, the late Chief Financial Officer of Union Bank, who was instrumental in administering the successful financial performance of the Bank during his nine years of service to Union Bank.

I extend my sincere gratitude to the leadership team, management and staff members at all levels who have played a pivotal role in successfully implementing the strategic objectives, and extending their commitment and support especially during this important phase of growth of the Bank.

My grateful thanks to Chairman Mr. Atul Malik, Deputy Chairman, and members of the Board of Directors for their unstinted support and guidance.

Indrajit Wickramasinghe
Director/ Chief Executive Officer

TRUST

We thrive in the confidence that our customers, partners, regulators and employees have placed on us, enabling us to maintain steady growth amidst a challenging landscape.

MANAGEMENT DISCUSSION AND ANALYSIS

{GRI 102-2/102-6}

OUR BUSINESS MODEL

UNION BANK

Corporate Philosophy

VISION | MISSION | VALUES

Board of Directors

Board Sub Committees

BAC | BCC | RPTRC | IRMC | NC | HRRC

Management Committees

ALCO | ITSC | ERMC | ECC | OMC | ORMC

Inputs

Financial Capital | Human Capital | Social Capital | Intellectual Capital

Governance

Portfolio and Capital Management | Risk and Regulatory Management | Business Unit Strategy | Product and Service Solutions | Customer Relationships | Data and Technology | Talent and Culture

Business Segments

Corporate

- Trade Finance
- Working Capital Finance
- Term Finance
- Foreign Exchange Services
- Transaction Banking and Cash Management Services

Retail

- Savings and Current Accounts
- Time Deposits
- Debit Cards/Credit Cards
- Elite Circle
- Loans-Personal & Mortgage Loans
- Foreign Currency Accounts
- Remittances
- Bancassurance
- Pawning
- ATMs-Branch/Off-site
- Internet Banking & Mobile Banking
- Safety Deposit Lockers
- Other Financial Services

SME

- Project Finance
- Factoring
- Working Capital Solutions
- Trade Finance
- Bancassurance
- Transaction Banking and Cash Management Services

Treasury

- FCY Spot and Forward Contracts
- Re-purchase and Reverse Re-purchase agreement
- Treasury Bills & Treasury Bonds
- Sri Lanka Development Bonds
- Debentures
- Commercial Papers
- Debenture Repos

Outputs

Customers | Shareholders | Employees | Local Community | Regulatory Bodies

Sri Lanka's Macro Economic Review

US$ 667MN

Surplus of Balance of Payments

First 10 months of 2019

RS. 12.1TN

Total Assets of the Banking Sector

Growth moderated to 3.1%

Sri Lanka experienced volatile economic conditions during the year, with tourism and related sectors being significantly affected as a result of the Easter Sunday attacks. The country however strengthened its Balance of Payments position through the improvement in the trade balance via a contraction in imports and two successful issuance of sovereign bonds worth US$ 4.4 billion. Post the Presidential Elections in November 2019, the political volatility gradually reduced and a more stable outlook is expected in the year 2020, with the completion of the General Elections within the second quarter. However, the implementation of significant tax reductions, in line with election promises were perceived by the market as adding uncertainty to the outlook for 2020, especially in terms of the fiscal deficit.

The year began on an optimistic projection of 4% GDP growth following the poor growth in 2018. Yet, the impacts of the Easter Sunday attacks dampened economic activity, bringing the latest estimates of growth by the CBSL for 2019 to 2.8%. During the first nine months of the year, growth in the services sector decreased to 2.8% largely due to the fall in the 'accommodation, food and beverage' serving activities subcategory as tourist arrivals plunged, while the Agricultural sector expanded marginally by 2.1% owing to unfavourable weather conditions. The Industrial sector recovered during the period, recording a 2.6% rise compared to the 1.7% growth seen during the same period in 2018. This was largely led by an expansion in the Manufacturing sub-segment.

Headline inflation, based on both the Colombo Consumer Price Index (CCPI) and the National Consumer Price Index (NCPI) remained within the desired mid-single digit levels. The CCPI recorded 4.8% Year-on-Year (YoY) growth in December maintaining its annual average at 4.3%, similar to 2018, and the NCPI recorded 4.1% YoY growth in November (latest available data). Core Inflation measured as per the CCPI and NCPI both remained at managed levels throughout the year. Overall, average inflation is expected to be maintained in the targeted range of 4% – 6% during 2020, supported by Central Bank policy.

The Central Bank persisted with an accommodative monetary policy stance throughout the year in a bid to support the economy amidst slow GDP growth and falling credit growth. CBSL started the year by cutting the Statutory Reserve Ratio (SRR) by 100 basis points to 5.0% to address the persistent liquidity deficit in the money market, and followed up with a comprehensive policy to push down lending rates. This involved two 50 basis point policy rate cuts in May and August, alongside deposit and lending rate caps imposed since April and October, respectively. Accordingly, the Standing Deposit Facility Rate, Standing Lending Facility Rate and the Statutory Reserve Ratio were at, 7.0%, 8.0% and 5.0% by the end of 2019. Despite these efforts, credit to the private sector declined throughout the year, with YOY growth falling to 4.4% in November (latest available data), compared to the 15.9% growth at the end of 2018.

Despite the effects of the previous year's constitutional crisis on markets and the Easter Sunday attacks, Sri Lanka's Balance of Payments (BOP) faired considerably well in 2019, owing to two successful sovereign bond issuances – a US$ 2.4 billion worth issuance in March and a subsequent US$ 2 billion worth issuance in June. Based on the latest available data, this saw the overall Balance of Payments record a surplus of US$ 667 million in the first ten months of 2019 as opposed to the deficit of US$ 157 million recorded in 2018 over the same period. This was despite a drop in tourism earnings as tourist arrivals dropped 19.6% in the first eleven months compared to the corresponding period in 2018. Workers' remittance inflows continued to decline in 2019, recording a decline of 5.9% during the same period. Gross official reserves were estimated at US$ 7.5 billion as at end-November 2019, ending higher from US $7.0 billion at end-November 2018, having seen interim increases up to US$ 8.9 bn during the year.

Most recent data also indicated that the deficit in the trade account contracted by 27.2% YoY during the first ten months of 2019 as a decline in import expenditure of 12.4% compensated for the marginal export growth of 0.8% YoY. Meanwhile, the Government securities market and the CSE witnessed cumulative outflows of US$ 280 million and US$ 5 million respectively within the first ten months of the year.

The LKR remained largely stable during the year to the import contraction and successful bond issuances as Sri Lanka benefitted from improvements in global financial conditions. As a result, the LKR appreciated by 0.6% against the US dollar during the year. The stock market remained stable with the ASPI rising by 0.7% over the year.

Looking ahead, the future economic direction of Sri Lanka is largely dependent on the policies and measures brought in under the new administration following the General Elections scheduled to take place in 2020. It is also exposed to developments in global markets, which could determine the level of foreign inflows received including Foreign Direct Investments and foreign financing in terms of sovereign bonds. However, the risks outlined by ratings agencies on the recent tax concessions and debt repayments could not be discounted.

Global Economic Overview

In its World Economic Outlook for 2020, released in October 2019, the IMF had predicted the global growth to slow down in 2019, falling to 3.0% compared to 2018's 3.6%, before recovering to a projected growth rate of 3.4% in 2020 and increasing slightly by

2024. This slowdown was to be largely driven by global weaknesses in manufacturing, combined with the impacts of the US-China trade war, while country specific factors continued to weaken individual economies all over the world. These conditions are expected to continue adding uncertainty and risk in 2020, and the IMF notes that the recovery is likely to be precarious.

The recovery projected is largely through the influence of the developing world, which is projected to improve from an estimated 3.9% growth in 2019 to 4.6% in 2020 and 4.8% by 2024. Developing Asia is expected to grow the fastest, increasing its expected growth slightly from 5.9% in 2019 to 6.0% in 2020 despite continued slowdown in the Chinese economy. However, growth forecasts for the developed world have fallen, with growth expected to remain at 1.7% in both 2019 and 2020 and slow down to 1.6% by 2024. The US economy is projected to remain weak, falling from an estimated 2.4% in 2019 to 2.1% in 2020, before a projection of 1.6% growth by 2024, while the Euro area is expected to recover slightly from 1.2% in 2019 to 1.4% in 2020, before moderating to 1.3% by 2024. Continuous delays in Brexit added uncertainty to the UK market, but the IMF projects growth to recover from 1.2% in 2019 to 1.4% in 2020 and 1.5% by 2024. However, global analysts expect the IMF to downgrade their expectations for global growth including key economies such as UK and India, in their next update for the World Economic Outlook for 2020.

The Chinese economy continued to slowdown in 2019, with growth estimated at 6.1% in 2019 compared to 6.6% in 2018. Growth projections expect a prolonged slowdown, with 2020 projected at 5.8% growth and an expectation of 5.5% growth by 2024. The slowdown which began in 2018 worsened as a result of the US-China trade war, and while the Chinese government has attempted to stimulate the domestic economy, concerns surrounding China's debt have limited the effectiveness of these measures.

After a challenging 2018, foreign capital flows to Emerging Markets (EMs) recovered in 2019. A system of monetary policy loosening across the world was a key reason for this recovery aided by the low interest environment that was enabled by such changes. According to the latest data by the Institute of International Finance (IIF) total equity and debt inflows to emerging markets rose to US$ 310 Bn in 2019 compared to US$ 194 Bn in 2018. However, flows were still below the US$ 375 Bn recorded in 2017.

Emerging currencies performed better in 2019 from the heavy depreciation in 2018, aided by dovish moves of the US Federal Reserve and recovering fund flows. However, the underlying global weakness meant that few Asian currencies managed to record appreciations in value. Currencies such as the Indian rupee and the Turkish lira saw slight depreciation, while country specific weaknesses meant that the Chinese yuan and Argentine peso posted near-record depreciation.

The US Federal Reserve reversed their previous tightening stance, moving from an expectation of rate hikes for 2019 to ending up cutting interest rates three times in the year. This change was driven by a slowdown in the US economy driven by fears surrounding the US-China trade war, which heated up in 2019. However, trade tensions eased towards the year end with both countries indicating an intention to sign an interim trade deal in January 2020. Combined with continued resilience in the US jobs market as well as strong consumer sentiment, this led the Federal Reserve to declare a hold on rate cuts for 2020.

Oil prices remained somewhat volatile in 2019, with prices rising to a high of US$ 74/barrel in April, before falling to a low of US$ 56/barrel in August. The early surge in oil prices was driven by tensions between the US and Iran, while prices also rose later in the year in the face of an attack on a key Saudi Arabian oil installation in September. While prices recovered after an initial jump, tensions in the Middle East between Iran and the US and its allies have been slowly rising, causing oil prices to steadily increase as well. Despite this, prices remained lower on average than 2018, mostly due to expectations of weak demand for global energy in the face of a possible economic slowdown.

The Central Bank, under low inflationary conditions, introduced several policy changes to stimulate credit growth and the economy.

Banking Sector Overview

Banking sector performance moderated in 2019 due to the subdued economic climate which arose from the political uncertainty amidst elections and negative sentiment caused by the Easter Sunday attacks. As a result, the sector saw a deterioration in profitability alongside a deceleration in credit growth and an increase in non-performing advances. However, the sector was able to maintain capital and liquidity well above minimum requirements.

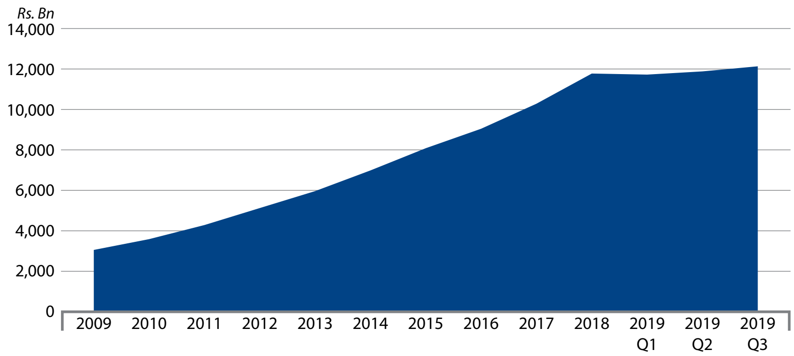
The Central Bank, under low inflationary conditions, introduced several policy changes to stimulate credit growth and the economy. The Standing Lending Facility Rate (SLFR), and the Standing Deposit Facility Rate (SDFR) were reduced by a total of 100 basis points in 2019. Further, the reserve requirements for banks was also lowered by 250 basis points since November 2018. Other regulatory changes included the withdrawal of circulars issued in 2018 that restricted imports and the imposition of deposit rate caps in April which was later replaced by a cap on lending rates in September.

Asset and deposit growth declined amidst subdued economic conditions

While total assets of the sector expanded by Rs. 361 Bn to reach Rs. 12.1 Tn during the year, sector asset growth moderated to 3.1% during the first 9 months of 2019, compared to the 9.5% growth recorded during the corresponding period of 2018. Credit to the private sector declined (YoY growth decelerated to 6.1% by September 2019 compared to 15.4% recorded at end September 2018) mainly due to high market lending rates, fiscal and regulatory measures taken and the slowdown in the overall economy.

MANAGEMENT DISCUSSION AND ANALYSIS

Total assets of the banking sector



[Source: CBSL]

The asset base of the banking sector was funded primarily through deposits which accounted for 73% of total assets as at end September 2019. Total deposit growth in the first three quarters of 2019 slowed to 4.8% from 10.7% recorded in 2018. CASA ratio declined slightly to 31.4% as at end September 2019 compared to 31.9% recorded in September 2018. Borrowings declined by Rs. 143 Bn during the first nine months of 2019 when compared with the increase of Rs. 38 Bn in the corresponding period of 2018.

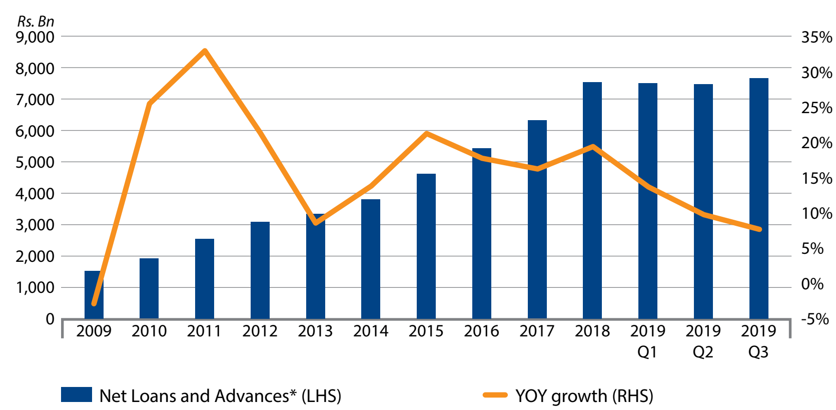
The credit to deposits ratio declined to 88.2% as at end September 2019 compared to the 88.7% recorded in September 2018. As per CBSL data, banks directed most excess funds towards government securities during this period due to reduced credit demand and the adoption of cautious lending practices.

Lending driven by consumption, construction and trading related loans

The subdued economic environment resulted in lower loan growth recorded across most major sectors of the economy. Credit to the services sector (including tourism, transportation and storage, wholesale/retail trade and information technology related services) showed the greatest deterioration.

Banking sector net loans and advances grew by 1.7% during the first nine months of 2019 compared to the 12.8% growth recorded in the corresponding period for 2018. As at end June 2019, banking sector credit was mainly extended to the consumption (18%), construction (15%), wholesale and retail trade (15%), manufacturing (11%) and infrastructure developments (9%) sectors.

Net Loans and advances*



*Loans and Advances net of interest in suspense and total provisions [Source: CBSL]

Profits contracted as loan growth slowed and NPLs rose

Profit after tax of the banking sector dropped by 14% in the first three quarters of 2019 relative to the same period in 2018, to be recorded at Rs. 82.6 Bn. This came alongside the moderation in credit growth and deterioration in asset quality witnessed during the period. Despite a 12% growth in interest income, a 51% growth in bad debt provisions over the same period eroded sector profits. In addition, non-interest income also saw a contraction during the period mainly driven by a decrease in foreign exchange income relative to last year due to a high base effect in 2018. Effective taxes also saw an increase from 48% as at September 2018 to 54% as at September 2019. ROE saw a notable drop to 10.5% and ROA dropped to 0.9% from the 14.1% and 1.2% reported respectively in September 2018.

Asset quality continued to weaken

Asset quality continued to deteriorate during the year with gross NPLs of the banking sector reaching 4.9% as at September 2019 from the 3.4% recorded at the end of 2018. Apart from the deterioration in asset quality seen across the banking sector, the slowdown in credit growth was also a contributing factor for the higher NPL ratio recorded. While the increase in NPLs was seen across the economy, the agriculture sector experienced significant weakening of asset quality during the year. The construction sector was also cited by many banks as a sector which saw declining asset quality in 2019.

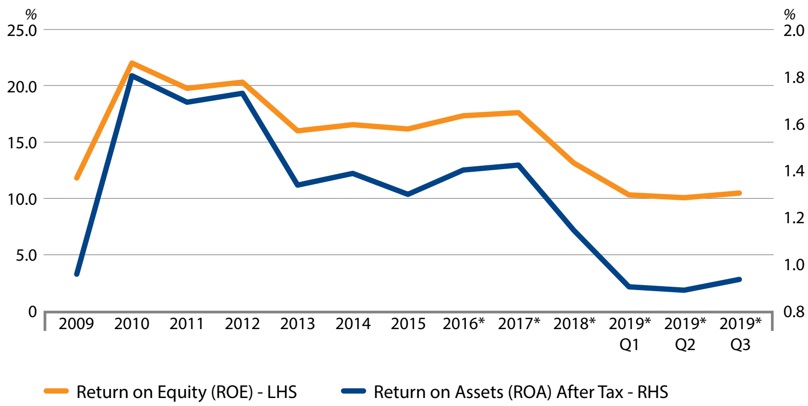
The expansion in the bank network in 2019 included the addition of 22 new bank branches in the first three quarters of 2019.

New developments in the sector

The banking sector completed the implementation of the BASEL III capital regulatory framework in 2019. Capital raising activities of banks seemed to slow down in 2019 amidst the lacklustre equity market conditions that prevailed during the year. However, an improvement in equity market conditions is likely with investor confidence gradually expected to return after the completion of the general elections, which could help ease the challenging conditions faced by banks.

MANAGEMENT DISCUSSION AND ANALYSIS

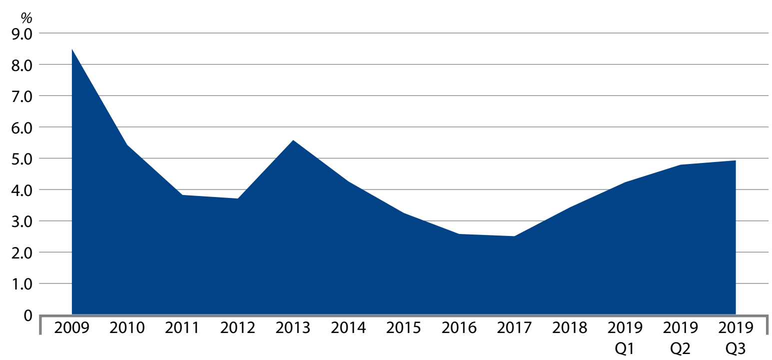
Return on Equity and Return on Assets after Tax



*Provisional data

[Source: CBSL]

Gross Non Performing Loans Ratio



[Source: CBSL]

Regulatory and policy changes implemented during 2019 are expected to continue to impact the outcomes of the sector in 2020 as well. The cap on lending rates imposed on banks in September 2019 along with the removal of the deposit rate caps (which were initially introduced in April 2019) is likely to impact interest margins in 2020. In addition, post the presidential elections a proposal has been put forward to provide relief to the SME sector whereby a debt moratorium is to be offered to SMEs by banks for one year. However, the expected pick up in loan growth alongside the improved sentiment expected after the presidential and general elections is likely to support profit growth during the year. Furthermore, the proposal brought in by the government to remove the Debt Repayment Levy (DRL), once implemented, would bring much awaited relief to the banking sector which saw its tax costs rise considerably after the DRL was introduced.

Continued expansions into digitalisation and adoption of new technology such as Blockchain is expected to transform the banking sector in the years to come. Strengthening the sector against cyber security related threats is also an important aspect in this regard. The CBSL also has given indications that it will be issuing a regulatory and supervisory framework related to cyber security which will better support banks in their efforts to adopt these emerging technologies.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

50.3%

Profit After All Taxes

16.75%

Capital Adequacy Ratio

Bank

- Profit After all Taxes grew by 50.3% YoY to Rs. 710 Mn
- Net Interest Income up by 22.6% YoY to Rs. 4,479 Mn
- Total Operating Income grew by 13.9% YoY to Rs. 6,021 Mn
- Strong Balance Sheet with The Total Capital Adequacy Ratio at 16.75%

Group

- Profit After all Taxes grew by 50.4% YoY to Rs. 804 Mn
- Net Interest Income up by 17.2% YoY to Rs. 5,234 Mn
- Total Operating Income grew by 10.5% YoY to Rs. 6,916 Mn
- Total Capital Adequacy ratio was 16.36%

Union Bank demonstrated strong performance amidst a challenging macro-economic environment in year 2019 recording a significant increase of 50.3% in profit after all taxes. Amidst sector shocks that prevailed throughout, the Bank strived for revenue optimisation through portfolio re-alignment and prudent cost management.

A policy review introduced by the regulator during the first quarter of the year, saw the Statutory Reserve Ratio (SRR), reduced by 100 basis points (bps) to 5% with effect from 1 March 2019. The reduction in policy interest rates thereafter by 100bps to record SDFR at 7% and SLFR at 8% and a subsequent imposition of caps on deposit rates resulted in a decline of deposit interest rates. The deposit rate cap was subsequently removed and an interest rate cap on lending was introduced in September 2019. Despite imposing of interest rate caps, the industry witnessed sluggish credit growth while the demand for deposits was reflective of the rate revision. The exchange rate experienced mixed movements throughout the year but showed improvement compared to the year end of 2018. The asset quality weakened industry-wide giving rise to the non-performing loan (NPL) ratios.

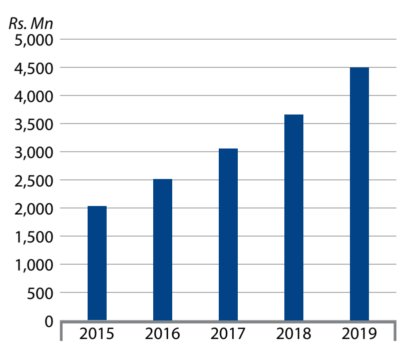
Despite market challenges, the core banking operations of the Bank performed consistently on the back of focused strategic initiatives implemented across Corporate, SME and Retail Banking segments, supported by an impressive Treasury Performance. Net Interest Income (NII) and Total Operating Income of the Bank increased YoY by 22.6% and 13.9% respectively. The Profit Before all Taxes increased by 52.6% YoY.

The sharp increase in all taxes which included the debt repayment levy undermined bottom line results across the industry. Despite this, the Profit After Tax of Union Bank increased by 50.3% over the previous year.

The Bank continued to maintain its robust capital adequacy ratio which was well above the regulatory requirement.

Financial Indicator

Net Interest Income (NII)



Performance Analysis

The net interest income of the Bank grew significantly by Rs. 827 Mn to Rs. 4,479 Mn in 2019, which translated to a YoY growth of 22.6%.

Net interest margin (NIM) of the Bank was 3.6% and was an increase from the 3.0% recorded in 2018 as a result of effective fund management strategies. The decision by the regulator to reduce the SRR from 6% to 5% with effect from 1 March 2019 had a positive impact on NIMs.

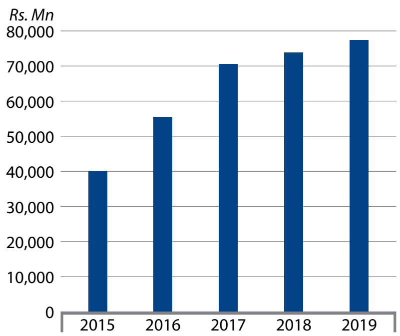
NIM for the current period would have been 3.8% if the return from investments in units was considered. Return from investments in units was Rs. 227 Mn and was recorded as capital gains under net fair value gains/(losses) from financial instruments at fair value through profit and loss.

Retail and SME businesses contributed to 50.3% of the NII.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Indicator	Performance Analysis

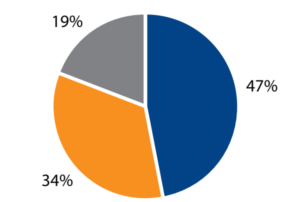
Loans & Advances



Despite policy rate revisions, the demand for credit to the private sector remained subdued, affecting the balance sheet growth.

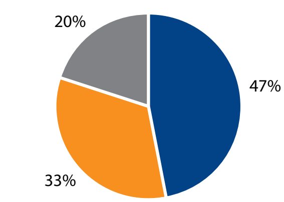
The Bank's loans and advances stood at Rs. 77,358 Mn and recorded a growth of Rs. 3,609 Mn, which was a 4.9% increase in comparison to the previous year. The growth was mainly attributable to the contribution from the loans in the retail segment, including a significant increase in the credit card portfolio and the expansion of the Corporate loan portfolio.

As at year-end, the loans and advances mix was as follows:



Loan Mix 2018

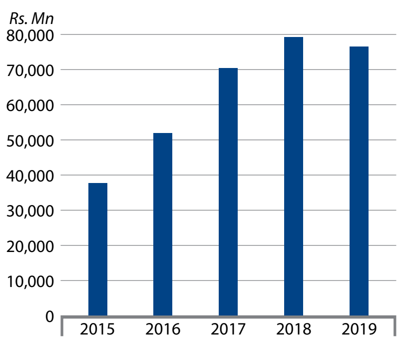
Corporate
SME
Retail



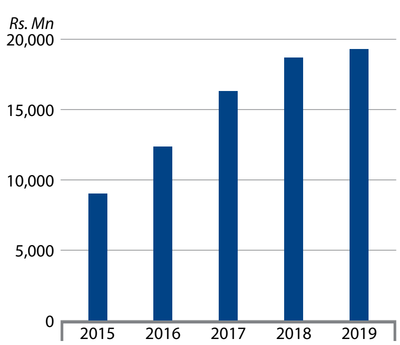
Loan Mix 2019

Corporate
SME
Retail

Deposits



CASA

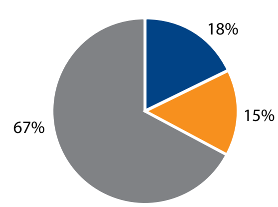


The deposits base of the Bank stood at Rs. 76,532 Mn as at year-end.

The Bank's strategic focus for deposits was shifted towards the acquisition of low-cost deposits which requisitioned a strategic re-alignment of the deposits base.

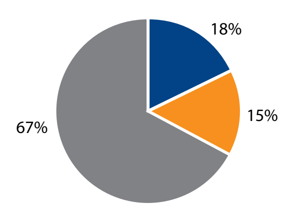
The growth momentum of the CASA portfolio was continued throughout the year, with focused expansion of key products including children's savings, investment plans and institutional CASA through intense sales drives across branches, relationship managers and dedicated sales teams. As a result, the CASA base grew to Rs. 19,332 Mn at the end of the year. The average CASA portfolio growth YoY was 16.3%.

Consequently, the CASA mix of the Bank improved to 25.3%.



Deposit Mix 2018

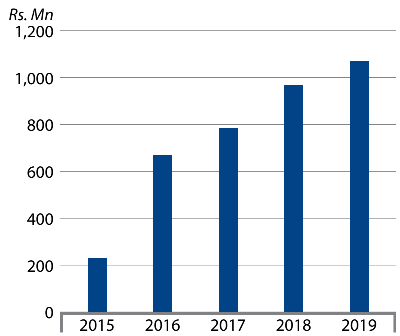
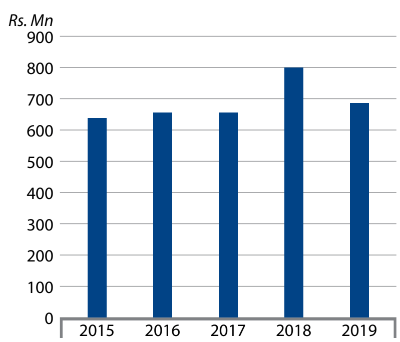
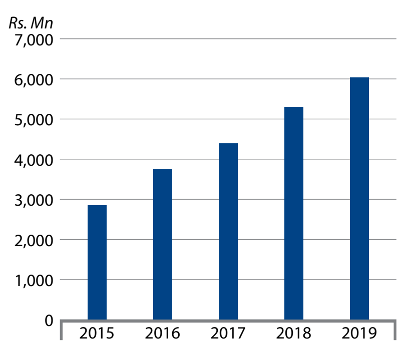
Corporate
SME
Retail



Deposit Mix 2019

Corporate
SME
Retail

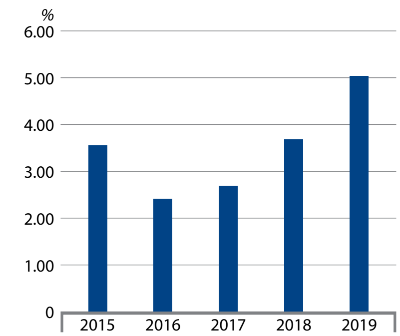
MANAGEMENT DISCUSSION AND ANALYSIS

Financial Indicator	Performance Analysis
Fees & Commission Income 	The Bank's well executed strategic initiatives for fee income growth continued throughout the year and produced a fee and commission income increase of Rs. 101 Mn which was a 10.5% growth YoY. The growth was mainly attributable to fee income generated from an increase in credit card fees due to focused acquisition efforts on this product along with the increase of Bancassurance fee income followed by guarantee income. Fee income was adversely affected by the drop in trade income due to the decline of Imports and exports across the industry in 2019. The decline in deposits related fees was primarily due to the reduction in cheque return charges and cheque referral income which is a positive sign of lowered dependency on uncontrollable income. The fee income from loans recorded a moderate growth during the year. The increase in net fee and commission income was somewhat curtailed due to a parallel increase in fee and commission expenses arising from cards and brokerage. As a result, the net fee and commission income increase narrowed down to 2.7% as at year end.
Net Trading & Other Income 	Net trading and other income were Rs. 686 Mn, and recorded a reduction of 14.2% over the previous year. This reduction was primarily due to the reduction in exchange gains. The Bank's treasury recorded a notable performance with a significant increase of 89.4% in capital gains which were reported as Rs. 446 Mn. Income from investments in units remained flat at Rs. 227 Mn. Other operating income declined by 96.2% on the back of rupee depreciation and a significant increase in the number of funding swaps entered into during the year under review. The decline in trade volumes attributable to adverse macro-economic conditions also contributed to the overall decrease. The Bank has no trading equities and has not invested in any equity funds as at balance sheet date.
Total Operating Income 	The overall growth in core banking activities and the consistent financial performance that was mainly attributable to the increase of NII, led to a 13.9% growth in total operating income which was recorded as Rs. 6,021 Mn. Retail and SME segments increased their contribution to 50.6% of the total operating income in 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

<table>
<tr><th>Financial Indicator</th><th>Performance Analysis</th></tr>
<tr><td>

Non-Performing Loans Ratio (NPL)



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Reflecting the macro-economic challenges, the Bank's non-performing loans ratio, which has been on an upward trend since end of the year 2018 increased to 5.03% in 2019 in tandem with the increase of NPL ratios within the banking industry.

The SME banking segment of the Bank showed the highest deterioration in NPL ratios during the year.

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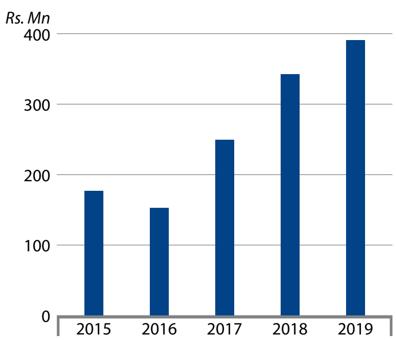
Impairment and Credit Quality



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Impairment charge of the year was reported as Rs. 390 Mn, and was a 14.0% increase.

The Bank assesses approximately 75% of the portfolio under individual impairment.

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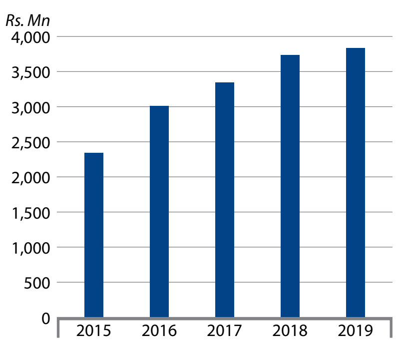
Operating Expenses



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The operating expenses of the Bank were reported as Rs. 3,830 Mn an increase of 2.7% YoY.

Staff costs of the Bank were Rs.1,883 Mn and reported a 3.4% increase YoY. The head count of the Bank as at year end was 1,344 and was an increase of 6.2% over the previous year.

Depreciation and amortisation and right-of-use asset coupled with other expenses increased by 2.0% YoY to Rs. 1,947 Mn. The Bank adopted SLFRS 16 "Leases" with effect from 1 January 2019. The comparative numbers have been calculated based on the previous accounting standard LKAS 17. Accordingly, right-of-use asset have been recognised on the balance sheet and related amortisation has been considered under depreciation and amortisation instead of rent expenses charged under other expenses in 2018. Also, a portion has been recorded under interest expense as a finance cost of lease liability.

The cost to income ratio of the Bank improved to 63.6% from 70.6% in 2018 and marked a major milestone for the Bank in the year 2019.

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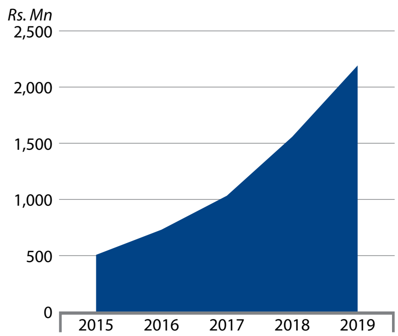
MANAGEMENT DISCUSSION AND ANALYSIS

<table>
<tr><th>Financial Indicator</th><th>Performance Analysis</th></tr>
<tr><td>Operating Margin

</td><td>The operating margin increased to Rs. 2,191 Mn, and recorded a growth of 40.8% YoY and represented widened jaws due to the increase of revenue at a faster pace of 13.9% as against the increase in costs by 2.7% which underpins effective revenue and cost management reflecting a significant improvement in the productivity and operational efficiency of the Bank.</td></tr>
<tr><td>Share of profit of equity accounted investees, net of tax</td><td>Share of profit of equity accounted investees was Rs.104 Mn and was a growth of Rs. 69.2 Mn YoY. The Bank's subsidiary, UB Finance was the major contributor to this increase.</td></tr>
<tr><td>Financial Services VAT, NBT and Corporate Tax</td><td>Total taxes for the year was Rs. 1,194 Mn which included Rs. 245 Mn from the debt repayment levy which was introduced in the latter part of 2018. 62.7% of the Bank's operating profit before taxes have been paid as taxes in 2019.</td></tr>
<tr><td>Profit for the year & Other Comprehensive Income</td><td>Profit for the year was Rs. 710 Mn compared to Rs. 473 Mn recorded in 2018 which was an impressive increase of 50.3% over the previous period.

Other comprehensive income for the year was Rs. 346 Mn which was a result of the impact on the valuation of investments in the government securities portfolio, classified under financial investments at fair value through other comprehensive income. This was due to favourable market rate movements that prevailed during the year.</td></tr>
<tr><td>Liquidity</td><td>The Bank maintained a healthy Liquid Assets Ratio throughout the year
<table>
<tr><th>Consol Liquid Asset Ratio (%)</th><th>2019</th><th>2018</th><th>2017</th></tr>
<tr><td>Year End</td><td>23.0</td><td>21.7</td><td>21.3</td></tr>
<tr><td>Maximum</td><td>24.4</td><td>23.3</td><td>23.0</td></tr>
<tr><td>Minimum</td><td>21.1</td><td>20.5</td><td>20.7</td></tr>
<tr><td>Average</td><td>22.0</td><td>21.4</td><td>21.5</td></tr>
</table></td></tr>
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MANAGEMENT DISCUSSION AND ANALYSIS

Financial Indicator	Performance Analysis
Capital Adequacy Ratio	The Bank maintained a robust capital adequacy ratio throughout the year reporting a 16.75% core capital ratio as at year end.

Capital Adequacy Ratio (%)	2019	2018
Common Equity Tier 1 Capital Ratio (Minimum Requirement - 2019-7.0% & 2018-6.375%)	16.61%	17.41%
Tier 1 Capital Ratio (Minimum Requirement - 2019-8.5% & 2018-7.875%)	16.61%	17.41%
Total Capital Ratio (Minimum Requirement - 2019-12.5% & 2018-11.875%)	16.75%	17.41%

ROA, ROE & NAVPS

	2019	2018
ROA (before all taxes)	1.54%	1.02%
ROA (post taxes)	0.57%	0.39%
ROE (before all taxes)	11.16%	7.24%
ROE (post taxes)	4.16%	2.74%
NAVPS (Rs.)	16.16	15.23

Group Performance *{GRI 102-45}*

The Group, consists of the Bank and its two subsidiaries - UB Finance Company Limited and National Asset Management Limited along with the special purpose entity Serendib Capital (Pvt) Limited. The operations of these companies are briefly described in the section titled 'Subsidiary Update', on pages 68-69.

Group profit after all taxes showed a 50.4% growth to record Rs. 804 Mn in the year under review.

Total assets of the group was reported as Rs. 129,840 Mn. The Bank accounts for 93.8% of the Balance Sheet of the Group and hence the Group performance is mainly propelled by the Bank.

MANAGEMENT DISCUSSION AND ANALYSIS

Report on Business Performance

Union Bank reported sustained business growth despite a stiff macro-economic environment that continued to weigh down the banking sector during the year 2019.

As elaborated on the macro-economic review of this report, the impacts of the political and economic volatility that gave rise to currency fluctuations, lackluster market performance and low business confidence during the year under review, were exacerbated by increased Government taxation as well as the rise in credit and impairment costs, which had an overall adverse impact on the banking sector, forcing banks to focus on cost optimisation and prudent portfolio growth.

In the light of the above, Union Bank focused on prudent growth and strived for revenue optimisation through portfolio re-alignment and enhanced emphasis on fee and commission income generation. The Bank's key business performance and the strategic enablement by its support functions have been summarised in the report herein.

Corporate Banking

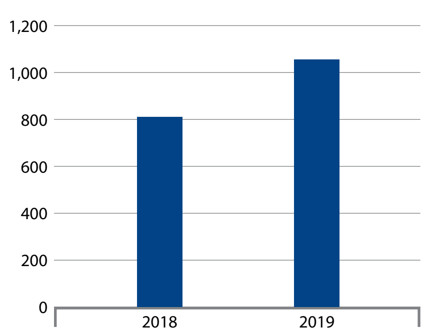
The corporate banking operation of the Bank continued its resilient performance against a backdrop of subdued economic activity. A slowdown in the global economy, affected the momentum of Sri Lankan exports, further aggravating the challenges faced by the domestic economy. The resultant challenging operating environment was evidenced by weakened demand for credit despite a drop in policy rates in 2019.

Commitment towards balance sheet growth persisted in the year under review, with emphasis on optimum use of funds and efficient management of interest margins. Concerted focus on key growth sectors of the economy both in the domestic and foreign currency banking units, via new customer acquisitions and deepening of existing relationships enabled the corporate banking operation of the Bank to achieve a moderate loan growth. Within the year under review, the corporate banking unit of the Bank was successful in strengthening and broad-basing its relationships with overseas financial institutions which contributed significantly towards enhancing income from non-fund-based sources.

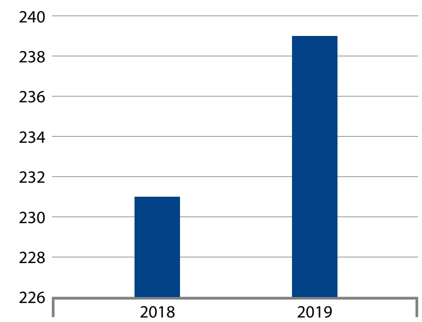
The terror attacks in April further deteriorated market sentiments, especially with the affects on the performance of tourism and leisure sectors which then had a trickled-down impact on other related industries. Given the ominous state of business that prevailed during the subsequent months, the Bank extended moratoriums on credit facilities provided to its corporate clients in sectors that were severely affected with a view to support an reinforce their business operations.

Corporate banking Current and Savings Accounts (CASA) portfolio stood at Rs. 4,025 Mn as at year end, and aptly supported corporate loan book growth as a cost-effective source of funds. Growth in advances were managed prudently while effectively meeting the challenge of maintaining a sustainable risk profile. Close monitoring and administration of the corporate credit exposure and quality through the implementation of enhanced risk management mechanisms ensured a well-managed credit portfolio.

Revenue before credit cost (Rs. Mn)



Fees & Commission (Rs. Mn)



Overall in the year under review, the corporate banking operation of Union Bank witnessed a sustainable and profitable balance sheet growth alongside healthy portfolio quality. The impressive outcomes of a rather challenging year, stand witness to the commitment of an experienced team of relationship managers supported by sound risk management processes. Provision of tailor-made solutions backed by technological enhancements and delivery of excellent customer experiences continued to play a vital role in overall business performance.

Prospects 2020

Anticipated pick-up in the economic growth with the resurgence of investor confidence and private sector boost are expected to augur well for the corporate banking operation of Union Bank. Revival of the global economy supported by the benefits of preferential trade agreements with major trading partner economies and diversification of export portfolio etc. is expected to further enhance the growth momentum for 2020.

Union Bank's corporate banking unit will focus on capturing these growth opportunities for optimised portfolio expansion in the year 2020. The Bank's growth strategy will continue to focus on key growth sectors and will be pivoted on deepening its wallet share through the provision of total customer solutions and penetration to the emerging corporates of the middle market segment.

MANAGEMENT DISCUSSION AND ANALYSIS

With a strong conviction that digitalisation and financial technology will play vital roles in the transformative change of the business landscape in the coming year and beyond, Union Bank will be well- prepared to harness market growth opportunities presented therein. To this end, the upgrade of the existing transaction banking platform Union Bank BizDirect with enhanced features and a user-friendly interface will play a significant role in the Bank's efforts to deliver unique banking experiences to its corporate clientele.

This enhanced transaction banking technology will augment the novel, tailor-made products and services suite designed to meet the unique financial needs of corporates while continuing to strengthen the Bank's customer centric service delivery methodology to improve customer experiences that will contribute to sustainable, long-term value creation for its corporate clientele.

SME Banking

The Small and Medium Enterprises (SME) sector was severely affected by the challenges that prevailed in the economic climate of the country through 2019, due its inherent vulnerabilities to external shocks. Consequently, the Banking sector was faced with the predicament of striking a balance in managing portfolio quality amidst deteriorating credit profiles while continuing to uplift and support this highly stressed, yet vital sector.

Union Bank's SME banking operation remained focused on securing the business operations of its existing clientele, while providing measured financial support to sustain against the macro-economic headwinds that categorically affected selected sectors following the fateful terror attacks in April 2019. The Bank extended credit respite to the SMEs affected, especially in the tourism sector, through reschedulements and moratoriums with the aim to support in sustaining their businesses during challenging times.

Despite challenging market conditions, the SME loans and advances of the Bank was maintained at Rs. 25,560 Mn, backed by pragmatic initiatives undertaken by the Bank to support and uplift selective key industries during this crucial time. It was noteworthy that the highest contribution to this loan growth came from the expansion of the term loans portfolio, which reflects Union Bank's long-term focus and commitment towards supporting the SME sector. During the year under review, Union Bank introduced the 'Business Mortgage Loan' facility in a bid to ease cash flow pressures of SMEs, by providing secured long term funding for projects and other business cash flow requirements.

The SME banking deposits portfolio of the Bank stood at Rs. 10,997 Mn by year end, with a healthy CASA mix of 36.9%. The growth in deposits and CASA was ably supported by Union Bank Biz Partner - a status banking proposition offered to the Bank's SME clients and is designed to deliver exclusive services along with a host of benefits. The CASA growth was further supported by the Bank's automated cash management solution Union Bank BizDirect which is extended to SME clients as a value addition that provides convenient and cost-effective transaction management solutions.

During the year under review, Union Bank continued to participate in credit schemes of the Central Bank of Sri Lanka (CBSL), facilitating the furthering of the national development agenda by actively supporting the respective focus industries as specified by the credit lines.

Given the tough market conditions that prevailed, the Bank's key focus was to maintain the quality of its SME credit portfolio through prudent risk management and cautious lending practices. Proactive measures adopted in underwriting and portfolio monitoring enabled the Bank to uphold a healthy and productive SME credit portfolio during the year 2019.

Prospects 2020

Amidst renewed sense of hope and improved market conditions, Union Bank will embark on its SME Banking strategy for the year 2020 with greater emphasis on creating value to clients through efficient underwriting processes and faster turnaround times. The SME Banking proposition in 2020 will be further enriched by the revamp of Union Bank BizDirect, which will be geared to deliver enhanced cash management ease to SMEs while opening up new business dimensions for them through cross-border transaction facilitation, host2host payments etc.

Prudent portfolio management will remain a top priority while internal decision making processes will be enhanced, to provide efficient services and greater customer experiences with the aim of creating long term client relationships. The SME Banking product range will be further augmented with greater focus on relationship management while more opportunities for customer engagement are envisioned for the ensuing year. The Bank's experienced team of account relationship managers and regional SME Banking representatives at branches dispersed island-wide will continue to play a financial advisory role to the Bank's vital client segment, in a bid to promote healthy financial decision making practices amongst SMEs. With greater focus on tech-based banking solutions, Union Bank will look to reduce transaction costs for its SME clients with a view to support business growth and progress of its clientele.

Cash Management Services

Union Bank became the pioneer amongst local banks to offer Cash Management Services (CMS) in Sri Lanka with the launch of Union Bank BizDirect in the year 2015. During the period under review, the Bank's CMS proposition continued to grow with the successful on-boarding of a large number of new clients under Corporate and SME segments, thereby substantially increasing the volume of transaction throughput. in recognition of the great strides made in providing Transaction Banking excellence, the state-of-the-art cash management solution Union Bank BizDirect was awarded 'Best Cash Management Bank - Sri Lanka' title at the Global Business Outlook Awards 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

The Cash Management function of the Bank was brought under a new leadership by mid 2019, with a view to bring greater focus on this proposition as a key revenue generator for the Bank. Career banker Mr. Asanka Ranhotty joined Union Bank as Vice President, SME and Transaction Banking to give a coherent leadership to the two business lines.

During 2019, a strategic decision was taken to upgrade the CMS system with a view of broadening the service offering under Union Bank BizDirect. Upgrading the system commenced during the last quarter of 2019 and will go live during January 2020.

Prospects 2020

With the latest version of Union Bank BizDirect in service upon its re-launch, in the year 2020 and beyond, Union Bank clients will reap the benefits of latest available technology in cash management with enhanced security. With the latest upgrade, Union Bank BizDirect is envisaged to become a versatile tool for any customer segment be it corporates or SMEs. The services provided under the new and improved CMS system will include, cash and cheque collection, liquidity management, receivable management, trade finance services and all types of payment services enabled through Union Bank BizDirect connected to client's respective ERP or Accounting platform. Plans are in place to take Union Bank BizDirect to local corporates, multi nationals and SMEs during 2020, making it the leading CMS provider across diverse segments of the economy.

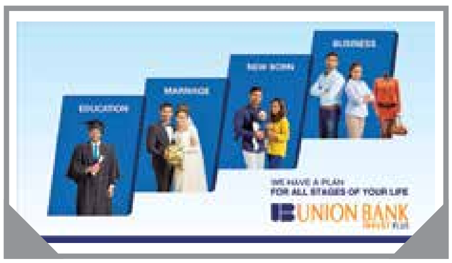
Retail Banking

Retail Liabilities

During the year under review, retail liabilities portfolio of the Bank was Rs. 50,087 Mn and supported the assets growth initiatives of the business.

The growth of fixed deposits was stifled across the industry, due to interest rate limitations imposed during a greater portion of 2019 which resulted in an outflow of funds to the real estate sector. The Bank too remained conscious of the yields in a strategic bid to improve overall margins, and adopted a low-priced approach which coincided with the slow asset growth that prevailed throughout the year. Retail term deposits of Union Bank stood at Rs. 38,796 Mn by year end.

Retail CASA was at 22.5% as a result of focused emphasis on identified key customer segments and relationship management efforts to build the CASA portfolio of the Bank. During the year under review, the Bank focused on selected strategic target markets and localities for conducting tactical growth initiatives, in view of the adverse market sentiments that prevailed throughout the year.



The special focus placed on liability sales efforts and penetration into preferred banking segments as well as institutional segments were key drivers for retail CASA growth in the year 2019. In addition, the Bank continued the emphasis on its premier status banking proposition 'Union Bank Elite Circle' to attract, retain and grow its high net-worth clientele with the provision of preferential rates, dedicated relationship management and exceptional customer experiences.

New acquisitions were driven with conscious efforts of improving the CASA mix of the Bank. The number of Union Bank Debit Cards issued grew in line with the expansion of the Bank's savings account base and continued to be a valuable source of fee income. The Bank introduced the VISA Paywave feature for debit card users in 2019 furthering their convenient access to accounts through an enhanced point of sales and ATM network locally as well as globally through chip-based and Visa Pay Wave options. Union Bank debit cards continue to provide easy access to accounts and facilitate several banking services through online/mobile platforms and are bundled with attractive merchant offers for added user value. The Bank continued the merchant acquiring partnership with a global processor which contributed significantly to the CASA growth within the year.

Providing account holders with greater value, Union Bank continued to offer operational efficiency and convenient access across all its channels throughout the year under review.

Retail Assets

In 2019, Union Bank heightened its focus on mortgage backed loan products and these schemes were made even more attractive to offer optimum benefits to customers.

As a part of these efforts, the Bank introduced an exclusive discount programme for existing and potential clients that obtain a Home Loan or a Loan Against Property (LAP). Under this scheme, an attractive range of savings from premium, trusted home improvement and building suppliers are made available to customers that avail themselves of a mortgage-backed facility from the Bank.

In addition to the exclusive offers, Union Bank mortgage loan propositions were continually enhanced to offer convenient loan processing, competitive interest rates and attractive insurance premiums for mortgage protection covers. During the year under review, the Bank also introduced a 'green channel' for mortgage loans enabling even faster loan processing to meet time-critical funding requirements of its growing clientele.

With multiple options to choose from, Union Bank has revolutionised the mortgage loans landscape to effectively meet the diverse housing and mortgage backed financing requirements of Sri Lankan residents as well as Sri Lankans employed abroad. Experienced and specialised mortgage loans teams are deployed to deliver superior service and enable applicants to obtain the facility within the shortest possible time. The clients could even opt for documentation procedures with local authorities to be coordinated through the Bank for added ease and simplification of the process.

Central sales teams as well as the sales personnel deployed at branches have evolved to be well-accepted knowledge leaders of the subject, and now boasts of playing a much-needed advisory role in the market where knowledge on home financing and mortgage procedures still remain scarce. The expertise of the sales teams and the credit processing teams combined, has provided a unique edge to Union Bank in setting a new benchmark for home financing within the market.

Credit Cards

Since its launch in August 2018, the credit cards business of Union Bank has now emerged as a strong brand making notable contributions to the Bank's revenue despite strong headwinds experienced in 2019. The credit cards franchise was a key focus area in the Bank's strategy in 2019, and Union Bank was successful in making strong progress in this segment having carved out a clear path for growth amongst its target audiences.

Despite meeting many challenges as a late entrant in a highly competitive and volatile market, Union Bank succeeded to secure captive markets and command its own market share within a short span of just above one year. During the year under review, the Bank crossed many milestones in relation to its credit cards business agenda including the substantial growth of the cards customer base and the accumulation of a notable credit portfolio. The product has already shown a strong contribution to the overall revenue of the Bank in the aspects of interest income as well as fee income.

The key strategies deployed in the year 2019, outlined the efforts to grow the number of cards by cross- selling to existing clients and attracting new customers, as well as to gradually increase transaction volumes with greater customer engagement. The aggressive drive by the dedicated sales teams, backed by the 67 branches island wide supported the notable growth of credit cards. The targeted promotional activities carried out throughout the year ensured the consistency of the credit cards proposition, while keeping customers engaged with 'an extended experience' thus delivering on the brand promise of Union Bank credit cards. The fuel/supermarket cash back offers, 0% interest instalment plans, and discounts up to 50% at popular merchant partners in leisure, shopping and clothing segments were some of the highlights of the year 2019.

Gold, Platinum and Signature variants of the credit card catering to different customer segments were fuelled with the latest technologies of the market since the launch, including Visa Paywave feature for customer convenience and EMV and VbV – 3D secures features for enhanced security on credit card transactions. The processes of the Bank are compliant to PCIDSS (Payment Card Industry Data Security Standard) to facilitate optimum levels of security.

During 2019, credit cards self services were included to the Bank's Digital Banking platforms gearing for an enhanced customer experience while enabling credit card payments via Union Bank ATMs, strengthening the loyalty programme with a variety of redemption options, and extending tenures on instalment programmes were some of the key initiatives taken to add further value to credit cardholders of Union Bank.

Prudent management of the quality of the portfolio alongside its accelerated growth remained a key business priority and to this end, the NPA ratio of the credit cards portfolio was managed at a low level amidst stressed market conditions as a reflection of the strong underwriting capabilities of the business.

Value Added Services

Bancassuarance

The Bank entered into a long-term exclusive Bancassurance agreement with Union Assurance PLC in October 2018 to offer life insurance products to the Bank's customers. The new strategic partnership with one of the top life insurers in the country, provides Union Bank the added advantage of providing diverse insurance needs of its clients under one roof. This initiative also enables the Bank's customers to centrally manage their health insurance, lifestyle protection and retirement planning all under one package, along with financial products under one roof, assisted by well-trained Bancassurance staff of Union Assurance via Union Bank branches.

The Bank also maintains Bancassurance partnerships with multiple General Insurance service providers to facilitate General Insurance solutions to its customers. The General Insurance proposition has aided in supplementing customer convenience with the apt provision of Fire, Travel and Motor insurance solutions to name a few.

A series of training programmes were conducted for the Bank's branch staff, sales personnel and product champions to assert the significance of Bancassurance services to customers and the Bank. The corresponding fee income from Bancassurance services have shown a significant increase over the years and was reported at Rs. 56 Mn in the year 2019, further denoting the Bank's increased focus on Bancassurance services as a revenue generator.

Remittances

Union Bank facilitates inward remittances through Western Union and Instant Cash global money transfer service gateways. The services are offered to the public through the Bank's island wide branch network. During the year under review, the Bank's inward remittances volumes were affected by the decline in national inward remittances volumes due to the impact from geopolitical volatilities in the Middle East. The impact of the currency fluctuation and depreciation of the Rupee during the second half, further

MANAGEMENT DISCUSSION AND ANALYSIS

affected the inflows. The Bank focused on localised campaigns in selected geographies with a view to increase the mobility of the remittances business despite the macro-economic challenges.

Alternate Channels

Union Bank's focus to increase customer convenience through technological enhancements was steadily furthered in 2019, with several initiatives implemented through the alternate channels which includes ATM network and digital banking platforms. The enhancement also contributed to improved performance across all channels whilst facilitating seamless back end operations for greater customer service capabilities.

The Bank integrated its Credit Cards system with the online and mobile banking platforms during the last quarter of 2019. This provides convenience and better control to Union Bank credit cardholders with self-care services made available at their fingertips. The Bank is in the process of improving the features on this module even further to offer greater convenience to its cardholders in managing their credit cards more effectively.

The Bank's online and mobile transactions continued to increase during the year, recording a 68% growth over 2018 with a total transaction value of Rs. 5.4 Bn. It was notable that this growth stemmed mainly from cross-sell initiatives backed by increased customer take-up due to the enhanced customer experience and convenience generated through the channels.

The Union Bank ATM network is fully EMV compliant and serves as a secure touch point that provides greater accessibility to customers dispersed island-wide. The strategic locations of the off-site ATMs continued to provide enhanced convenience to customers as well as non customers. The off-site ATM network of the Bank boasts of an average vintage of four years and contributed for up to 70% of the 'off-us' transaction volume in the year 2019.

Convenient Banking

Off Site ATMs **47** ← **2019 ATMs - 115 -** → Branch ATMs **68**

Customer Experience Management

Contact Centre

The contact centre of the Bank is an integral customer touch point that is dedicated to providing enhanced customer experiences, specially to the Retail Banking clients of the Bank. In the year 2019, measures were taken to further improve the Interactive Voice Response (IVR) system of the Contact Centre to include a range of automated services that enable efficient customer support to the Bank's growing base of credit cardholders.

With the said enhancement completed within the year, Union Bank now boasts of the only IVR in the industry that is fully compliant with the Payment Card Industry Data Security Standard (PCIDSS) which assures ultimate security of transactions completed through the self-banking services enabled on IVR for credit card holders and account holders of the Bank. The new and improved IVR also offers trilingual assistance to its users and is geared to provide widespread convenience to Union Bank customers making banking inquiries around the clock from anywhere in the world.

The service team of the contact centre was further fortified during the review year with the addition of new members to serve as customer service specialists while existing customer service personnel that displayed outstanding service standards were rewarded with career development opportunities within the team. These enhancements to the service delivery team are expected to deliver improved skills in call routing and assistance to premier customer segments. The product and operation knowledge of the inbound customer service specialists have been augmented, enabling them to act as a first-level help desk providing support to a wide range of customer queries swiftly and efficiently. The contact centre of the Bank continued to play a vital role in managing the credit and debit cardholders of the Bank - not only providing support for queries but also managing transaction monitoring processes during after-hours and bank holidays, thus assuring the safety of card-based transactions of Union Bank customers.

Service Quality Management

Service Quality Management (SQM) is a vital enabler for managing client relationships through the effective management of service standards of the Bank and contributing towards customer satisfaction and retention across all customer touch points.

The SQM department continued to enhance service standards of the Bank by revamping Service Level Agreements (SLA) and Turn Around Times (TAT) in relation to the retail banking processes as means of improving customer experiences. The new SLAs and TATs cover key retail banking process indicators such as credit card processing time, retail loan processing time and SLAs between branches and central operations with a view to provide a competitive edge to Union Bank within a highly competitive retail banking landscape.

During 2019, several customer satisfactions surveys were conducted to determine service gaps and the identified gaps were addressed through learning and development initiatives as well as the revamping of some of the existing business processes for improved efficiency. The department works in close collaboration with all customer touch points and delivery channels to ensure that adequate and appropriate service standards are delivered across the Bank, in compliance with the standards specified on the customer charter of the Central Bank of Sri Lanka.

MANAGEMENT DISCUSSION AND ANALYSIS

Managing customer complaints and suggestions is a key component in service quality management, and to this end the SQM unit of Union Bank ably delivered equitable solutions to customer queries, while maintaining a healthy rapport with internal and external stakeholders. Implementation of the 'first time resolution providing system' in collaboration with the contact centre and enabling customer feedback via mobile and online platforms for faster dispute resolution were significant highlights of the year.

During the year under review, several initiatives were undertaken to create awareness on the importance of customer service amongst the Bank's employees with a view to inculcate a customer centric culture within the Bank. Celebration of the Customer Service Week, deployment of internal communications on the value of service and conducting training and development programmes on the significance of customer services were some of the key activities conducted within the year.

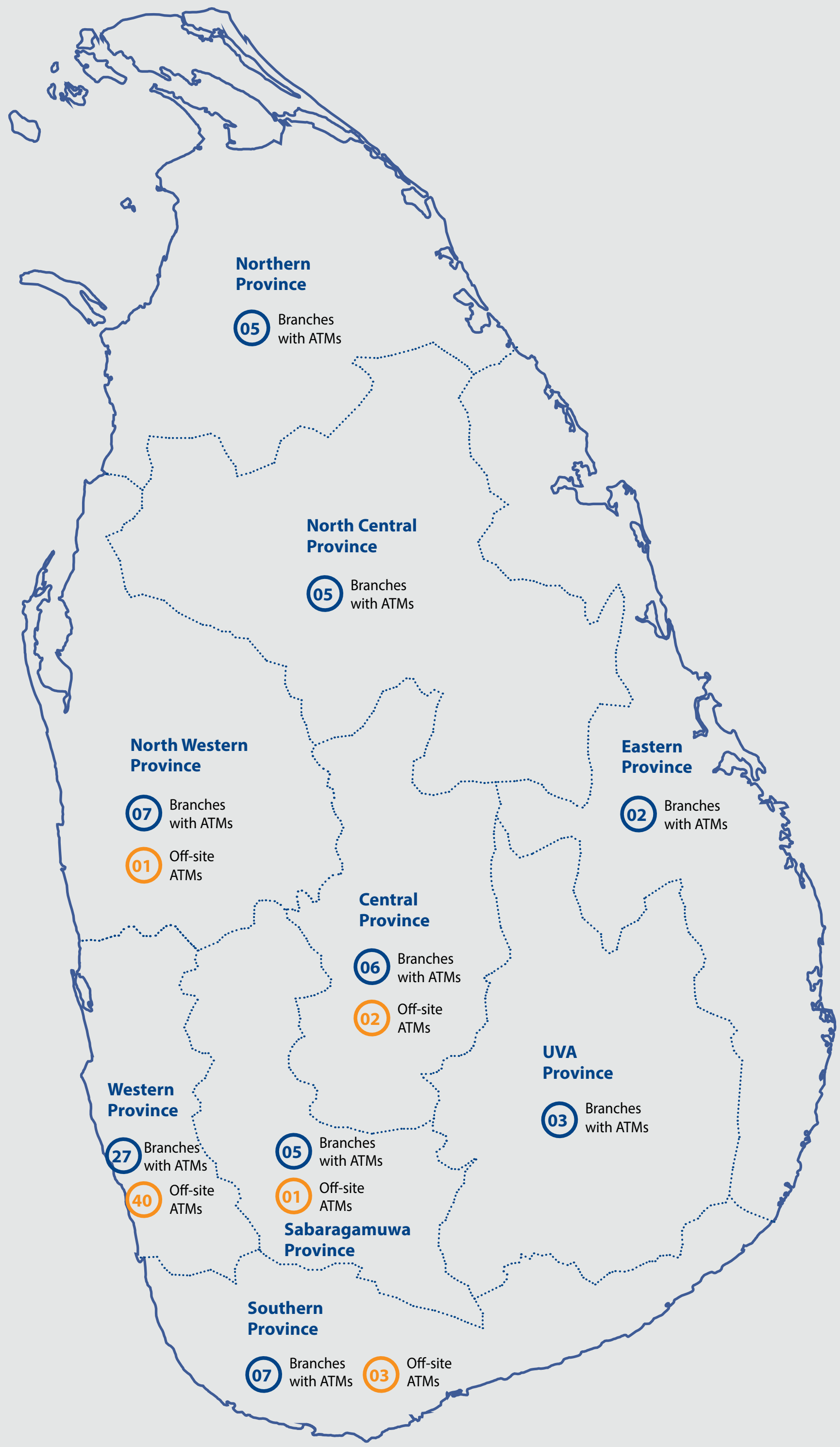
Prospects 2020

Retail Banking will continue to enrich the core banking growth of Union Bank in 2020 with increased contribution towards retail CASA and overall liability growth supplemented by retail assets growth led by mortgage–backed facilities. The Bank will continue to capitalise on its credit cards proposition to acquire new clients while increasing the spend levels of the existing base to optimise revenue growth. Fee income will continue to be a key focus in 2020 and this will be led by the assets business lines, supported by the auxiliary product propositions including Bancassurance and remittances.

The Retail Banking proposition will aim to gain more traction in 2020 aided by targeted customer promotions planned in line with the Bank's 25th anniversary celebrations. A clear emphasis on identified, key customer segments will be a major focus in the efforts of building the retail banking business to be a key contributor to the Bank's balance sheet in 2020 and beyond. This sustainable growth is envisaged to stem from building effective customer relationships specially in focus segments such as Elite Circle and Institutional Banking. Investments in people will be increased in the ensuing year with a view to provide preferred service excellence across the Bank's customer touch points which will play a key role in customer retention and long-term customer value generation.

Union Bank will continue to enhance the productivity of its brick and mortar presence by driving rationalised throughput with focused efforts on selected localities and strategic branch and ATM locations. The ATM modification project initiated in 2019 will be continued through the year 2020 to provide greater convenience via the Bank's island-wide ATM network. Greater emphasis will also be placed on increasing the digital banking footprint, thus coinciding with the Bank's envisaged digital transformation.

Branch and ATM Network *{GRI 102-6}*



67
BRANCHES

115
ATMs

BRANCHES

Northern Province
01. Atchuvely
02. Chunnakam
03. Jaffna
04. Mannar
05. Vavuniya

North Western Province
06. Chilaw
07. Ibbagamuwa
08. Kuliyapitiya
09. Kurunegala
10. Marawila
11. Narammala
12. Wennappuwa

Western Province
13. Attidiya
14. Borella
15. Gampaha
16. Ganemulla
17. Head Office
18. Horana
19. Ja-Ela
20. Kadawatha
21. Kohuwala
22. Kollupitiya
23. Kotahena
24. Maharagama
25. Matugama
26. Minuwangoda
27. Moratuwa
28. Nawala
29. Negombo
30. Nugegoda
31. Old Moor Street
32. Panadura
33. Pelawatte
34. Pettah
35. Piliyandala
36. Rajagiriya
37. Ratmalana
38. Wattala
39. Wellawatte

Southern Province
40. Akuressa
41. Ambalangoda
42. Ambalantota
43. Angunakolapelessa
44. Elpitiya
45. Galle
46. Matara

North Central Province
47. Anuradhapura
48. Horowpothana
49. Kebithigollewa
50. Kekirawa
51. Medawachchiya

Central Province
52. Dambulla
53. Gampola
54. Kandy
55. Nawalapitiya
56. Pilimathalawa
57. Peradeniya

Eastern Province
58. Batticaloa
59. Trincomalee

Uva Province
60. Badulla
61. Bandarawela
62. Monaragala

Sabaragamuwa Province
63. Balangoda
64. Embilipitiya
65. Kegalle
66. Ratnapura
67. Warakapola

OFF-SITE ATMS

North Western Province
01. Colombo Road, Kurunegala

Western Province
02. Mahabuthgamuwa, Angoda
03. "Pora" Athurugiriya
04. Thalangama North, Battaramulla
05. Divulapitiya, Boralesgamuwa
06. Ambalama Junction, Boralesgamuwa
07. Egaloya, Bulathsinhala
08. Elvitigala Mawatha, Colombo 08
09. Maradana, Colombo 10
10. Marine Drive, 10th Lane, Colombo 3
11. Marine Drive Wellawatte, Colombo 06
12. Prince of Wales Avenue, Colombo 14
13. R A De Mel Mawatha, Colombo 05
14. Karagampitiya, Dehiwala
15. Kandeliedhapaluwa, Ganemulla
16. Hospital Road, Kalubowila
17. Kandy Road, Kelaniya
18. Jinadasa Nandasena Mw, Kiribathgoda
19. Bogahawila Road, Kottawa
20. Pamunuwa, Maharagama
21. Makola South, Makola
22. Pittugala, Malabe
23. Angulana, Moratuwa
24. Gorakana, Moratuwa
25. Ethukala, Negombo
26. Colombo Road, Negombo
27. Gangodawila, Nugegoda
28. Mirihana, Nugegoda
29. Highlevel Road, Pannipiitya
30. Rukmalgama Road, Kottawa, Pannipitiya
31. Makumbura, Pannipitiya
32. Walana, Panadura
33. Modarawila Road, Panadura
34. Batakettara, Piliyandala
35. Colombo Road, Pokunuwita
36. Maradana Road, Punchi Borella
37. Madiwala Road, Thalawathugoda
38. Hendala, Wattala
39. Mabola, Wattala
40. Mahabage Road, Ragama
41. Temples Road, Mount Lavinia

Southern Province
42. Kurundugahahethekma, Elpitiya
43. Church Street, Galle Fort, Galle
44. Matara Road, Unawatuna

Central Province
45. Peradeniya Road, Kandy
46. Karaliedha, Theldeniya

Sabaragamuwa Province
47. Sannasgama, Lellopitiya

Treasury

Union Bank's Treasury performed notably during a challenging year, recording a revenue growth of 38%. Some of the prime focus areas for the year included Trading in Government Debt securities, Asset and Liability mismatches, sales/purchases in foreign exchange, new product development and strengthening the operational and monitoring efficiencies with the use of IT capabilities.

The Treasury operations of the Bank were directly exposed to fluctuations in financial market variables such as interest rates, exchange rates, market liquidity, etc. while the macro-economic conditions and political developments directly contributed to overall operations of the Treasury.

In February 2019, Central Bank of Sri Lanka (CBSL) reduced the Statutory Reserve Ratio (SRR) by 100bps to release liquidity to financial markets which recorded a deficit. CBSL's decision to relax the key policy rate corridors twice during the year resulting in the Standing Deposit Facility Rate (SDFR) and Standing Lending Facility Rate (SLFR) reflecting 7 percent and 8 percent respectively, provided some much needed momentum to the markets and the treasury operation of the Bank was able to capitalise on the resultant capital gains. Also during the year, CBSL reduced the foreign investment holding in government debt securities to 5 percent from a threshold of 10 percent, creating further movement in the investment markets and generating opportunities for the Treasury to maximise on the influx of investments. A new Treasury bond buy -back auction process was introduced for Market Participants (Banks/ Primary Dealers) and a Liquidity Support Facility (LSF) for stand-alone primary dealers in the country was also introduced to support the market mobility and inject liquidity.

Union Bank's Treasury consists of the Inter-bank desk, Corporate Sales desk and the Fixed Income desk which is also responsible for the primary dealer operations. These three units work diligently and in optimum cohesion to capitalise on market opportunities while weathering challenges.

During the reporting year, the Fixed Income Desk contributed significantly in terms of capital gains or trading income to the Bank's bottom line, reporting an overall income of Rs. 446 Mn during the year 2019. The Government Debt securities portfolio stood at Rs. 32,769 Mn as at 31 December 2019.

The Inter-bank Desk continued to facilitate the funding and overall monitoring of key regulatory ratios such as the Liquid Asset Ratio (LAR) and the Statutory Reserve Requirement (SRR) alongside the Bank's cash flows both in rupees and foreign currency. The unit further contributed to the Net Interest Income (NII) by way of strategic investments and placements of Assets and Liabilities.

The Corporate Sales desk which mainly focuses on customer forex operations performed well despite market pressures, serving the requirements of institutional, corporate and individual clients with Foreign Exchange Cash/Spot and Forward Contracts, import/export related transactions, Bank notes repatriation and advisory services. The desk continued its emphasis on driving volume growth by maintaining high levels of engagement with the corporate, SME and Retail businesses of the Bank.

Prospects 2020

Union Bank Treasury will remain optimistic regarding the short to medium term growth prospects of the country resulting mainly from the anticipated stabilisation of macroeconomic fundamentals including the recovery of private sector credit, strengthening retail demand and inflow of foreign direct investments along with the restructuring of loss making state owned enterprises. The Bank's Treasury will continue to place strategic importance on strengthening contributions from its core businesses, namely foreign exchange and corporate sales, Bank notes repatriation as well as investments and trading during the year 2020. It is envisioned that the focus on low cost funding opportunities and new business relationships will be heightened for optimum revenue generation opportunities. In order to achieve this rather challenging task, Treasury will continue to look to opportunities for collaborations and strategic partnerships with both local and foreign funding agencies as well as banks in the ensuing year.

Operations

Operations department of the Bank plays a vital role in supporting the smooth functioning of the Bank's diverse business units while optimising the productivity of bank-wide processes.

With a view to contribute towards the growth of business volumes, the concept of centralisation was continued through 2019. Dispatching of essential customer notifications such as dormant account notices, minor conversions etc. were centralised, adding more efficiency and better control to processes while creating cross-sell opportunities for the Bank. Generation of several regulatory reports was also brought under Process Control Operations (PCO), enabling front-line staff to place better emphasis on customer acquisition and servicing aspects.

Fourteen workflow based solutions were implemented for corporate banking, customer documents digitalisation, and bank guarantee processes to improve productivity and efficiency. Key automation initiatives of the year included the implementation of an e-form system for online submissions, generation of Trade related regulatory reports and the automation of the fee collection process.

With strategic exploitation of technological support for enhanced customer convenience, bill payments through ATMs were enabled in collaboration with the alternate channels team and information technology department. The digital banking platform was upgraded to include credit card functions in-line with the industry standards. In-house card printing was introduced for Debit Cards enabling over-the-counter debit card issuance. Enhancements were made to the Treasury systems to support the ongoing and envisioned business expansion. In 2019, Union Bank went live with the 'Online Local USD Clearing' facility which has now placed the Bank in par with competitor banks on Local USD Draft Clearing within just two days.

The primary focus of the premises department was the sound maintenance of the Bank's infrastructure and outlook. Selected customer areas including the head office branch and the Elite centre at Dharmpala Mawatha were refurbished during the year, to provide a more warm and welcoming ambience to clients. A few staff areas and departments were also expanded and re-located to provide better work environments for employees. Also during the year, the Bank designed and custom-built a disaster recovery site to cater to the increased demand created by the expansion of business processes and volumes. Installation of a variable speed drive for cooling tower's operation of the air conditioning system at the head office premises contributed towards the reduction in power consumption and driving cost savings. A walk through security scanner and a baggage scanner were installed in the Bank's Head Office building and hand-held scanners were introduced to key branches to enhance the security controls of the Bank's premises.

The Bank's procurement process produced Rs. 27.6 Mn as direct savings through prudent procurement of goods and services and enabled savings of Rs. 33.9 Mn in rentals during the reporting period.

The team structures under the Bank's Operation division were reviewed and realigned, while redefining selected roles for optimum productivity and outcomes. In line with the Great Place to Work initiatives of the Bank, staff were rotated across diverse functions within the department thus enriching their work experience and moulding them towards becoming multi-skilled resources. Employees are continuously encouraged to pursue relevant education qualifications as specified by regulators and are provided training and development opportunities to enhance their soft skills.

Prospects 2020

With the anticipated growth in business volumes the operations department of the Bank will be further strengthened to support business requirements and drive optimum outcomes across the organisation.

With a view to further improve efficiencies within and across key functions, Service Level Agreements will continue to be implemented to all workflows along with a performance dash-board to screen productivity and efficiency of staff. This is expected to provide better process management controls aided by effective performance monitoring, reduced Turn around times and better delivery of final outcomes.

Operations will continue to work in collaboration with the Information Technology support teams of the Bank to enhance existing systems and to ensure greater accessibility, ease of use as well as security of the Bank's core functions. Focused efforts will be implemented during the ensuing year on the overall augmentation of the processes within the Bank with the aid of technology and digital services.

Looking into 2020 and beyond the Bank will explore the possibilities of implementing Robotic Process Automation (RPA) to meet the emerging process efficiency expectations internal and externally. RPA is an automated software that mimics human interaction with core systems, web based applications and desktop applications to execute processes that run alongside existing systems. This will be rolled out in phases during the ensuing years based on the success of the pilot project conducted previously.

Information Technology

Information Technology plays a vital role in shaping the Bank's digital strategy which provides the much-needed impetus to the Bank's evolutionary journey as one of the fastest growing full-service banks in the country. Union Bank's information technology strategy for the year 2019 was formulated to strengthen the IT capabilities of the Bank and further align them with business objectives for enhanced performance. Accordingly, the IT function spearheaded the automation of several key operational workflows of the Bank including fee collection, trade related operations as well as some credit cards functions.

During the year under review, Mr. Nisala Kodippili was appointed as the Chief Information Officer of Union Bank. Mr. Kodippili has been instrumental in driving significant information technology and digital innovations during his career spanning more than 20 years with specialisation in the banking industry.

With renewed vision of the new leadership, the IT capabilities of the Bank were re-assessed and analysed to identify possible gaps and areas for improvement. The future desired state of the IT functions was then designed after a thorough analysis of the existing functions with a view to provide the much needed impetus to the Bank's intended digital transformation.

Prospects 2020

The thorough analysis of IT capabilities conducted in 2019 has paved the way for enabling a stronger tech-based business vision for the Bank against a rapidly-changing technological landscape. Union Bank's IT capabilities in 2020 and beyond have been designed with a prioritised approach, and will be continued to be implemented through a three-year strategic road map spanning through 2019 to 2021. The IT strategy for the year 2020 will place key focus on strengthening the key businesses of the Bank with focused technological enhancements. The IT strategy for 2020 and beyond will see the implementation of detailed expansion initiatives in the areas of IT infrastructure, organisation structure, IT security and governance, data and management information and digital transformation.

Marketing Communications

Amidst tough competition and challenging market conditions, marketing communications of the Bank were conducted in prudent measures in order to maximise on market opportunities while reducing its impact on the Bank's overheads as a whole. To this end, the Bank's marketing function drifted away from integrated marketing campaigns and focused more on targeted below-the-line and through-the-line communications initiatives that were more efficient and cost-effective in creating the desired levels of awareness for the Bank's products and services.

In line with the Bank's business strategy for 2019, the bulk of the marketing communications efforts during the year were focused on credit cards and mortgage backed loan facilities for retail clients and the Union Bank BizDirect Transaction Management system for the corporate and SME clientele.

MANAGEMENT DISCUSSION AND ANALYSIS

In January 2019, Union Bank unveiled a brand new corporate website with a fresh outlook and improved features designed to support the Bank's envisioned digital presence. The new website is expected to deliver an elevated user experience and includes a range of research-driven design enhancements and user friendly features. In August 2019, the new and improved website of Union Bank won the Gold award under the Finance Category at dotCoMM Awards 2019 based in the USA. dotCOMM Awards is an international competition honouring excellence in web creativity and digital communication and winning this accolade was an affirmation of the Bank's continuous commitment towards digital transformation.

Greater emphasis was placed on taking advantage of the growing consumer trends on digital and online platforms. Several targeted lead generation and awareness campaigns were deployed via social media for the credit cards proposition; to exploit the traction of seasonal offers and discount schemes introduced throughout the year. The campaigns gained excellent response rates from target audiences and recorded conversion rates of 18% and above- a record high in comparison to the average norms for digital campaign conversions. Focus on creating enhanced awareness for the Bank's products and services on social media was continued throughout the year and the campaigns executed resulted in the Union Bank pages topping its competition in terms of reach and engagement, which are significant measures of successful social media presence.

In May 2019, Union Bank introduced an exclusive discount programme for existing and potential clients that obtain a Home Loan or a Loan against Property (LAP). Under this programme, an attractive range of savings from premium, trusted home improvement and building suppliers are made available to customers that avail themselves of a mortgage backed facility from the Bank.

During 2019, the Bank introduced Union Bank Gold Circle, a specially designed financial proposition aimed at empowering the dreams of dynamic and ambitious individuals. The unique banking proposition is bundled with benefits on savings and borrowing options, allowing more flexible and convenient terms of banking to suit the evolving needs of young professionals/business owners and go-getters. The product is expected to contribute towards the growth of retail deposits and CASA bases while building relationship-based client profiles. Other targeted localised promotions conducted throughout the year for deposits and CASA growth were aptly supported with marketing communications in a bid to support the retail liability growth objectives of the Bank.

Several customer engagement initiatives were carried out during the year to increase customer interactions and effectively manage key client relationships. Amongst them, the 'CEO Breakfast Forum' held at the beginning of the year was a key highlight where key clients across Retail, SME and Corporate segments were provided an opportunity to gain insights on the economic and business landscape at the time along with a platform for networking and relationship building. Several other client-centric events that were planned to be held during the year were cancelled/postponed in view of the security concerns that arose within the remainder of the year, following the fateful terror attacks in April 2019.

Furthering investor relations of Union Bank, in July 2019 the Bank conducted an Investor Forum to present its 1st half performance to participants representing the investment community of Sri Lanka. Leading stockbrokers, financial analysts, venture capitalists and investment advisors were among the distinguished addressees at the well-attended event. The Annual Report 2018 was released under the theme 'Building Stronger Bonds' further boosting the Bank's investor relations efforts.

The outstanding achievers of the retail and SME business segment of the Bank were recognised and honoured at the Union Bank Retail and SME Awards which was held as a gala ceremony in Colombo under the theme 'Race to Win'.

Adding vibrancy to the outlook of the Bank's branches and ATMs, the island-wide BTL communication plan was furthered during 2019. A project to enhance the ATM design and layout was initiated in the year 2019 and will be continued through the ensuing year.

During the year under review the Union Bank brand continued to gain momentum for its growing presence across traditional and non-traditional media as a result of cohesive public relations rolled out throughout the year.

Re-affirming its commitment to support the well-being of society with a focus on children and education, several corporate social responsibility projects were conducted at selected branch localities with the objective to improve the standards of disadvantaged schools and provide better learning environments to children attending the schools.

Prospects 2020

In 2020, Union Bank will be celebrating a milestone of completing 25 years of banking to the nation and marketing will act as the key strategic enabler that drives the planned celebrations and initiatives throughout the year. A series of initiatives that are designed to benefit customers, staff as well as other key stakeholders have been scheduled and will be rolled out from February 2020.

In the year 2020, further emphasis will be placed on creating stronger links with customers, investors and key stakeholders especially in view of the Bank's 25th anniversary. Several initiatives including customer events for retail, SME and corporate clients, media gatherings, AGM, investor forums as well as employee events are in the pipeline for the year 2020.

In tandem with the renewed energy and optimism across the macro-economic landscape, marketing communications of the Bank will be elevated in 2020 to create greater awareness for the brand and position Union Bank as a rapidly progressing bank that is geared to partner the growth of individuals, SMEs and corporates of the country. The high-level of emphasis on digital communications will be continued with an aim to become an industry trend-setter in this sphere. In the ensuing year, Marketing will continue to empower business growth of the Bank, with special focus on the Bank's strategic growth segments including credit cards, CASA, mortgaged backed loans as well as the Union Bank BizDirect cash management service.

CORPORATE HIGHLIGHTS

CEO's Breakfast Forum for Key Clients



Retail & SME Awards

Investor Forum


Annual General Meeting

Best Website - Finance Category
DotCoMM Awards 2019, USA

CORPORATE HIGHLIGHTS

Annual Branch Managers' Conference

Union Bank Excels at SLIM NASCO

Management Team Off-site Meeting

UB Accelerate Career Guidance & Job Fair

Customer Service Week - Service Champions

Long Service Awards

CORPORATE HIGHLIGHTS

Religious Observances

Christmas Carols

Annual Dinner Dance

Annual Staff Trip

Sports Achievements - 36th Mercantile Sports Festival

UB Team Member Appointed an ICC Umpire

Prageeth Rambukwella

MEDIA HIGHLIGHTS

Union Bank records strong growth of 52% in profit before all taxes in 1H 2019

UNION Bank concluded a strong first half, recording significant growth in core banking revenue with resultant profits before all taxes of Rs. 849 million, amidst challenging market conditions that tested the resilience of businesses across all sectors.

Chairman Atul Malik

Core banking growth and financial performance

The second quarter of 2019 carried unforeseen challenges for the banking sector, which was under demanding economic conditions caused by the unfortunate events that unfolded in April 2019.

Despite a very challenging macro environment, Union Bank reported healthy core banking growth with Net Interest Income (NII) significantly increasing by 19% YoY, to report Rs.2,131million.Net Interest Margin of the Bank improved to 3.4% from 3.1% in the comparative quarter. This is mainly due to the

Profit share from subsidiari was reported at Rs.62million, whi was aRs.22millionincrease YoY.

Profit after Tax (PAT) for tl period wasRs.297 million and w: an 18% increase YoY. PAT of tl Bank was significantly affected l the increase in tax rates. Effecti

branches and sales teams during the period under review.

The Treasury continued its excellent performance in this 2nd quarter as well, with strong revenue contribution. The Foreign Exchange Incomecontinued to be under stress due to lower volumes on trade finance business and the impact from adverse economic conditions.

Union Bank website wins gold at dotCOMM Awards 2019

Union Bank Website www.unionb.com was awarded the Gold winner under the Finance Category at the dotCOMM Awards 2019 based in USA.

Thishani Dissanayake, Assistant Vice President Marketing said, "We are delighted to share our achievement, which further affirms the Bank's efforts to enhance its digital presence and its commitment to digital transformation. The new

Thishani ...yake

Some of the key highlights of the website that delivers an elevated experience to its users include; Research-driven information architecture providing shortest steps to obtain information, quick link dropdowns across the website enabling easily accessible important links based on google analytics, mobile first design optimized for desktops considering the majority of users explore the internet through mobile, social media integrations, careers page with the ability to upload CVs, live, automated CSE widget for faster and more accurate information on stock price and an ATM/Branch locator with filter options and Google map directions. In addition the website also provides users with highest level of security when accessing the Bank's online banking platform. The website development was partnered with Digibrush Private Limited an innovative and rapidly growing digital service provider with expertise in website development, digital media marketing and design solutions.

The dotCOMM Awards is an international competition, honoring excellence in web creativity and digital communication. The competition is unique as it reflects the role of creatives in the dynamic web that is transforming how we market and communicate products and services.

dotCOMM Awards is administered and judged by the Association of Marketing and Communication Professionals (AMCP), one of the largest, oldest and most respected evaluators of creative work in the marketing and communication industry. Since its inception in 1994, AMCP has judged over 200,000 entries from throughout the world. Two of AMCP's competitions, MarCom Awards and Hermes Creative Awards, each attract about 6,000 entries each year.

Union Bank honours top performers at Retail and SME Banking Awards

Union Bank share repurchase offer to open on 27 June

UNION Bank recently announced to the Colombo Stock Exchange (CSE) that the bank has convened an Extraordinary General Meeting on 11 June, to obtain shareholder approval to carry out a repurchase of up to a maximum of 7,851,844 ordinary shares from its shareholders at the price of Rs. 15 per shares, amounting to a maximum distribution of Rs. 117,777,660; and that the bank expects to commence the offer to repurchase shares as aforesaid on 27 June and close the said offer on 11 July.

As per applicable law, the said offer will be made to all shareholders of the bank, on a pro rata basis. Accordingly, the proportion in which the said repurchase offer will be made to the shareholders of the bank will be, one ordinary share for every 139 ordinary shares held by each shareholder.

Where a shareholder does not accept the offer or accepts the offer only in part, the bank will repurchase additional shares from any shareholder who tenders shares over and above their pro rata entitlement for repurchase by the bank (on a pro-rata basis) up to the aforesaid maximum number of shares that the bank intends to re-purchase.

On 8 May, the bank announced to the CSE that Culture Financial Holdings Ltd., Alexis Indrajit Lovell and Vista Knowledge Ltd., who together hold 853,033,616 shares of the bank representing 78.16% of the issued shares in the bank have informed the bank in writing that they will not accept the offer to repurchase their shares.

Accordingly, given that the shareholders identified above will not accept the offer, and assuming all remaining shareholders accept the offer and in addition thereto, apply for additional shares over and above their entitlements, the bank will be in a position to distribute among the remaining shareholders, up to a maximum of Rs. 117,777,660 by re-purchasing from each remaining shareholder, the number of shares offered to be repurchased by the bank under the offer and any additional shares tendered by the said remaining shareholders, at the same consideration of Rs. 15 per share, subject to the maximum number of shares the bank intends to purchase.

US-based investment giant TPG reaffirm long-term commitment to Union Bank

Union Bank's major shareholder Culture Financial Holdings Ltd, through which US-based investment banker TPG which holds 70 per cent of bank shares, has informed that they will not accept the offer to repurchase their shares, thus affirming its continued commitment towards the future progress of the bank.

Union Bank announced a share repurchase offer which opened on June 27 and is scheduled to close on July 11.

In a news release, the bank said the share repurchase of upto a maximum of 7,851,844 ordinary shares from its shareholders at the price of Rs. 15 per share, amounting to a maximum distribution of Rs.117,777,660 was approved by shareholders at an extraordinary general meeting convened by the bank on June 11.

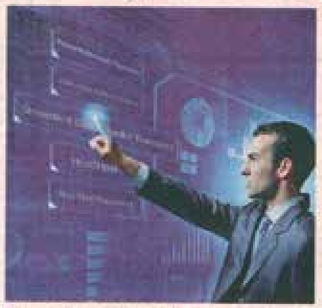
"The offer is made by the bank with the intention of improving the price of the bank's shares to reflect its true underlying value and consequently improve the returns to the shareholders. As per applicable law, the said offer is made to all shareholders of the bank, on a pro rata basis. Accordingly, the offer will be made on the basis of one ordinary share for every 139 ordinary shares held by each shareholder," it said.

Union Bank said it has been making steady prog ly-fledged comme over the years embarked on an a growth strategy acquisition by the ment giant TPG in 2

It is currently one est growing banks i which has been d Profit (PBT) over th marked a milestor ment with its PBT cı billion by the end of

MEDIA HIGHLIGHTS

Union Bank Biz Direct: Revolution management system from Union



UNION Bank is committed to delivering an unmatched banking experience across all customer segments ... the Bank has ... strategic approaches in ... customized products, extended access points and technology aided banking convenience, all of which in combination deliver a positive banking experience to its clients.

Having identified the major pain points of the SME and Corporate Banking segment, in the 2018 the Bank introduced Union Bank Biz Direct, a comprehensive transaction banking system which is designed to simplify the transaction banking processes for large corporations and SMEs.

The revolutionary transaction banking solution named Union Bank BizDirect, is a comprehensive solution that provides global access and usage for the Bank's corporate and SME clients, enabling local and cross-border trading at the click of a button. This is a user-friendly, customizable transaction banking solution designed to meet the specific business banking requirements, giving businesses better control of their payment management process.

A payment management system that relates to the needs of enterprise-level clients

Union Bank BizDirect platform further supports a fully integrated collections solution that provides capabilities for streamlining collections and receivable reconciliation. These features will provide significant value to corporates that have a large daily collection volume from multiple sources. Efficient payroll management is another key feature of the platform while the system also supports a sustainable business model by enabling paperless transactions.

Providing access to comprehensive MI reports and detailed corporate financial transaction history, Union Bank Biz Direct also provides management teams the ability to improve decision mak...

...tions, comprehensive cash flow management as well as Host2Host payments and real-time reporting with information made available at their fingertips.

Advantages of payment automation

The Biz Direct solution is designed to help businesses avoid common inefficiencies and risks in the payment process through automation. The single authorisation feature eases cumbersome cheque signing processes for signatories. In addition to cheques, the system processes other printed instruments such as dividends, debentures and pay orders; thus clearing up managers' time for much ...

including collections managed through cash courier and door step collections etc. too will be made available to our clients availing of the Union Bank Biz Direct solution.

With the use of Union Bank's Biz Direct's fund transfer options, corporates and SMEs are able to experience reduced processing cost with improved workflow efficiencies whilst been able to initiate transactions through a highly secure environment.

Union Bank Biz Direct can be easily combined with high end ERP systems such as SAP and Oracle Financials. The H2H supports ISO XML 2002 and multiple other file formats. The system allows comprehensive, real-time control over day to day management of collections, payments and liquidity investments while also supporting in-depth performance capabilities that can easily be integrated into any (ERP) system thus delivering a total banking solution for our clients.

For example, by integration of UB Biz Direct with the existing ERP system of a company, the reconciliation process will be fully automated through ISO standard reconciliation formats of MT940 and MT942 intra-day statements. This will allow full control over the collections process and also enable customised reports based on the current practices of the company...

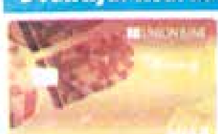
යුනියන් බැංකුවේ ෆිච් ශ්‍රේණිගත කිරීම් ඉහළට

Fich Ratings Lanka ආයතනය යුනියන් බැංකුවේ ජාතික දිගුකාලීන ශ්‍රේණිගත කිරීම BBB - (lka) සිට BB+(lka) දක්වා ඉහළ දැමීමට කටයුතු කර තිබේ.

இலங்கையின் சிறந்த பண முகாமைத்துவ வங்கியாக யூனியன் வங்கி தெரிவு

UNION BANK

Bountiful Avurudu offers with Union Bank Credit Cards



Union Bank is offering some great dealsin towards its Credit and Debit Cards in view of the upcoming Avurudu season.

The wide ranging discounts and offers are made available at popular clothing, accessories, dining, furniture, home appliances and online merchants.

This Avurudu season, Union Bank Credit Cards will offer discounts upto 20% at supermarkets island wide, upto 30% on clothing at leading retailers, upto 40% on car care and upto 50% at attractive holiday destinations located across the country.

Union Bank Credit Card discounts are also available at some of the most sought-after hotels and vacation spots year-round, thus offering memorable holiday experiences for the Bank's Cardholders and their loved ones.

Having made its debut in October last year with the unique positioning of 'the lifestyle card', Union Bank Credit Cardshave gained popularitywith its exclusive 'Cashback' proposition which providessizable savings on supermarket/ grocery and fuelbills.

Staying true to its promise 'keep swiping, keep benefitting', in addition to discountsUnion Bank Credit Cards offer greater financial flexibility to its cardholders withpayment plans such as 0% instalment plans, Loan-on-Card and Balance Transfer facilities enabling interest free easy payment schemes for high value purchases, quick and easy borrowing on the card as well as balance settlement flexibility at attractive repayment rates.

Further information on this exclusive lifestyle card could be obtained simply by dialling 011-5 800 800 orby visiting www.unionb.com.

UNION BANK'S 'UB ACCELERATE' SET TO EMPOWER YOUTH THROUGH CAREER COUNSELLING

...programme conducted in 2018

Interviews in progress - Pictures from Career Day conducted in 2018

leavers are not aware of career opportunities that exist in the Banking field or how they can build a successful career in Banking. Through UB Accelerate, we want to fill this void by sharing the career ...

event which will give the attendees an opportunity to join our growing team as Trainee Banking Assistants. The theme 'UB Accelerate' reflects both the rapid pace at which the Bank is growing as well as our ...

From effective performance management systems and attractive rewards schemes to progressive career development and training opportunities, Union Bank provides its employees with the impetus to perform at their optimum and reap rewards.

The event scheduled to be held on Saturday, 12th January from 9 a.m. onwards at the 'Nawarangahala' – Royal College will offer participants the opportunity to embark on a career at one of the fastest growing banks in the country. The participants who wish to face interviews are advised to bring an ...

RESILIENCE

Our strong roots and solid capital base afford us remarkable resilience amidst adversity, whilst lasting customer and stakeholder bonds assure the sustainability of operations in a competitive industry.

SOCIAL AND ENVIRONMENT REPORT

The social and environment report focuses on the key stakeholder groups of customers, employees, and the community with an aim to provide the Bank's investor community a clear and adequate view on its engagement with these stakeholders and how the Bank's operations impact these key stakeholder groups.

Customers

The Bank's customer base comprises individuals, SMEs and large to medium corporates, spread across different parts of the island. With a strong resolve to place the customer at the heart of the banking operations, Union Bank consistently strives to anticipate and efficiently meet the emerging needs of its customers while continuously enhancing their banking experience. The Bank endeavours to stay tuned to the evolving customer needs, in order to offer customisable and relevant products and services to meet their diverse financial needs.

Providing its clients convenient access to banking services is a key priority of Union Bank's multi-channel distribution strategy. The Bank's channel strategy spans beyond an island wide brick and mortar presence, to reach customers at their convenience via automated and online channels such as ATMs, Internet Banking, and Mobile Banking. The segment wise approach allows the Bank to offer a customised service to its discerned client segments, where high- net-worth, corporate and the SME clientele are serviced by dedicated relationship managers that deliver a personalised service experience. In addition, a sales force dispersed around the island takes banking convenience to the clients' doorsteps while acting as a channel for building awareness of the Bank's products and services amongst the masses.

Further consolidating our commitment towards customers, the Customer Charter mandated by the Central Bank of Sri Lanka (CBSL) is in full application at Union Bank. The Customer Charter sets the standards for fair banking and provides guidance on customer rights, grievance mechanism and special provisions for selected customer groups.

Product Responsibility *{GRI 417-1}*

The Bank provides a comprehensive range of products and services that are relevant and effective in meeting the needs of its clientele at various lifestyle stages and milestones of their personal/commercial endeavours. Sustainability and relevance of products and services are assessed prior to introducing new products to ensure that the products and services of the Bank deliver optimum value to clients.

On the above basis in 2019, the Bank introduced Union Bank Gold Circle, a financial proposition aimed at empowering the dreams of dynamic and ambitious individuals. The unique banking proposition is bundled with benefits on saving and borrowing options, allowing more flexible and convenient terms of banking to suit the evolving needs of young professionals/business owners and go-getters.

In addition, within the year under review, the Bank further enhanced its mobile banking platform with added credit card services while the security of transactions across all alternate channels including the call centre was further strengthened. In addition, Union Bank customers now have access to their accounts across almost all ATMs island-wide through the LankaPay common ATM switch subscription.

To enable the Bank's customers to make well-informed decisions, details of products and services are made available on printed material such as leaflets, posters and banners prominently displayed at branches for easy access. Details of all products of the Bank are available on Bank's corporate website in English, Sinhala and Tamil along with advise on how to contact the Bank; providing customers with direct access to such details. The Bank's enhanced website also serves as an interactive platform where visitors can direct their queries on products, services and other concerns. Further, in compliance with the Customer Charter of the CBSL, 'Key Fact Documents' of all products are made available on the website in Sinhala, Tamil and English outlining features, eligibility criteria, documentation and related fees and charges for each product. Interest rates, fees and charges are clearly communicated via rate sheets displayed at branches as well as on an updated tariff sheet published on the Bank's corporate website. In addition, the Bank's customer agreements, terms and conditions documents as well as applications are designed in a customer-friendly, easily comprehensible format and are made available in native languages upon request. Additional details may also be inquired through the Bank's 24 hour contact centre hotline where trained customer service personnel will assist customers with requested information and queries.

Sustainable Banking Initiative (SLBA SBI)

Ascertaining Union Bank's commitment towards sustainable banking practices, the Bank continued its roles and responsibilities as a part of the SLBA Sustainable Banking Initiative (SBI). The SLBA SBI is a collective agreement with eighteen other banks in the country in support of establishing a sustainable banking code in the industry.

The SLBA-SBI initiative is spearheaded by Sri Lanka Banks' Association and was partnered by four European Development Financial Institutions (DFIs) namely DEG of Germany, FMO of the Netherlands, OeEB of Austria, and Proparco of France. The sustainable banking initiative is a multi-stakeholder engagement within the banking industry, geared towards funding a 'green economy'. The initiative is endorsed by the CBSL which is increasingly focusing on sustainable banking practices to help banks to effectively manage environmental and social risks in the projects and promote sustainable banking for the future.

The aims of the initiative include creating a platform where banks can work together on sustainability issues. This platform will facilitate decision-making and coordinate efforts to increase efficiency and effectiveness while ensuring of a level playing field. The platform will also facilitate suggesting and jointly agreeing on minimal standards for integrating environmental and social considerations into core operations, products and services and to level the playing field through joint principles or standards. By being a signatory to the initiative, Union Bank will receive necessary inputs to implement

SOCIAL AND ENVIRONMENT REPORT

the clauses agreed to which include 11 sustainable banking principles. The Bank's staff will also gain access to tailor-made E-Learning and E-coaching platform through the association where staff will be better equipped to implement sustainable banking practices. Other benefits of being a part of the SLBA SBI initiative include, being involved in the latest discussion on relevant issues, improving overall risk management, better understanding of the business case of proper E&S management and receiving the knowledge to market the information to clients and stakeholders. The main benefit however, will be the ability to contribute to sustainable development for a beautiful, clean and green Sri Lanka.

Sri Lanka Banks' Association
Sustainable Banking Initiative

Communications

The communications initiatives of the Bank focus on initiating a dialogue with its diverse stakeholders and raising awareness on the Bank, its activities, products and services amongst its target audiences.

Communication activities have been maintained via selected media based on the relevance to the target audiences and effectiveness of each medium on reaching these audiences. A mix of communication tools including selective advertising, corporate literature, public promotions, corporate sponsorships, online and social media engagement have been employed to effectively reach the diverse stakeholder groups of the Bank as well as potential clients/ investors of the Bank.

The Bank's corporate image, products and services were continuously enhanced in the public domain via public relations activities in print, electronic and online media. Incidents of non-compliance with regulations and voluntary codes concerning communications that include advertising, promotions and sponsorships did not occur during the year under review.

The Bank adheres to a communication policy approved by the Board of Directors which governs the objectives, division of responsibilities and general guidelines for communicating with various target groups. The communication policy encompasses the following aspects;

- The communication of public and non-public information
- Communications with media, shareholders, regulators and other stakeholder groups
- Business communication and usage of email etc.
- Web and social media activity
- Confidentiality and protecting of confidential information

The Bank's communications activities which include advertising, outdoor branding for visibility, outdoor promotions as well as sponsorships, community engagement etc. are conducted according to the guidelines specified in the said policy in addition to compliance to laws and regulations governing the industry as a whole.

Complaints

Union Bank maintains a comprehensive online complaint management system where the complaints are resolved within a stipulated frame of time based on the nature and complexity of the complaint. Customers could also contact the Bank via email to info@unionb.com (displayed on the website) or via the 24-hour Contact Centre with feedback, queries or suggestions for improvement. In addition a complaints and suggestions drop box is also maintained at all branches. Various precautionary measures are adopted from time to time, in order to minimise negative implications to customers with a view of decreasing customer dissatisfaction as a whole.

Human Resources

Our Vision

Our Vision is to be a human workplace where we put our people first. We are keen to foster a work culture that brings the best out of our people and helps deliver outstanding results.

All HR activities are aligned to achieving the above vision with clear strategic themes defined via our People Strategy and executed within a robust framework of market relevant HR Policies.

Our People Strategy

We firmly believe that the Bank's success depends on the ability and commitment of our people. Our People Strategy therefore aims to develop our employees to achieve their full potential and reward sustainable performance. The ultimate objective of our People Strategy is to create an energised team that delivers outstanding results.

In 2019, HR initiatives focused on the four pillars of the People Strategy – selecting, developing, energising and valuing our employees with a very heavy focus on the latter two to enhance employee engagement. These are described in further detail in the sections below.

Our People *{GRI 102-41/406-1/408-1/409-1}*

As an organisation that puts people first, the Bank fosters a diverse yet inclusive culture in which all employees feel valued, respected and supported. All employees have equal opportunity to excel in their careers and reach their full potential, irrespective of their background, gender, age or ethnicity. The Bank had zero incidents of discrimination for the year under review.

A key attribute of the Banks culture is how it supports employees during difficult times. During the unfortunate terror attacks in April this year, the Bank took quick and proactive measures to ensure the safety of staff. Only the most critical staff were asked to report to work and other staff were given paid leave until the situation was stabilised by the authorities. The safety of the staff who reported to work were monitored by the HR department with the support of the line managers.

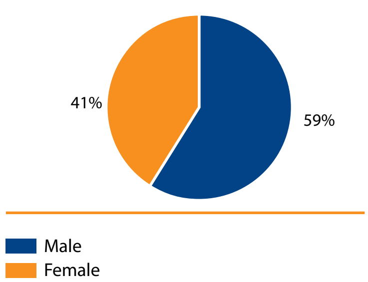
SOCIAL AND ENVIRONMENT REPORT

Union Bank was one of the few banks that took such proactive measures thereby proving that we do put our people first. With regard to communication, we practice an open door policy across all levels including the CEO. Any employee is able to seek a meeting with any member of the senior management team if they have a concern or grievance that needs to be addressed. This environment has resulted in staff directly addressing their concerns to management and obtaining solutions. The trust employees have with the senior management has significantly increased due to the open and transparent communication culture at the Bank.

The Bank also has a documented Grievance Handling Policy which details the steps employees can take to escalate a grievance. Swift action is taken to resolve whenever a grievance is raised. The Bank also uses exit interview notes to understand concerns of departing employees and shares these directly with the relevant Business or Function head for action. Escalated concerns are tracked by HR to ensure appropriate action is taken by the line management. It is worthy to note that the Bank does not have any significant risks of running operations and dealing with suppliers involved in incidents of child or forced labour.

Due to the above transparent and open culture at the Bank, employees have not had the need to seek Trade Union representation. As such, employees of the Bank are not covered by a collective bargaining agreement or represented by a trade union.

Employee profile based on gender – As at 31 December 2019 *{GRI 102-8}*



"In 2019, HR initiatives focused on the four pillars of the People Strategy – selecting, developing, energising and valuing our employees with a very heavy focus on the latter two to enhance employee engagement."

The total Bank employee count as at 31 December 2019 is 1344. The growth is 446 new employment opportunities during the year reviewed. Of the 1344 employees, 940 were permanent employees with 211 being trainees, 193 being the fixed term contract employees. The Bank does not currently employ any part time employees.

Employee profile based on employment type and gender – As at 31 December 2019 *{GRI 102-7/102-8}*

Employment Type	Gender		Total
	Female	Male	
Contract	52(9%)	141(19%)	193(15%)
Permanent	392(70%)	548(69%)	940(69%)
Trainee	111(21%)	100(12%)	211(16%)
Grand Total	555(41%)	789(59%)	1344(100%)

Employee profile based on employment type and province *{GRI 102-8}*

Province	Employment Type			
	Trainee	Contract	Permanent	Grand Total
Central	8 (3.8%)	5(2.6%)	40(4.3%)	53(3.94%)
Eastern	4(1.9%)		9(0.95%)	13(1%)
North Central Province	8(3.8%)	6(3.1%)	36(3.8%)	50(3.8%)
North Western Province	11(5.2%)	1(0.5%)	29(3%)	41(3.05%)
Northern Province	7(3.3%)	2(1.04%)	35(3.7%)	44(3.3%)
Sabaragamuwa Province	10(4.8%)		27(2.9%)	37(2.8%)
Southern Province	10(4.8%)	10(5.18%)	53(5.65%)	73(5.4%)
Uva Province	7(3.3%)	1(0.5%)	12(1.3%)	20(1.5%)
Western	146(69.1%)	168(87.08%)	699(74.4%)	1013(75.21%)
Grand Total	211(16%)	193(15%)	940(69%)	1344(100%)

SOCIAL AND ENVIRONMENT REPORT

Employee profile based on age, grade and gender – as at 31 December 2019 *{GRI 405-1}*

Age Category	Corporate Management		Chief Manager		Fixed Contract		Senior Manager and Manager		Assistant Manager		Management Trainee		Non-Executive and Trainee		Minor Staff		Total
	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	
18-24					80 (59%)	32 (64%)							165 (44%)	163 (47%)	2 (40%)		442 (33%)
25-29					44 (33%)	15 (30%)	3 (2%)	3 (5%)	19 (17%)	14 (16%)		2 (100%)	143 (37%)	112 (31.75%)			355 (27%)
30-34				1 (20%)	8 (6%)		31 (24%)	13 (24%)	52 (47%)	45 (51%)			53 (14%)	55 (16%)			258 (18%)
35-39			2 (12%)		1 (1%)		32 (25%)	20 (36%)	28 (25%)	17 (20%)			14 (4%)	14 (4%)			128 (10%)
40-44	6 (38%)	1 (14%)	6 (35%)				33 (26%)	10 (18%)	5 (5%)	4 (5%)			3 (0.75%)	4 (1%)	1 (20%)		73 (5%)
45-49	3 (19%)	3 (43%)	5 (29%)	3 (60%)	1 (1%)	1 (2%)	20 (16%)	4 (7%)	6 (5%)	5 (6%)					2 (40%)		53 (4%)
50-54	3 (19%)	2 (29%)	4 (24%)		1 (1%)		7 (6%)	5 (9%)		2 (2%)							24 (2%)
>=55	4 (24%)	1 (14%)		1 (20%)		2 (4%)	1 (1%)						1 (0.25%)	1 (0.25%)			11 (1%)
Total	16 (1.20%)	7 (0.50%)	17 (1.30%)	5 (0.40%)	135 (10.00%)	50 (3.70%)	127 (9.45%)	55 (4.00%	110 (8.20%)	87 (6.50%)	0 (0.00%)	2 (0.15%)	379 (28.20%)	349 (26.00%)	5 (0.40%)	0 (0.00%)	1344 (100.00%)

Talent Acquisition and Retention

The Bank's HR function supports internal, cross-divisional career mobility through redeployment opportunities and offering exposure for development. Internal mobility allows employees to opt for roles of interest that help them develop diverse and fulfilling careers.

Union Bank seeks to retain, develop and continue to attract employees with the requisite skills to deliver the Bank's strategy.

During the year, the Bank internally promoted 11% to higher grades recognising their readiness to take on larger roles. These promotions further strengthened the Banks internal talent pipeline and provided employees career progression opportunities within the Bank.

The recruitment of external talent is encouraged where such skills are not available internally and it is required to support the business strategy. The Bank continues to have a strong external applicant pipeline based on the significant number of applications received for employment.

During 2019 it was noted that the turnover amongst permanent staff increased due to them being actively headhunted by other Banks. The most significant impact in turnover was noted in the Banking Assistant and Senior Banking Assistant grades as they were recruited by competitor banks for their skill, knowledge and experience.

Staff Recruitments – as at 31 December 2019 *{GRI 401-1}*

Province	Age Category						
	<30		30-50		<50		
	Male	Female	Male	Female	Male	Female	Total
Western Province	201(80%)	112(76%)	25(89%)	12(86%)	4(100%)	1(100%)	355(80%)
Central Province	6(2%)	6(4%)	1(4%)				13(3%)
Eastern Province	3(1%)	1(1%)					4(1%)
Northern Province	5(2%)	8(5%)					13(3%)
North Western Province	6(2%)	6(4%)	1(4%)	1(7%)			14(3%)
Southern Province	12(5%)	5(3%)	1(4%)	1(7%)			19(4%)
Uva Province	4(2%)	2(1%)					6(1%)
Sabaragamuwa Province	5(2%)	6(4%)					11(2%)
North Central Province	9(4%)	2(1%)					11(2%)
Total	251(56%)	148(33%)	28(6%)	14(3%)	4(1%)	1(0%)	446(100%)

SOCIAL AND ENVIRONMENT REPORT

Staff Resignations – as at 31 December 2019 *{GRI 401-1}*

Province	Age Category						Total
	< 30		30 - 50		>50		
	Male	Female	Male	Female	Male	Female	
Western Province	153 (79.3%)	66 (78.6%)	38 (80.9%)	18 (81.8%)	-	-	275 (79.5%)
Central Province	9 (4.7%)	4 (4.8%)	2 (4.3%)	-	-	-	15 (4.3%)
Eastern Province	3 (1.6%)	-	2 (4.3%)	-	-	-	5 (1.4%)
Northern Province	4 (2.1%)	3 (3.6%)	1 (2.1%)	-	-	-	8 (2.3%)
North Western Province	7 (3.6%)	2 (2.4%)	2 (4.3%)	3 (13.6%)	-	-	14 (4%)
Southern Province	6 (3.1%)	4 (4.8%)	-	-	-	-	10 (2.9%)
Uva Province	2 (1%)	-	-	-	-	-	2 (0.6%)
Sabaragamuwa Province	5 (2.6%)	2 (2.4%)	1 (2.1%)	1 (4.5%)	-	-	9 (2.6%)
North Central Province	4 (2.1%)	3 (3.6%)	1 (2.1%)	-	-	-	8 (2.3%)
Total	193 (55.8%)	84 (24.3%)	47 (13.6%)	22 (6.4%)	-	-	346 (100%)

Managing Human Capital

As with any form of capital, the Bank considers the productivity and efficiency of the Human Capital as an integral metric of its performance. Each year the Bank has been able to improve these key metrics and aim to be in best in class amongst its peers.

In addition to executing the People Strategy, in 2019 the Bank reviewed and revised all HR policies to be relevant and up to date. As HR policies provide the underlying framework for Human Capital Management, all revisions were reviewed and approved by the Human Resources and Remuneration Committee and the Board.

The following key benefits were added to the existing employee benefits during the policy reviews in 2019:

1) Enhanced maternity leave and feeding benefits in full compliance with the revised Maternity Benefits Ordinance.
2) Provision of 10 days of paternity leave.
3) Provision of compassionate leave for employees in case of a death in the immediate family or to attend to an ailing family member.
4) Provision of half day leave on the birthday of the employee.
5) Implementation of flexible working times.
6) Enhanced personal loan benefits.
7) Enhanced and flexible vehicle loan benefits.
8) Enhanced housing loan benefits.

Benefits provided to employees – *{GRI 401-2}*

Benefits Provided	Permanent	Trainees	Fixed Term
Private Provident Fund with the option for increased contribution	√	√	√
Loans for staff members at concessionary interest rates for housing, motor vehicle, personal needs, furniture loans, festival advances	√	x	x
Medical reimbursement, spectacle reimbursement	√	x	x
Personal accident and life insurance	√	√	√
Special critical illness cover insurance covering employee, spouse and children	√	x	x
Reimbursement of course fee and exam fees in relation to banking exams conducted by IBSL	√	x	x
Reimbursement of cost of obtaining a Master's degree for staff in the grade of assistant manager and above	√	x	x
Payment of membership subscriptions of professional bodies for officer and above grades	√	x	x
Difficult station allowance	√	√	x
Travelling allowance	√	x	√
Incentives for high performing sales and recoveries staff	√	x	√
Bonuses based on Bank's performance	√	√	√
Awards for high performing teams	√	√	√
Recognition of long-standing employees for those who completed 20 years of service	√	x	√
Birthday half a day leave	√	√	√
Paternity leave	√	√	√
Compassionate leave	√	√	√

Ratio of Basic Salary Remuneration of Women to Men *{GRI 405-2}*

Grade	Male	Female
Key Management Personnel	1	0.80
Chief Manager	1	0.81
Senior Manager	1	0.86
Manager	1	0.91
Assistant Manager	1	0.94
Officer	1	1.02
Senior Banking Assistant	1	1.05
Banking Assistant	1	1.03
Management Trainee	0	1.00
Fixed Contract	1	0.38
Contact Centre Staff	1	0.96
Fixed Contract – Recoveries	1	0.91
Sales Staff	1	0.96
Trainee	1	1.03
Support Staff	1	-

Leaders of the Future

The Bank takes a holistic approach to leadership development. Investment in skills and accelerating employees' professional and personal development are essential components of the Bank's People Strategy. Union Bank is committed to strengthening the capabilities of the future leaders and help them thrive to meet their full potential.

In this regard the Bank made significant investments in developing the second tier of Key Management Personnel to be able to take on business/functional head roles. Past investments have paid dividends with two critical KMP roles, Head of Internal Audit and Head of Compliance being appointed internally with the approval of the regulator.

Learning and Development

The Learning & Development Centre conducted 159 programmes covering 103% of our employees during the year resulting in an average of 13.7 training hours per employee. The partnerships with external training institutes continued with 257 employees attending 86 programmes at local and foreign training institutes.

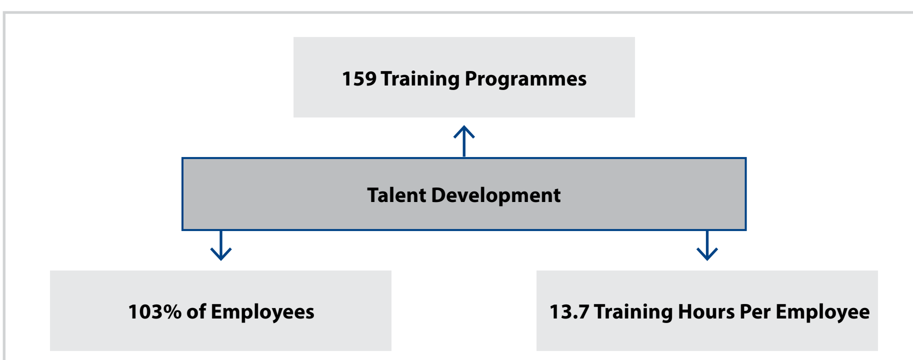
Continuing the trend commenced last year, the Bank invested in key people development by offering overseas training to three Leadership team members. They attended Leadership Development programmes at INSEAD and NUS in Singapore.

High potential team of officers were identified to attend "SPARK", an intensive training programme to develop their skills and knowledge to prepare them to take up higher responsibilities.

Specifically designed and customised skill development programmes were conducted for Asset and Liability Sales staff, Transactional Banking RMs, Contact Centre staff and Retail Asset Centre staff to cater to their changing development needs.

As part of the Bank's Business Continuity Plan, relevant staff were trained on Fire handling and First Aid. The programmes were conducted by the Fire Department, Colombo and St. John's Ambulance respectively.

New e-learning courses on Information Security and Compliance were introduced to educate the staff.



SOCIAL AND ENVIRONMENT REPORT

Average Training Hours *{GRI 404-1}*

Employee Category	Total Training Hours	Average Hours
Trainee	6038	29.0
BA/SBA	2771	9.7
Officer	3544.5	15.1
Management Trainee	34	17.0
Assistant Manager	1842	9.4
Manager	667	5.3
Senior Manager	424.5	7.6
Chief Manager	190	9.0
Top Management	211	11.1
Grand Total	15722	13.7

(Above is excluding FTC staff and Support Staff)

Gender - Wise Training Hours Details
{GRI 404-1}

Gender	Total Training Hours	Average Hours
Female	7786	15.5
Male	7936	12.3
Grand Total	15722	13.7

(Above is excluding FTC staff and Support Staff)

Programs for upgrading employee skills and transition assistance programs *{GRI 404-2}*

Program	No. of Programs	No. of Training Hours	Total No. of Participants	Duration of the program
"SPARK" Leadership Training for Officers	1	1184	31	8/24/40 hours
Card Products training for Retail Credit Staff	1	16.5	11	1.5 hours
On the job training for Elite Relationship Managers	15	148	25	8/4 hours
Sales Training for Asset Sales team	1	416	26	16 hours
Personal Development programme for Banking Assistants/ Senior Banking Assistants	1	200	25	8 hours
Skill Development for Transactional Banking Relationship Managers	1	136	17	8 hours
IT Security Awareness programme for SWIFT Users	2	111	37	3 hours
Customer Service & Recording System Training	2	224	28	8 hours
Compliance Workshop	3	656	82	8 hours
CRIB Training	1	240	30	8 hours
Cash Officer Training	1	320	40	8 hours
Training on Operational Efficiency	2	824	64	8/16 hours
Soft-skills training for newly promoted AMs	1	368	25	8/16 hours
	32	4843.5	441	

SOCIAL AND ENVIRONMENT REPORT

Creating a Performance Driven Culture

Union Bank from the outset has been a performance driven organisation. The performance of all revenue generating roles are monitored on a monthly basis by the respective business heads. Ongoing feedback is provided to ensure any under-performance is corrected early. Significant contributions are also highlighted and recognised in order to motivate the high performers.

In addition, a comprehensive target setting and evaluation process is carried out annually through the Bank's electronic performance management system. This system provides the ability for the managers to record the annual KPIs of employees and assess them against actual achievements.

In order to ensure a fair and transparent assessment, employees are provided the opportunity to do a self assessment on their achievements as well as agree or disagree on the final outcome of the assessment via the system.

All disagreements recorded in the system are reviewed independently by HR and escalated to the relevant Business/Function head for resolution. These are tracked and followed up by HR in order to ensure the employee concerns are addressed in a satisfactory manner.

In 2019 the annual bonus payments were significantly differentiated based on the employee performance rating further strengthening the Banks pay for performance principles and motivating the high performers.

Number of employees eligible for Annual Year End Review – 2019 *{GRI 404-3}*

(Performance management system captures and reviews the performance of employees in the grades of Banking Assistant and above)

Gender Wise Breakdown

Gender	Count	
F	369	41%
M	525	59%
Grand Total	894	
* Employees in the permanent cadre as at 30th September in each year will be eligible for annual performance reviews.		

Employee engagement

We believe in building a high trust work place culture, where employees are encouraged to put forward their suggestions on improving the organisation. Our open culture is reflected by the high level of engagement we maintain with employees, facilitated by numerous formal and informal mechanisms.

1. Building a High Trust Workplace Culture

In order to objectively measure engagement levels of employees, the Bank used the employee engagement survey results obtained through the Great Place to Work Institute. Several significant initiatives were launched in 2019 in response to the feedback received from employees.

In addition to the initiatives mentioned elsewhere in this report, major revisions were made to the employee promotion policy and performance management policy to further improve the transparency of these processes. Employee feedback on the changes have been very positive indicating an positive impact on trust.

The Bank undertook another engagement survey in December 2019 to objectively measure the effectiveness of the actions taken since the last survey and its impact on employee engagement. The results of this survey will be used to further strengthen and improve the working environment.

2. Retail and SME Awards

The Bank's Retail and SME awards ceremony is held annually and recognises employees from the Branch network for their exemplary performance and significant achievements in supporting the Retail and SME businesses.

3. Welfare and Sports Initiatives

In 2019, the Staff Sports Club conducted several events with the objective of creating greater engagement with employees.

Given the tragic events that occurred during April, the Sports club also gave due attention to encourage inter religious tolerance and harmony amongst employees by organising a religious ceremony covering all religions. A large number of employees of all faiths attended this event showing our employees enthusiasm to unite under one flag.

The Sports Club organised one of the most well attended staff annual trips with close to a thousand employees and family members joining. The highlight of the annual trip was the grand dinner and after party held at Cinnamon Bey hotel to host all attendees.

The Bank's Annual dinner dance was held at Marino Beach providing high level of entertainment for staff and helping them to unwind after year of hard work.

In the sporting arena our employees were able to record significant victories in 2019 at the Mercantile tournaments as follows:

Mercantile Athletics Championship:

Best Athlete Award in Novices Category with a Gold medal for Triple Jump, Bronze medal for Long Jump, Bronze medal for 200 metres and Silver medal for Shot Putt.

36th Mercantile Novices Badminton Championship:

Women's Singles - Winner
Men's Doubles - Winner
Mixed Doubles - Winner
Men's Over 40 'C' Division - Runners up
Men's 'D' Division - Runners up
Mix Event 'E' Division - Winner

Mercantile Hockey Tournament:

The Bank's team participated in the tournament for the first time in the Bank's history and emerged E division runner up.

SOCIAL AND ENVIRONMENT REPORT

Mercantile Services Basketball:
The Bank's team emerged as the runners up.

4. Internal Communications

The CEO addresses all employees through town hall meetings on a bi-annual basis. This assists in keeping employees informed of the progress being made by the Bank on key performance metrics and establishes the important role played by each employee towards the Banks success.

In order to provide direct access to share employee views and suggestions, two e-channels were launched titled "Ask CEO" and "Your Views" enabling them to directly address their queries to CEO and the Leadership Team.

5. Health and Wellbeing *{GRI 403-2}*

In addition to the initiatives designed to improve the health, safety and well-being of our people at work the bank also offers a number of recreational and educational activities to help employees pursue their interests and find ways to unwind.

A key benefit provided free of charge to all employees is a fully equipped gymnasium. In 2019, HR also organised a wellness workshop for female employees with external speakers in order to educate them on well-being practices. All policies and procedures have been put in place to ensure well-being and a secure work environment to our staff. There were no workplace related injuries during the year under review. Standard safety measures such as periodic fire alarm checks, training of fire wardens, conducting of fire drills etc, further ensures a safe work environment.

Community

Union Bank continues to engage with identified community groups with a view of maintaining long-term and sustainable outcomes and fostering healthy relations while contributing positively to the communities in which it operates.

The Bank's branch networks dispersed across the island engages with their respective communities by being an active partner in the social and trade related activities in the localities while responding with empathy at times of crisis caused by natural disaster, weather phenomena, etc. Towards the Bank's supplier markets, the Bank ensures fair and transparent procurement practices and ensures timely payments in order to maintain mutually-beneficial relationships.

The Bank also dedicates funding and support towards worthy and charitable causes throughout the year guided by the Bank's CSR policy which determines the parameters for Corporate Social Responsibility (CSR) activities of the Bank. In engaging with the wider community, the Bank implements a focused CSR strategy that places emphasis on education and the well-being of children and youth of the country.

Corporate Social Responsibility Projects

In line with Union Bank's CSR focus on community upliftment through enriching the lives of children and youth of the country, during the year 2019 the Bank embarked on CSR projects at selected deserving schools at localities around the country in which the Bank is represented.

The projects are initiated by the respective branches in these localities and aim to provide basic infrastructure, school supplies, and other necessary developments in these schools, with a view to provide a pleasant and conducive environment for the students. The selected Government schools are well deserving of the facilities and are attended by children of low-income families in the area.

The first project under the programme was carried out in Paraigama Maha Vidyalaya in Matugama. The programme included the development of a children's activity area for the primary section of the school and providing sports and educational material for students. The school provides education to 149 students in the locality. The project was spearheaded by Matugama branch with the support of other branches in the area and was carried out with the enthusiastic volunteerism of Union Bank staff members.

Similar projects in the Central, Southern, North western and Northern provinces have been planned and will be implemented in phases throughout the year 2020 with a vision of furthering the community relations agenda of the Bank in its milestone 25th year.

SOCIAL AND ENVIRONMENT REPORT

Memberships in Associations *{GRI 102-13}*

The Bank has general membership in a number of sectoral, industrial and professional organisations and associations. The list of the Bank's corporate memberships with relevant associations are as follows:

- The Sri Lanka Banks' Association
- Institute of Bankers of Sri Lanka
- The Ceylon Chamber of Commerce
- Association of Compliance Officers of Banks Sri Lanka
- International Chamber of Commerce Sri Lanka
- The National Chamber of Commerce of Sri Lanka
- The Employers' Federation of Ceylon
- The Association of Primary Dealers
- The Financial Ombudsman Sri Lanka (Guarantee) Limited
- Colombo Stock Exchange
- Payment Card Industry Association of Sri Lanka
- Sri Lanka Forex Association

Supply Chain Management *{GRI 102-9}*

We at Union Bank consider our suppliers as strategic business partners, they play a key role in guaranteeing our day to day operations are run efficiently and enable us to deliver to the expectations of our stakeholders. They are actively involved in our processes as business partners in our end solutions providing a win-win solution for all parties involved. We strive to maintain a network of service providers who have been selected based on their work ethics, culture, social responsibility, etc. which is in line with the Bank's objectives and values system. By establishing partnerships with such service providers, we encourage transparency, ethical business practices, environmental friendliness, competitive pricing, high quality, turnaround time and value for money in the delivery of goods and services. The Bank too carries out its activities in an environment friendly manner; during year 2019 the Bank used 7384 packets of A4 paper, and we recycled 21781 kgs of wastepaper, cardboard and newspaper.

The Bank's procurement policy was subject to an annual review during the year and the reviewed policy was approved by the Board of Directors. The main objectives of the policy are;

1) Maximise economy, timeliness and quality in procurement resulting in the best value proposition for the Bank.
2) Adhere to prescribed standards, specifications, rules, regulations and good governance.
3) Provide fair, transparent, equal and maximum opportunity for eligible interested parties to participate in procurement.
4) Expeditiously execute work and delivery of goods and services.
5) Ensure fairness, transparency and consistency in the evaluation and selection procedure.
6) Retain confidentiality of information provided by bidders.

Revisions were done to the following areas of the policy;

- Procedural guidelines to be followed in a Request for Information (RFI) process.
- Objectives of a Technical Evaluation Committee (TEC) and their process.
- Procurement process and the related organisation structure.
- Invitation to Bid (ITB) process.
- Guidelines for IT related procurement.
- Procedure to be followed under the Request for Proposal (RFP) process.
- Additional measures for procurement of high valued items.

We work with many types of suppliers, priority is given for local suppliers for ease of business, enhanced monitoring and control, more than 95% of our suppliers are based in Sri Lanka, a few important technological service providers are based out of Sri Lanka. The Bank's data capturing, digital archiving, physical archival management, inventory management, janitorial service, mail room service and catering services are outsourced to specialists in the respective industries. There has been no significant changes in our supply chain operations during the period.

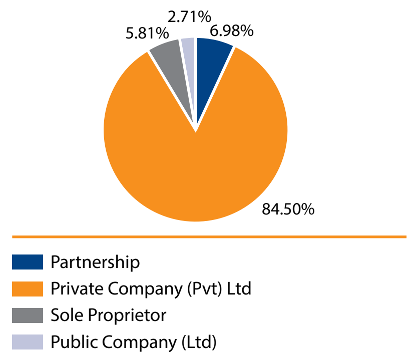
The supplier registration process is governed by the board approved procurement policy. Registration of suppliers is called once in once in two years by publishing an advertisement which calls for suppliers to be registered under 26 categories, suppliers who wish to be registered under multiple categories are required to submit separate applications for each category. Procurement are conducted through a tender or quotations process which is open to the registered suppliers. If a registered supplier repeatedly fails to submit quotes or if a selected supplier repeatedly delays on his delivery, they could be blacklisted by the procurement committee. By prioritising our tender/quotes process to registered suppliers, we envisage to build long-term mutually-beneficial business partnerships.

SOCIAL AND ENVIRONMENT REPORT

The following is an analysis done on the Bank's suppliers. Local suppliers are registered under the following types;

Types of Suppliers	Location (Local)
Janitorial services	Sri Lanka
Messenger (Office Assistants) services	Sri Lanka
Security services	Sri Lanka
Courier services	Sri Lanka
Supply of foliage plants and flowers	Sri Lanka
Pest control services	Sri Lanka
Supply of ATM consumables	Sri Lanka
Supply of toners/ribbons/fax cartridges	Sri Lanka
Supply of envelopes/registers/ledger binders/rubber stamps	Sri Lanka
Printing of security documents such as cheque books, vouchers, advertising materials, etc.	Sri Lanka
Supply of all kinds of stationery/plastic material/advertising materials	Sri Lanka
Statement printing (pressure seal) and dispatching	Sri Lanka
Banking equipment	Sri Lanka
Telecommunication equipment and accessories (mobile phones, iPads, chargers, etc.)	Sri Lanka
Supply and maintenance of security related equipment (fire extinguishers, CCTV cameras, police alarm guard tour system etc.)	Sri Lanka
Office furniture including bank safes, lockers, steel cupboards	Sri Lanka
Wastepaper collectors	Sri Lanka
Movers/goods and safes transporters	Sri Lanka
Suppliers of vehicles on hire (vans/cars/three-wheelers)	Sri Lanka
Services and maintenance of office equipment (photocopy, fax machines, etc.)	Sri Lanka
IT equipment/hardware, networking equipment	Sri Lanka
Complimentary and public materials	Sri Lanka
Gift items	Sri Lanka
Civil construction and interior/exterior decor, architecture	Sri Lanka
Electrical contractors	Sri Lanka
Supply of sanitary items	Sri Lanka
Generators	Sri Lanka

The 258 registered local suppliers belong to different types of entities and the concentration of categories are as follows; 218 of our suppliers are private limited companies while 33 of our suppliers are categorised as small and medium enterprises.



Our Existing and proposed commitment to sustainable business practices

{GRI 206-1/417-2/417-3/418-1/419-1}

Measurement	Achievement
Legal actions for anti-competitive behavior, anti-trust, and monopoly practices.	No incidents recorded during the year 2019 under review.
Incidents of non-compliance concerning product and service information and labeling	
Incidents of non-compliance concerning marketing communications	
Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data	
Non-compliance with laws and regulations in the social and economic area	

SUBSIDIARY UPDATE

Key Highlights

- 4.90% market share in AUM of the industry
- Profit After Tax of Rs. 4.2 Mn
- NAMAL High Yield Fund wins at CFA Capital Market Awards
- Launched NAMAL Bank Fund, focused on banking sector equity opportunities
- Flagship NAMAL High Yield Fund continues to deliver strong returns

Equity Funds outperform the market albeit below potential

The continuing equity funds of the company, (excluding the NAMAL Acuity Fund which came up for redemption in end September 2019) the National Equity Fund and the NAMAL Growth Fund outperformed the All Share Price Index (ASPI) by 258 basis points and 65 basis points respectively during the year under review. The ASPI recorded a growth of 1.27% during the year whilst the S&P SL20 index recorded a decline of 6.32%. Slow economic growth which clocked in at 2.7% in Q3 2019, resulting in subdued investor confidence impacted the performance of the ASPI during the year. The negative sentiments brought about by slow economic growth were further augmented by the unfortunate events of Easter Sunday. However, the election cycle as well as the resultant strong mandate instilled buoyancy to the market generating a strong rally during the latter part of the year enabling the market to end positive for the entire year. Foreigners were net sellers during the year, causing an outflow of USD 66 Mn from the equity markets during 2019. The National Equity Fund closed the year with a gain of 3.85% whilst the NAMAL Growth Fund closed with a gain of 1.92%.

The NAMAL Acuity Value Fund which was launched in September 2009 closed in September 2019 at the expiry of its 10 year fixed term period.

The National Equity Fund, the first mutual fund in the country, has delivered 11.80% compounded annualised return to investors in its 28 years of existence. The NAMAL Growth Fund which has been in existence for 22 years has reported a 12.55% annualised return.

Flagship Fixed Income fund generates strong returns

Interest rates which remained high during the early part of 2019 cooled off subsequently as a result of deposit rate caps imposed by the Central Bank of Sri Lanka. This was further augmented by the dovish stand taken by the US Federal Reserve as well as slow credit growth locally. The benchmark 1 year treasury bill yields depreciated by 275 basis points to 8.45% by the year end while NDBIB-CRISL 91 day treasury bill index reported a return of 9.15% during the year. NAMAL High Yield Fund generated a 11.66% return for its investors during the year.

The NAMAL High Yield Fund was awarded the Bronze award in the Unit Trust category during the CFA Capital Market Awards ceremony held in June 2019.

Growth in total AUM of continuing funds despite challenging economic conditions

Although the macro conditions remained challenging throughout the greater part of the 2019, the company was successful in recording a 67% growth in total AUM of continuing funds during the year. The main contributor towards this growth was the NAMAL High Yield Fund which closed the year with an AUM of Rs. 2.8 Bn. Continuing Equity Fund AUM recorded a decline during the year due to redemptions as well as market movements. The comprehensive AUM of the company was negatively impacted during the last quarter of the year as a result of the completion of the 10-year period of the NAMAL Acuity Value Fund and the resultant return of funds to unit holders. At the point of close the fund AUM was in excess of Rs. 1 Bn. The company launched a new fund focused entirely on the banking sector in October 2019. The objective of the fund is to provide a less volatile exposure to the equity market for investors whilst benefiting from the existing low valuations of banking sector counters.

The year saw the company actively moving into the Private Wealth Management (PWM) sphere providing clients with opportunities to invest in fixed income as well as equity. The total portfolio of PWM funds of NAMAL recorded strong growth during the year.

NAMAL unit trust AUM stood at Rs. 5.1 Bn at end 2019. NAMAL's equity unit trust AUM closed at Rs. 2.3 Bn, while fixed income unit trust AUM also closed at Rs. 2.8 Bn. Private portfolio management business stood at Rs. 2.3 Bn in CY19. The contraction of equity AUM primarily as a result of the closure of the NAMAL Acuity Value Fund resulted in NAMAL's market share contracting to 4.9% for 2019.

Lower equity AUM impacts earnings

The asset management fees for the full year 2019 stood at Rs. 63.6 Mn (down 17.4% YoY). Income from equity unit trusts declined by 25.6% YoY to Rs. 45.9 Mn while income from fixed income unit trusts recorded a growth of 10.0% YoY to Rs. 13.5 Mn. Private portfolio income grew during the year by 37.2% to Rs. 4.3 Mn. Other income inclusive of proprietary fund income was recorded at Rs. 10.9 Mn during the year versus Rs. 5.1 Mn during 2018. Total income for the year declined to Rs. 74.6 Mn from Rs. 82.1 Mn in the previous year while prudent cost management resulted in a reduction in total overheads to Rs. 69.6 Mn for the year from Rs. 76.9 Mn in the previous year. PAT for 12 months ending December 2019 stood at Rs. 4.2 Mn in comparison to Rs. 8.1 Mn during 2018.

Continued focus on Unit Trust business to be augmented by broader product offering

NAMAL will continue to focus on the unit trust business with equity unit trusts being a key element in the strategy for 2020. This is more so, given the potential for equity markets to perform positively over the mid to long term. We believe equity markets continue to trade at an attractive entry point for investors who have a long-term appetite. The cheap valuations across sectors together with the recently announced stimulus package places the equity markets at an attractive point for increased equity exposure. The fixed income unit trust will continue to provide opportunities to investors with a lesser risk appetite and provide them with above average returns for their investments. The PWM engagements which commenced with vigour in 2019 have borne fruit for the company and will be continued with a similar robustness and we believe will enable NAMAL to establish itself as an organisation which can cater to diverse needs of today's investor.

NAMAL will focus on providing differentiated investment opportunities for its clients across multiple asset classes based on the investment capability and requirement of each client. We are optimistic that NAMAL will deliver strong returns to its shareholders over the long term.

SUBSIDIARY UPDATE

UB FINANCE
A UNION BANK COMPANY

Key Highlights

- Profit After Tax grew by 186% to Rs. 138.6 Mn
- Total equity increased by 17% to Rs. 710.2 Mn
- Product portfolio expanded on the growth of Gold Loans

The year 2019 was one of the most challenging in recent times. UB Finance concluded a rather turbulent year on a positive note, by harnessing the internal capabilities that produced innovative solutions and agile action within a changing landscape. Against a slowdown of the economy overall, the Licensed Financial companies (LFC's) and Specialised Leasing Companies (SLC's) sector continued to register lower growth rates due to lacklustre credit growth while profitability plunged along with a growth of non-performing loans. The Financial Services sector performance slowed down due to a higher tax regime including high import duties, and stringent regulations on lending. Meanwhile the country also experienced a rising interest rate environment during the first half of the year, which exerted additional pressure on margins.

Despite these external pressures UB Finance focused on its operational objectives and switched its attention towards innovative solutions that continued to safeguard brand relevance and brand value, to customers'. The organisations concentration on reviewing its operations, rationalising its portfolio, and exploring innovative cost management approaches to strengthen its brand proposition will continue to help pave the way for a new trajectory of growth in the coming years. Meanwhile, the Company executed focused efforts to discover new clients and new market segments that would enhance its portfolio and market presence. This proactive management approach within a volatile market environment has made it possible to contain market share erosion and minimise losses.

During the year the strategic priority for UB Finance remained anchored firmly on building a healthier, more robust balance sheet that would enhance shareholder value. These efforts helped the organisation's journey forward on a clearer path despite all odds and sustained performance amidst challenging economic conditions. The Company closed the year with a total asset base of Rs. 9,741 Mn. The organisation's Profit After Tax for the year increased by 186% to Rs. 138.6 Mn YoY from Rs. 48.5 Mn, which increased the total equity by 17% to Rs. 710.2 Mn.

The sustained business performance of UB Finance during the year, was firmly hinged on the dedication and hard work of its well-balanced workforce, the continued trust and confidence of customers and the strategic direction provided by the Directors and management.

The skills and experience of the workforce have been a major contributing factor towards the Company's successes over the years. During the year, process efficiencies of the Company have been improved, while the talent pools have been aligned to deliver the best value and service to its customers thereby placing the organisation on a path for future growth and profitability.

Having understood that adoption of new technology remains a significant factor for sustainable growth of the Company, UB Finance continues to place IT capabilities at the heart of its operations while ensuring effective platforms that supports smooth operations and are aligned with the corporate strategy and goals. The Company embarked on a digital transformation strategy a few years ago and has in place a comprehensive IT framework which has been integrated in to most of the organisation's business activities to deliver greater customer satisfaction, higher service standards and better efficiencies. During the year under review, UB Finance continued to strengthen its IT platforms that would assist to further upgrade its processes and add value to products and services. UB Finance's IT developments are designed not only to improve operations, services and products but also to maximise productivity, infuse efficiency, speed and data into a network fuelling timely decision making.

Given the challenges in the environment, UB Finance engaged in focused marketing activities to reinforce the brand and product portfolio. During the year the Company aggressively drove the gold loan business as a significant potential was evident. The company rolled out this product to its branches island wide. This product provides liquidity to retail and whole-sale customers giving them the opportunity to leverage against their gold articles. Keeping with its premise to offer its customers a better deal, UB Finance offers the maximum advances at the lowest rate in the market backed by a prompt, superior service quality with the highest security for gold articles.

Risk management, compliance and corporate governance have always been the structural backbone of the Company enabling UB Finance to grow rapidly in a disciplined manner. The Company continued to strengthen its corporate governance framework during 2019 in order to remain sustainable in the long-term.

Future Outlook

The Company will strive ahead towards achieving its future objectives, not only in terms of profitability but also in terms of governance and corporate social responsibility. UB Finance will also engage a broad and forward-looking perspective in order to foresee customer needs and actively seek opportunities to achieve a sustainable competitive advantage, enhance corporate value, and continue to create wealth for all of its stakeholders.

In the longer term, UB Finance will also look to investing in technological solutions in order to improve its performance, alleviate services, widen the reach and facilitate greater financial inclusion. The core strategies of the Company will be firmly focused on diversification as well as growth and expansion through further capital investments; while strengthening its existing partnerships and alliances, and identifying potential opportunities into sustainable business avenues.

UB Finance will remain focused on being a strong, well- capitalised finance company backed by the strength of Union Bank, built on a foundation of trust, integrity and ethical practices which flow through all its business activities.

INNOVATION

We drive innovation at every touch point to deliver on our pledge of speed, convenience and personalised banking services.

INVESTOR RELATIONS

The Bank believes that good corporate governance should ensure that timely and accurate disclosure is made regarding all material matters concerning the corporation, including its financial position and results. Hence, the Bank strives to carry out information disclosure in an appropriate and timely manner in furthering its stakeholders' understanding of the Bank's current performance, strategic direction, governance, risk management, and future business prospects.

The Bank's basic policy on information disclosures is to disclose information in a proactive manner. In addition to disclosures that are mandated by laws and regulations, the Bank also discloses information that it finds to be important or beneficial to its stakeholders.

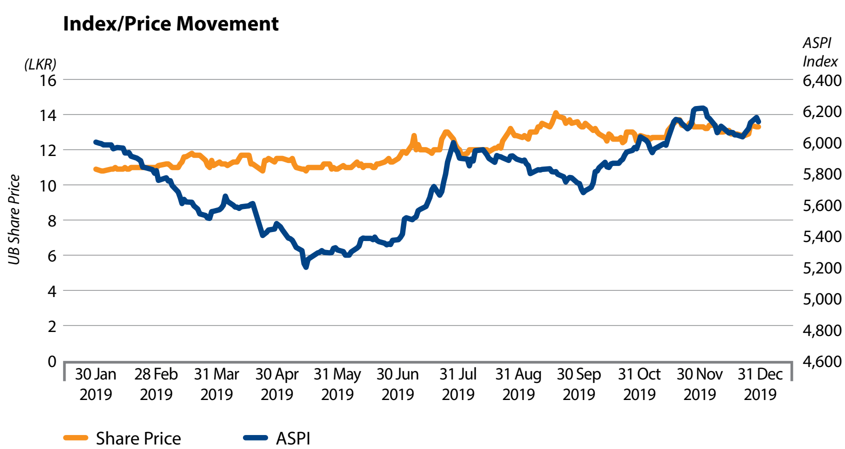
The Bank also actively engages in constructive dialogue with shareholders, investors, securities analysts and other concerned parties, and uses the opinions received and other feedback as a reference for its management to improve its corporate value. Through such information disclosure and communication, the Bank enhances the transparency of its management and strives to maintain and improve its corporate trust.

This section of the Annual Report intends to provide additional information to support investors in their decision making process.

1. Stock Exchange Listing

The issued ordinary shares of the Bank are listed on the Main Board of the Colombo Stock Exchange (CSE) under the ticker symbol 'UBC'. Summary of trading activity and daily prices of shares and debentures are published in most daily newspapers, including Daily FT, Daily News, The Island and Daily Mirror.

2. Movement in Ordinary Voting Shares of the Bank during the Year 2019



3. Share Information

There were 30,693 Shareholders as at 31 December 2019 (2018 – 31,221) distributed as follows,

3.1 Shareholder Distribution

	31 December 2019				31 December 2018			
Share Range	**No. of Shareholders**	**%**	**No. of Shares**	**%**	**No. of Shareholders**	**%**	**No. of Shares**	**%**
1-1000	26,849	87.48	3,909,187	0.36	27,311	87.48	4,004,197	0.37
1001-10000	2,781	9.06	9,951,348	0.92	2,856	9.15	9,983,861	0.91
10001-100000	881	2.87	25,979,817	2.40	879	2.81	24,982,729	2.29
100001-1000000	148	0.48	41,958,310	3.87	139	0.45	39,368,883	3.61
1000001-10000000	28	0.09	93,519,882	8.63	29	0.09	96,512,269	8.84
10000001-& Above	6	0.02	908,239,794	83.82	7	0.02	916,554,310	83.98
Total	30,693	100.00	1,083,558,338	100.00	31,221	100.00	1,091,406,249	100.00

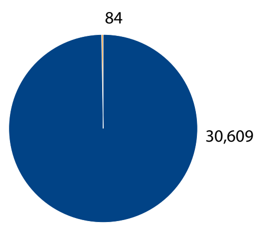
3.2 Analysis of Shareholders

Resident/Non-Resident

	31 December 2019			31 December 2018		
	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%
Resident shareholders	30,609	219,675,684	20.28	31,136	230,209,143	21.09
Non-resident shareholders	84	863,882,654	79.72	85	861,197,106	78.91

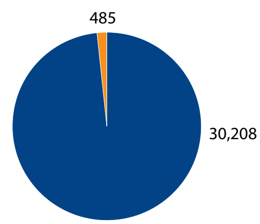
Individuals/Institutions

	31 December 2019			31 December 2018		
	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%
Individuals	30,208	145,364,924	13.42	30,723	133,505,113	12.23
Institutions	485	938,193,414	86.58	498	957,901,136	87.77



No. of Shareholders

Resident shareholders
Non-resident shareholders



No. of Shareholders

Individuals
Institutions

4. Share Trading

4.1 Market

	2019	2018	2017	2016	2015
No. of transactions	1,197,205	885,657	981,977	1,056,849	1,506,790
No. of shares traded	9,855,016,003	6,000,737,306	8,468,273,611	7,195,805,445	9,414,661,048
Value of shares traded (Rs. Mn)	171,407	200,069	220,591	176,935	253,251

4.2 Bank

	2019	2018	2017	2016	2015
No. of transactions	13,483	10,033	6,871	9,282	20,263
No. of shares traded	89,799,303	33,088,913	29,756,713	31,611,520	96,166,661
Shares traded as a % of total shares in issue	8.29	3.03	2.73	2.90	8.81
Average daily turnover (Rs. Mn)	4.60	1.78	1.81	2.22	10.30
Value of shares traded (Rs. Mn)	1,118	428	435	533	2,452

INVESTOR RELATIONS

5. Top 20 Shareholders, Market Capitalisation and Minimum Public Holding as at 31 December 2019

5.1 Top 20 Shareholders

No.	Shareholder name	31 December 2019		31 December 2018	
		No. of Shares	Ratio (%)	No. of Shares	Ratio (%)
1	Culture Financial Holdings Ltd.	767,458,888	70.83	763,984,374	70.00
2	Vista Knowledge Pte Ltd.	64,677,973	5.97	64,677,973	5.93
3	Associated Electrical Corporation Ltd.	29,237,387	2.70	29,237,387	2.68
4	Mr. A.I. Lovell	24,371,269	2.25	24,371,269	2.23
5	Mr. D.A.J. Warnakulasuriya	19,842,730	1.83	14,842,730	1.36
6	Mr. C.P.A. Wijeyesekera	18,375,314	1.70	18,508,468	1.70
7	Ashyaki Holdings (Pvt) Ltd.	7,792,806	0.72	7,792,806	0.71
8	Mr. S.P. Khattar	7,323,365	0.68	7,323,365	0.67
9	Sterling Holdings (Private) Ltd.	7,207,557	0.67	7,207,557	0.66
10	Mr. M.D. Samarawickrama	7,031,016	0.65	7,660,582	0.70
11	Anverally International (Pvt) Limited	4,749,287	0.44	4,783,702	0.44
12	Deutsche Bank AG - National Equity Fund	4,726,849	0.44	-	-
13	Commercial Agencies (Ceylon) Ltd.	4,050,833	0.37	4,050,833	0.37
14	Ajita De Zoysa & Company Limited	4,050,832	0.37	4,050,832	0.37
15	ARRC Captail (Pvt) Ltd.	3,976,340	0.37	-	-
16	Mr. A.I.T. Hettiarachchi	3,848,735	0.36	3,032,000	0.28
17	Ideal Motors (Private) Limited	2,780,607	0.26	3,300,000	0.30
18	Rosewood (Pvt) Limited	2,774,542	0.26	2,774,542	0.25
19	Mr. T.N. Wijewardane	1,729,162	0.16	-	-
20	Don And Don Holdings (Private) Limited	1,561,039	0.14	-	-
		987,566,531	91.17	994,750,173.00	91.32
	Total No. of shares registered	1,083,558,338	100.00	1,091,406,249	100.00
	Total No. of shares unregistered	-	-	-	-
	Total No. of shares issued	1,083,558,338	100.00	1,091,406,249	100.00
	Shares held by Directors	-	-	-	-
	Shares held by Institutions	938,193,414	86.57	957,901,136	87.77
	Balance held by Public	145,364,924	13.42	133,505,113	12.23
	Total No. of shares issued	1,083,558,338.00	100.00	1,091,406,249.00	100.00
Shares held by Public		315,598,688	29.16	327,282,075	29.99
Shares held by Directors and Related Parties		767,598,688	70.84	764,124,174	70.01
Total No. of shares issued		1,083,558,338.00	100.00	1,091,406,249.00	100.00

5.2 Market Capitalisation and Minimum Public Holding {GRI 102-7}

	31 December 2019
Market Capitalisation (Rs.)	14,411,325,895.40
Public Holding percentage	29.16%
Float adjusted market capitalisation	4,202,256,163.14
No. of shareholders representing public holding	30,684
Required minimum public holding percentage under option 4 of rule 7.13.1 (a) of the Listing Rules of the CSE	10.0000

The Minimum Public Holding of Union Bank of Colombo PLC as at 31 December 2019 complied with option 4 of rule 7.13.1(a) of the Listing Rules of the CSE.

INVESTOR RELATIONS

6. Dividends

Year	Total Dividend Paid Rs. Mn	Dividend per Share Rs.	Dividend Payout Ratio (%)
2012 Final	122	0.35	39
2013 Final	87	0.25	77
2015 Final	44	0.04	23
2016 Final	109	0.10	24
2017 Final	109	0.10	25
2019 Final	152	0.14	25

7. Earnings

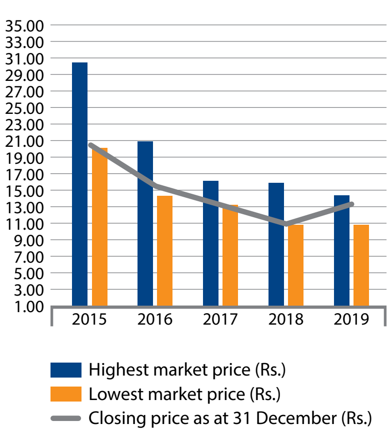
7.1 Value Creation for Shareholders

	2019	2018	Change %
Net asset value per share (Rs.)	16.16	15.23	0.93
Group earnings per share - Basic (Rs.)	0.70	0.47	0.23
Market price per share as at 31 December (Rs.) closing	13.30	11.00	2.3

7.2 Market Value

	2019	2018	2017	2016	2015
Lowest market price (Rs)	10.70	10.70	13.10	14.20	20.00
Highest market price (Rs)	14.30	15.80	16.00	20.80	30.30
Closing price as at 31 December (Rs)	13.30	11.00	13.20	15.40	20.20

Market Price Details



8. Directors' Shareholding Including the Chief Executive Officer

None of the Directors, including the Chief Executive Officer, held any shares in the Bank as at 31 December 2019.

9. Material Foreseeable Risk Factors

Information relating to the material foreseeable risk factors, that require disclosures in terms of Rule No. 7.6 (vi) of the Listing Rules of the CSE are discussed in the Section on 'Risk Management' on pages 77 to 92.

10. Material Issues Pertaining to Employees and Industrial Relations Pertaining to the Bank

There were no material issues pertaining to employees and industrial relations pertaining to the the Bank that occurred during the year 2019 which require disclosure.

11. Credit Ratings

Fitch – BBB- (lka)
ICRA – (SL) BBB

INVESTOR RELATIONS

12. Compliance Report on the Contents of Annual Report in Terms of the Listing Rules of the CSE

We are pleased to inform you that the Bank has fully complied with all applicable requirements of Section 7.6 of the Listing Rules of the CSE on the contents of the Annual Report and Accounts of a listed entity. The table below provides details of the relevant sections of this Annual Report where specified information is disclosed together with page references for the convenience of the readers.

Rule No.	Disclosure Requirement	Section Reference	Page/s
7.6 (i)	Names of persons who held the position of Directors during the financial year	Annual Report of the Board of Directors on the Affairs of the Bank	129
7.6(ii)	Principal activities of the Bank and its subsidiaries during the year and any changes therein	Note 1.2 of the Accounting Policies Annual Report of the Board of Directors on the Affairs of the Bank	166 126
7.6(iii)	The names and the number of shares held by the 20 largest holders of voting and non-voting shares and the percentage of such shares held as at the end of the financial year	Item 5.1 of the 'Investor Relations'	73
7.6(iv)	The float adjusted market capitalisation, public holding percentage (%), number of public shareholders and under which option the Listed Entity complies with the Minimum Public Holding requirement.	Item 5.2 of the 'Investor Relations'	73
7.6(v)	Directors' and Chief Executive Officer's holding in shares of the Bank at the beginning and end of the financial year	Item 8 of the 'Investor Relations' Annual Report of the Board of Directors on the Affairs of the Bank	74 132
7.6(vi)	Information pertaining to material foreseeable risk factors	Item 9 of the 'Investor Relations'	74
7.6(vii)	Details of material issues pertaining to employees and industrial relations	Item 10 of the 'Investor Relations'	74
7.6(viii)	Extents, locations, valuations and the number of buildings of the land holdings and investment properties as at the end of the financial year	Note 36 to the Financial Statements on 'Property, Plant & Equipment' and 'Right of use assets'	223-226
7.6(ix)	Number of shares representing the stated capital as at the end of the financial year	Note 44 to the Financial Statements on 'Stated Capital'	234
7.6(x)	A distribution schedule of the number of holders in each class of equity securities and the percentage of their total holdings as the end of the financial year	Item 3.1 of the 'Investor Relations'	71
7.6(xi)	Ratios and market price information on:		
	Equity: Dividend per share, Dividend payout ratio, Net asset value per share, Market value per share (highest and lowest values during the financial year and the value as at the end of the financial year)	Financial Highlights Statement of Financial Position Items 6 and 7 of the Investor Relations	4 162 74
	Debt: Interest rate of comparable Government security, Debt/equity ratio, Interest cover, Quick asset ratio, market prices and yield during the year (highest and lowest prices and last traded price)	Not applicable as the Bank has not issued any listed debt securities.	N/A

INVESTOR RELATIONS

Rule No.	Disclosure Requirement	Section Reference	Page/s
	Changes in credit ratings	Item 11 of the 'Investor Relations'	74
7.6(xii)	Significant changes in the Bank's or its subsidiaries' fixed assets and the market value of land, if the value differs substantially from the book value as at the end of the year.	Note 36 to the Financial Statements on 'Property, Plant & Equipment' and 'Right of use assets'	223-226
7.6(xiii)	Details of funds raised through a public issue, Rights Issue and a private placement during the year.	Not applicable as no funds were raised by the Bank through a public issue, Rights Issue or a private placement during the year.	N/A
7.6(xiv)	Information in respect of Employee Share Ownership or Stock Option Schemes:	Note 46 to the Financial Statements.	235-236
	The number of options granted each category of Employees during the financial year.	No options were granted during the Financial Year.	-
	Total number of options vested but not exercised by each category of Employees during the financial year.	No options were vested and exercised during the Financial Year.	-
	Total number of options exercised by each category of Employees and total number of shares arising therefrom during the financial year.	No options were exercised by employees during the Financial Year.	-
	Options cancelled during the financial year and the reasons for such cancellation.	No cancellations were reported during the Financial Year.	-
	The exercise price.	No options were exercised by employees during the Financial Year.	-
	A declaration by the Directors of the Bank confirming that the Bank or any of its subsidiaries has not, directly or indirectly provided funds for the ESOP.	Annual Report of the Board of Directors on Affairs of the Bank.	133
7.6(xv)	Disclosures pertaining to Corporate Governance Practices in terms of Rules 7.10.3, 7.10.5 c. and 7.10.6 c. of Section 7 of the Listing Rules.	Annual Report of the Board of Directors on Affairs of the Bank Corporate Governance Report Profiles of the Board of Directors Report of the Board Audit Committee Report of the Human Resources and Remuneration Committee Notes to the Financial Statements.	126-134 93-100 144-146 118-120 124 166-276
7.6(xvi)	Related Party transactions exceeding 10% of the Equity or 5% of the total assets of the Entity as per Audited Financial Statements, whichever is lower.	The Bank did not have any related party transactions exceeding this threshold as at end of 2019.	N/A

Contact Information
Monday to Friday
8.30 a.m. to 5.00 p.m.
+94 11 2374100

The Company Secretary
Union Bank of Colombo PLC
No.64, Galle Road, Colombo 3,
Sri Lanka.

Useful Links
UBC share price, announcements, financials, company profile, quotes, charts:
Colombo Stock Exchange
http://www.cse.lk

Ratings:
Fitch Ratings Lanka Limited
http://www.fitchratings.lk

CBSL (Weekly Economic Indicators)
https://www.cbsl.gov.lk/en/statistics/economic-indicators/weekly-indicators

Union Bank of Colombo PLC
www.unionb.com

RISK MANAGEMENT

Scope of Risk Management

In the course of the operations, banks are constantly faced with different types of risks that may have a potentially adverse effect on the business. Banks are obliged to establish a comprehensive and reliable risk management system along with resilient policies and processes, integrated in all business activities while ensuring the Bank's risk profiles are in line with the established risk appetite.

Union Bank has a prudent Risk Management system which is consciously integrated across all business activities to fulfil shareholder expectations. The Board is managing the concerns over credit, operational, market and the liquidity of the Bank through the Integrated Risk Management Committee (IRMC), which in turn guides the strategic risk direction process by striking a balance between the probable returns and the risk appetite.

The IRMC reviews policies, procedures, processors and a wide spectrum of risks to facilitate the continuous growth of the Bank's performance.

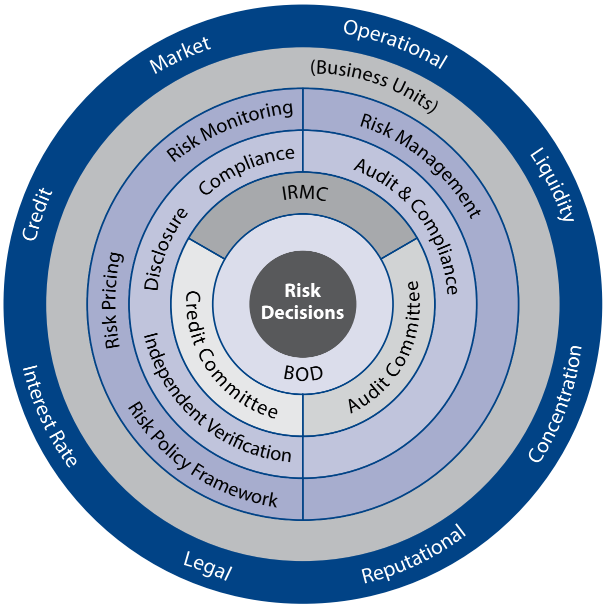
Risk Related Key Management Bodies

Committee	Key Objectives	Represented By
Board Integrated Risk Management Committee(IRMC)	The committee ensures that Group wide risks are managed within the risk strategy and appetite as approved by the Board of Directors.	Please refer pages 121-122 (Board Integrated Risk Management committee Report).
Board Credit Committee(BCC)	To approve high value credit in line with the Bank's risk appetite and in line with regulatory requirements.	Chairman, Representative Directors and CEO.
Board Audit Committee (BAC)	To assist the Board in maintaining an effective system of internal control, compliance with legal and regulatory requirements of CBSL and CSE external financial reporting and internal audit function itself.	Please refer pages 118-120 (Board Audit Committee Report).
Executive Credit Committee (ECC)	Review, and approve credit proposals under ECCs' delegated authority as directed by BCC	Wholesale Banking, Retail Banking, CEO and CRO
Executive Risk Management Committee (ERMC)	Review, monitor and evaluate the policies and procedures in the areas of credit risk, operational risk, market risk in accordance with the IRMC guidelines.	Risk Management, Wholesale Banking, Treasury, Retail Banking, Operations, Finance, Compliance, Internal Audit and Information Technology.
Operational Risk Management Committee (ORMC)	Review and monitor the operational risk related areas including people, process and systems in accordance with the IRMC guidelines.	Risk Management, Operations, Compliance, Internal Audit, Information Technology and Retail Banking
Asset Liability Committee (ALCO)	Optimise financial resources and to manage the connected risks in the areas of Asset and Liability Management	Risk Management, Wholesale Banking, Retail Banking, Finance and Treasury.
IT Steering Committee	To monitor and review the IT infrastructure to support the optimisation of overall business strategy and mitigate technological risks.	Risk Management, Wholesale Banking, Retail Banking, Operations, Finance, Compliance and Information Technology.

Three Lines of Defence Principle

The Bank follows both the industry and international best practices in its risk management function. As identified by the BASEL committee and practiced worldwide, the three lines of defence principle is in force within the Bank. The front line or the business line management act as the first line of defence and deals with the risk exposures at the very primitive level. The Bank makes sure that business line managers are empowered to deal with risk and to take the ownership of the risks borne. The IRMC directs the Risk Management Department (RMD) as an independent corporate risk management function to act as the second line of defence, and directed by the Board the Audit and Compliance functions with their independent review mechanisms act as the third line of defence in managing risks.

RISK MANAGEMENT

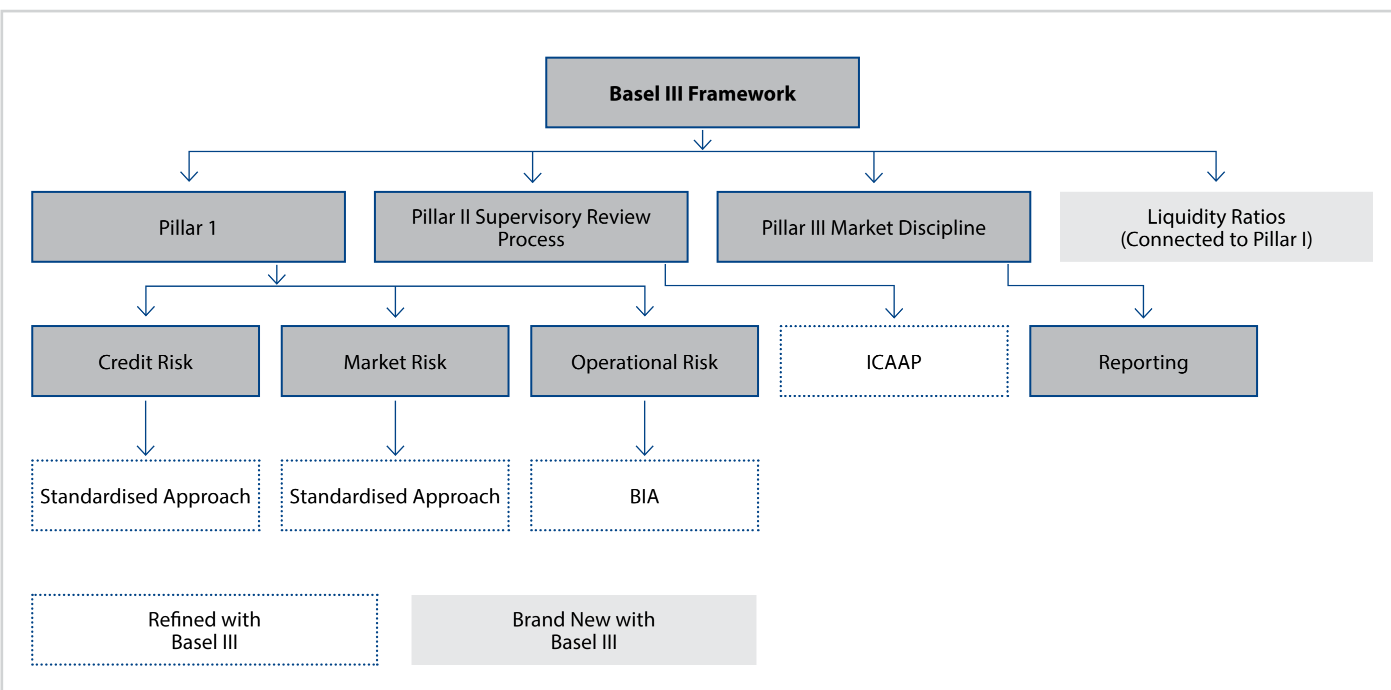


Risk Appetite and Tolerance

Risk appetite is an expression of the amount of risk that the Bank is prepared to accept in delivering its promises and meeting the responsibilities to the stakeholders at large. It is inevitable that the Bank will accept risks, hence risk taken within appetite may give rise to expected losses, but these as analysed and accepted will be sufficiently absorbed by the expected earnings.

The Bank strives to make the integrated risk management function as one of its most critical core competency. The Bank relies upon the overall policy framework to ensure the maintenance of consistent high standards in its operations and to encourage the risk decision making process by raising the risk awareness that could hinder the risk and return relationship.

Basel Framework and Implementation



RISK MANAGEMENT

Under the new consultative paper issued by CBSL for implementation of Basel III minimum capital requirements, regulator has advised that, Capital Adequacy Ratio (CAR) shall be maintained as a percentage of Risk Weighted Assets (RWA) based on the following approaches.

i) The standardised approach for credit risk
ii) The standardised measurement method for market risk
iii) The basic indicator approach, the standardised approach or the alternative standardised approach for operational risk.

Bank's Approach	Credit Risk	Market Risk	Operational Risk
Pillar I – The minimum capital requirements	For regulatory capital computation purposes, the Bank / Group use Standardised Approach under credit risk.	The Bank/Group have adopted the Standardised Approach for calculation of the Market Risk capital charge	Capital Charge for Operational Risk is computed using the Basic Indicator Approach (BIA) for the Bank and Group.
Pillar II – The supervisory review	Banks must conduct a comprehensive assessment of risks on a periodical basis and retain adequate capital funds to endure any unexpected losses which are not assessed under Pillar I. As per the Banking Act Direction No. 5 of 2013, the Bank must assess additional capital requirements for the risks such as interest rate, liquidity risk, concentration risk, reputational risk, etc. A comprehensive Internal Capital Adequacy Assessment Process (ICAAP) for the assessment and documentation of additional capital requirements under Pillar II.		
Pillar III – Market Discipline	Pillar III prepares the Bank to promote the availability of material information and true and fair status of the Bank's affairs. The Bank's disclosures are mainly met through the annual reports and with periodic financial statements published.		

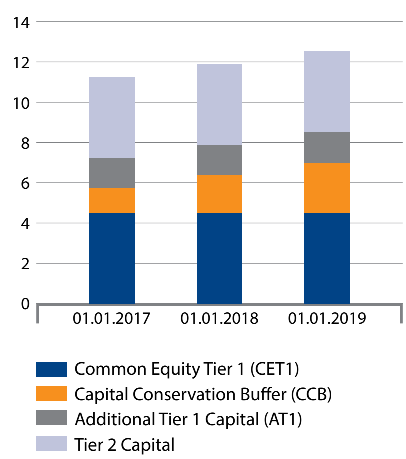
Basel III and Future

As directed by the regulator the Bank has fallen in line with the requirement of sharing the Liquidity Coverage Ratio (LCR) with the Central Bank of Sri Lanka (CBSL). The Bank has confidently met the set limits and is comfortable in embracing the phased developments of the future requirements of the Basel III requirements.

CBSL has issued a consultation paper with regards to the capital and disclosure requirements under all the three pillars recently.

Under the new guidelines banks are to maintain the capital requirements on a staggered basis and to be fully implemented by January 2019.

Minimum capital adequacy ratios as a percentage of RWA



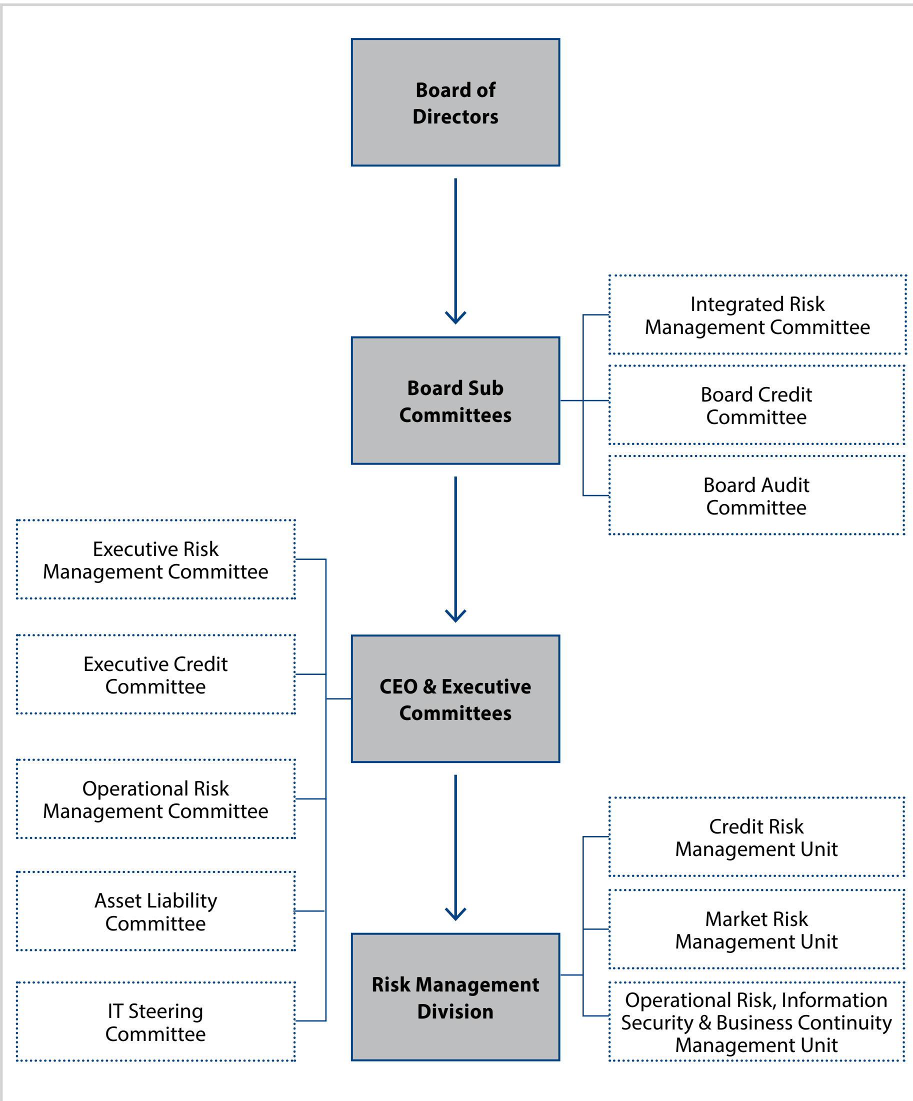
Commencing from January 2017, the Bank is required, and comfortably in a position to meet the new capital requirement as prescribed in this consultation paper.

RISK MANAGEMENT

As at 31 December	2019 (Rs.'000)	2018 (Rs.'000)
1. Capital Adequacy Ratios		
1.1 Core Capital Ratio		
Eligible Core Capital (Eligible Tier 1)	15,286,211	15,031,473
Total risk-weighted Amount	92,045,633	86,356,644
Core Capital (Tier 1) Ratio,%	16.61	17.41
1.2 Total Capital Ratio		
Capital Base	15,413,097	15,031,473
Total risk-weighted Amount	92,045,633	86,356,644
Total Capital Ratio%	16.75	17.41
2. Computation of Risk Weighted Assets - RWA		
Credit Risk		
RWA of On balance sheet assets	71,535,791	68,354,206
RWA of Off balance sheet assets	6,813,103	5,704,753
Total RWA for Credit Risk	78,348,894	74,058,959
Market Risk		
Capital Charge for Interest Rate Risk	606,359	568,867
Capital Charge for Equity	350,272	238,607
Capital Charge for Foreign Exchange & Gold	2,467	22,837
Total Capital Charge for Market Risk	959,098	830,311
Total RWA for Market Risk	7,672,787	6,992,096
Operational Risk		
Gross Income		
Year 1	4,068,517	3,428,422
Year 2	5,103,835	4,068,517
Year 3	5,887,527	5,103,835
Average Gross Income	5,019,960	4,200,258
Total Capital Charge for Operational Risk (Average Gross Income x15%)	752,994	630,039
Total RWA for Operational Risk	6,023,952	5,305,589
Total Risk Weighted Assets	92,045,633	86,356,644

RISK MANAGEMENT

Risk Governance Structure



Credit Risk Management

Credit risk is the risk of potential loss arising due to the borrower or counterparty failing to meet its contractual obligations when they fall due.

The Bank strives to achieve/maintain a high quality of its loan portfolio by accommodating exposures within the Bank's risk appetite and improving/maintaining the non-performing loans percentage below the industry norm.

The Bank's Credit Policy, approved by the Board of Directors, provides the basic framework for lending and the Credit Manual and circular instructions give more details on how to perform the functional responsibilities. The credit policy and the credit manual are reviewed regularly to ensure that the Bank is able to meet its business objectives against the country's frequently changing financial landscape.

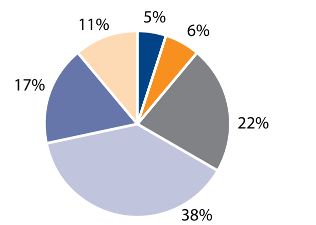
The Bank's credit proposal generation takes place at 3 locations namely Retail Assets Centre, SME Asset Centre, and Corporate Banking Division. The Bank took a policy decision to shift to 'centralised credit processing' as opposed to branch based credit processing and successfully set up the Retail and SME Asset Centre. Retail assets refer to housing loans, personal loans, vehicle loans, credit cards and also known as schematised loans.

Considering the weak macro environment and rising NPLS in the industry, the Bank has initiated a segmentation analysis which classifies potential customers in to different categories. This is applied to assist in creating a risk averse customer base and improving the position of the loan portfolio. The customers are classified based on their recent turnover, ROE, Proposed LTV and other systematic factors that guide the loan approval process.

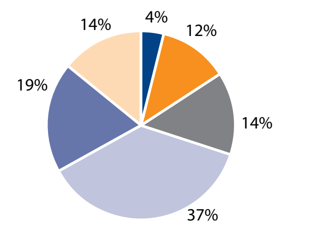
The Bank uses a sophisticated loan originating system which generates credit proposal and rates the borrower against specified parameters, and is submitted for approval online. The ratings lie on a scale between AAA (lowest credit risk) and D (very high vulnerability to default).

The Bank's credit quality has significantly increased and sustained due to the improved credit selection in sanctioning. The alignment of Bank's credit policies, lending principles and risk appetite to the strategic objectives has driven the credit quality to the current improved mix.

RISK MANAGEMENT



Corporate and SME Rating - 2018



Corporate and SME Rating - 2019

Managing Borrower Risk

The Bank's Credit Policy and the Credit Manual can be described as the rules and parameters within which the Bank's credit officers manage daily business activities. These documents define the principles encompassing client selection, early warning reporting, tolerable levels of concentration risk and portfolio monitoring in line with the Bank's risk appetite. Apart from a clearly defined Credit policy and the Credit Manual, the Bank has a comprehensive credit approval process with delegated authority linked to the risk profile of the borrower.

Managing Counterparty Risk

Counterparty credit risk emanating from the Bank's trading book is managed by fixing limits against the counterparties and in certain trade transaction, against an approved underlying transaction. The Bank can also reduce the counterparty risk by its ability to offset trading positions of a counterparty. At present, Union Bank's counterparty credit risk is minimal due to the relatively small volumes in trading book, mainly consisting of government securities.

Loan Origination → **Approval** → **Disbursement** → **Monitoring**

Loan Origination
- Scientific risk rating derived from Kalypto system using quantitative and qualitative information
- Choose appropriate model (Corporate, SME W/Fin & Without Fin, NBFC etc.) and economic sector In accordance with the credit framework
- Vertical and lateral submission of e-applications

Approval
- DAs are individual to each eligible staff member
- In-built in the system
- Higher levels of authority at Executive Credit Committee and Board Credit Committee
- Recommendations of Risk Mgt cannot be overridden, thus maintaining independence

Disbursement
- Loan disbursement is independent from Loan origination
- Centralised Credit Administration is responsible for loan sanctioning and house-keeping
- Loan Review at Risk Management Department independently verifies the sanctions according to approval terms

Monitoring
- All loans are reviewed annually or earlier if warranted
- Past dues are constantly monitored by the RMs, Branch Managers and the Recoveries department
- 60 to 90 days past dues are 'Watch-listed' for close monitoring
- Various portfolio level MIS are prepared by Risk Management Department for Management and Board information

Managing Concentration Risk

Disproportionate concentration to one area or segment creates a potentially high risk since there are borrowers with similar characteristics within such groups e.g. unexpected drought or heavy rains will affect Agriculture sector, etc.

Bank mainly monitors credit concentration risk using economic sector groups and large names group. The economic sector concentration risk is monitored against Board approved limits as well as stress tests using the HHI (Herfindhal-Hirshman Index) method.

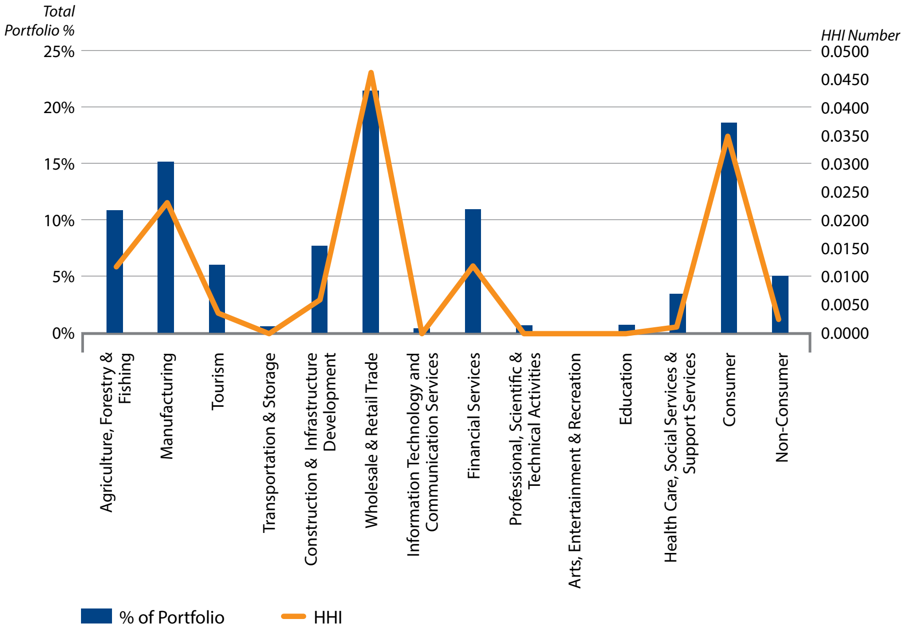
To manage the credit concentration of the book bank has devised the credit model to define various limits on the maximum exposure for different industry segments. Depending on the performance of the specific industries and micro economic conditions that affects the performance of such industries, interim limits too are put in to place.

Meeting the regulatory requirements assessment on top borrowers and adherence to the single and related party limits are closely monitored by the Bank.

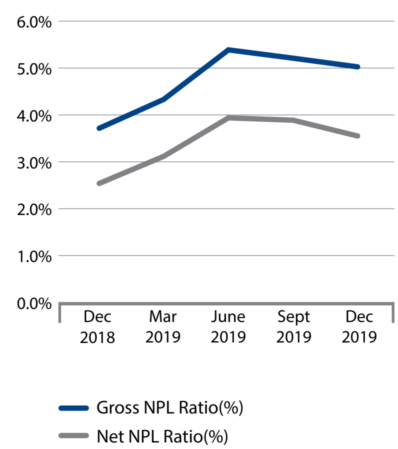
Effective discussions take place at various forums to mitigate risks of the credit portfolio. Apart from the economic sector and name concentration mentioned above, the Bank reviews borrower rating distributions, age analysis, geographical distribution, country risk, etc., for portfolio level monitoring.

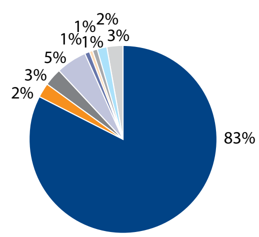
RISK MANAGEMENT

Economic Sector Concentration December 2019

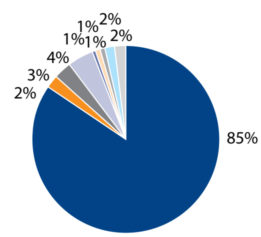


NPL movement (Dec 2018 to Dec 2019)





Geographical distribution as at 31.12.2018



Geographical distribution as at 31.12.2019

Managing Delinquent Loans

The Bank's non-performing portfolio is monitored on a proactive basis through regular follow up with clients and restructuring of facilities on a need basis. The Risk Management Department monitors the watch listing of accounts by recommending action plans and close monitoring to prevent such borrowers becoming non-performing.

In line with CBSL directions the Bank has set up a separate unit for loan review within the Risk Management Department. The unit was formulated to continuously monitor the Bank's lending portfolio by focusing the top exposures in each of the business unit/group bringing about qualitative improvements in credit administration.

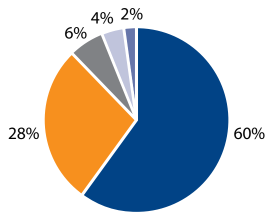
The high valued loans will be reviewed periodically and more frequently when factors indicate a potential for deterioration in credit quality. A minimum of 30%-40% of the loan portfolio is reviewed each year to provide a reasonable assurance that all major credit risks post sanctions have been tracked.

The loans are reviewed keeping in mind the approval processes, accuracy and timeliness of credit ratings, adherence to internal policies and procedures, applicable laws/regulations, compliance to loan covenants, post sanction follow ups and sufficiency of documentation.

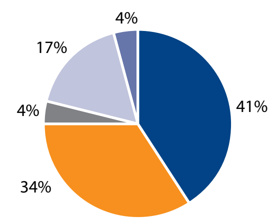
Managing Cross Border Exposures

The Bank is also exposed to cross border risks, where in the instances that the Bank is unable to receive or recover the dues overseas. Convertibility, transferability, Government specific rules and regulation affects the cross border exposure risk.

RISK MANAGEMENT



**Country-wise exposure-
December 2018**



**Country-wise exposure-
December 2019**

Operational Risk

Operational Risk Management Framework:
Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The definition includes legal risks but excludes strategic and reputational risks.

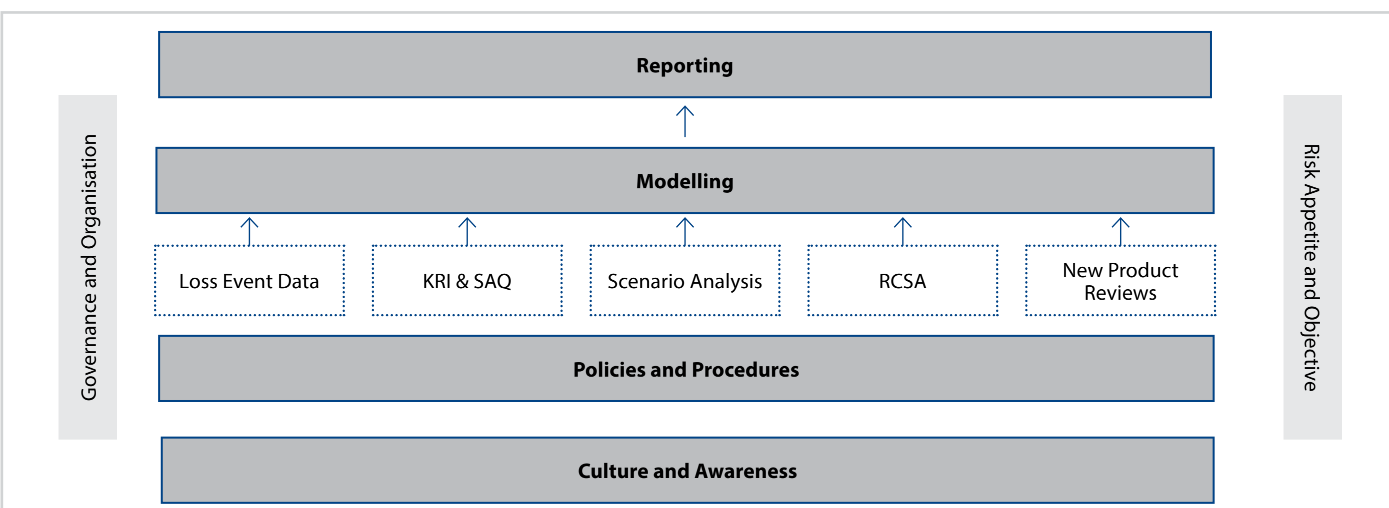
The governance of The Bank's operational risks follows the three lines of defense approach, to protect the Bank, its customers and shareholders against risk losses and resulting reputational damages. It seeks to ensure that all our operational risks are identified and included, that accountabilities regarding the management of such operational risks are clearly assigned and risks are taken on and managed in the best and long term interest of the Bank. The three lines of defence approach and its underlying principles, i.e., the full accountability of the first line of defence to manage its own risks and the existence of an independent second line of defence in risk management to oversee and challenge risk taking and risk management, applies to all levels of the organisation and independent third line of defence to audit the overall risk management process.

The Bank's risk appetite and tolerance are generally set by the Board and/or executive management and are linked with the Bank's strategy and growth targets. The risk tolerance limits breaches are escalated to IRMC. In case a residual risk is assessed to be outside our risk appetite, further risk reducing actions must be undertaken including further remediating risks, insuring risks or ceasing business.

The Bank's Risk Management Department (RMD) is the risk management function for all major risk types of the Bank, including Operational Risk and owns the overarching Operational Risk Management Framework (ORMF).

The ORMF is a set of interrelated tools and processes that are used to identify, assess, measure, monitor and remediate operational risks. Its components have been designed to operate together to provide a comprehensive approach to managing the Bank's most material operational risks. ORMF also spells out the three lines of defences and roles and responsibilities for the Operational Risk management process stakeholders and bank's approach to setting Operational Risk appetite and adhering to it, tools, independent governance, and the Bank's Operational Risk capital model.

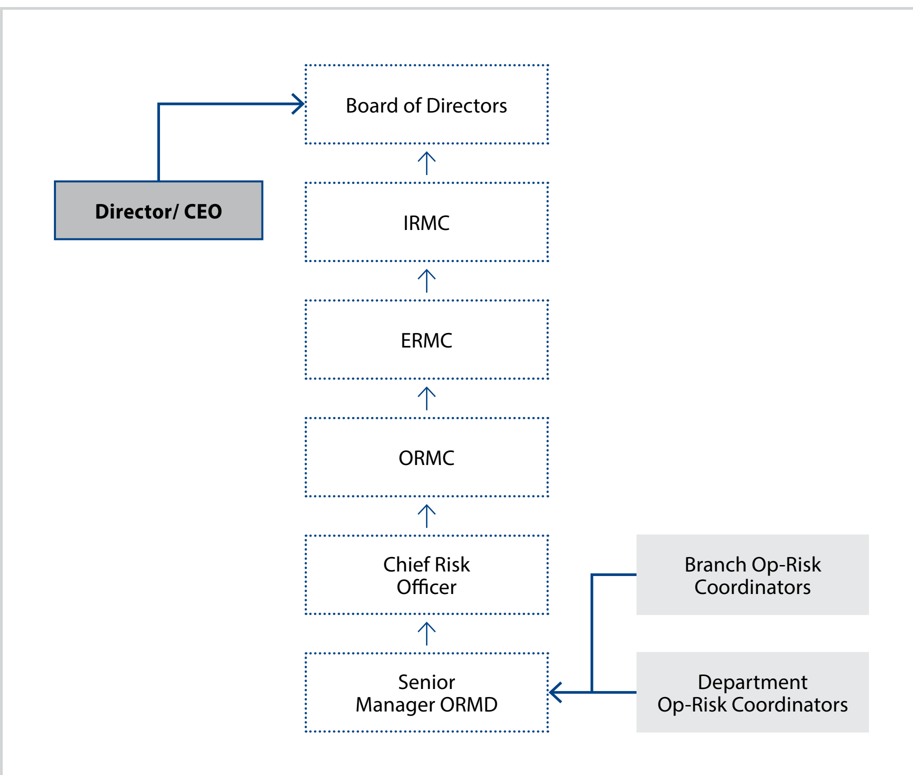
Operational Risk Management Framework:



RISK MANAGEMENT

Operational Risk Governance Structure:
Management of Operational Risk is the primary responsibility of business and support functions and acts as risk owners. They identify and report risk timely while RMD oversees the bank-wide management of operational risks, reports risk concentrations and promotes a consistent application of the ORMF across the Bank. RMD is headed by the Chief Risk Officer and overseen by Board Integrated Risk Management Committee (IRMC).

Operational Risk Management Committee (ORMC) is chaired by the Chief Risk Officer and responsible for the oversight, governance and coordination of the management of Operational Risk at operational level while Executive Risk Management Committee (ERMC) is chaired by Director/Chief Executive Officer (D/CEO) and while CRO is a permanent member and convener of the ERMC meetings. ERMC is a Senior Management level committee that is managing risks including Operational Risk on behalf of the IRMC by establishing a cross-risk and holistic perspective of the key operational risks of the Bank. Its decision-making and policy related authorities include the review, advice and management of all Operational Risk issues which may impact the risk profile of bank's business units and support functions.



Managing Operational Risk:
The Bank manages operational risks by employing the tools and processes provided in the ORMF, which enables Bank to determine Operational Risk profile in comparison to our risk appetite for Operational Risk, to systematically identify Operational Risk and its concentrations, and to define risk mitigating measures and priorities.

In order to cover the broad range of risk types underlying Operational Risk, Bank's ORMF contains a number of management techniques that apply to all Operational Risk types.

Further, Bank as a risk transfer strategy, has signed up for insurance to cover Fire, Natural Disaster, Theft/ Robbery, Fraud, Terrorism and outsourced certain back office functions/processes that are permitted by the Outsourcing direction issued by the regulator. RMD also reviews and ensures the adequacy of Bank's Insurance Policies and that the acceptable level of controls are in place in the Outsourced activities of the Bank prior to signing up. The sound operational risk management could be evident via the Actual loss data given below.

Methods of Operational Risk Management:

a. Loss Event Data
Loss event data are historic and backward looking which provides valuable insights into current operational risk exposures. Data gathered are segregated into seven Basel risk types (excluding legal and compliance risk) for capital computation in the future. All staff members are responsible to report risk/loss events as soon as they perceive or materialise and are responsible to record such risk/loss events immediately as either an actual loss, a potential loss or a near miss using one of industry's best web-based solution for operational risk management (ORM). Once an event is entered, it is reviewed independently, and submitted to Operational risk management department for causal and impact analysis, and subsequently recording cause, effect, recovery and provisioning before closure, if applicable. Action follow ups, reports from Audit department and any other branch/department can be collected using the Action Management module of ORM solution. There are various dashboards available in the ORM solution to provide snapshot of Operational Risk information at Branch, Management and Business Unit level and as a bird-eye view for the Bank which are useful in determining the trends and potential areas to avoid or mitigate by improving/ implementing control/s. Bank understands the importance of managing major operational failures caused by human or system and it well managed the financial losses incurred by the bank due to such failures during the reporting period. The losses incurred during the year amounts to Rs. 49.5 Mn which is less than 1% of the three year average gross income of the Bank while there aren't any losses related to Credit Risk. This indicates that bank will survive in a stressed situation.

b. Key Risk Indicators (KRI) and Self-Assessment Questions (SAQs)
Detailed KRI and SAQ programs are scheduled monthly, quarterly and semi-annually to record the changing environment. Answers

RISK MANAGEMENT

to KRIs will be number driven whilst for SAQs, will be a selection from a drop down list of answers. The information, so gathered is then analysed to see if there are any trends that poses/would result in Operational Risk/Loss to the Bank and accordingly mitigative action taken.

c. Scenario Analysis

The objective is to identify potential events with a very low probability of occurrence, but which could result in a very high loss for the Bank. The possible effects of these are assessed and extra controls and mitigating measures are identified to reduce the likelihood of high economic impact.

Hence, a scenario analysis has to be completed on a monthly basis. In this, assignees are free to report any current and potential risks that they envisage within their area of work, whether internal or external. In addition, scenarios of potential events, which are infrequent, but have severe impact to the Bank when they happen would be identified and analysed by the Operational Risk Management Department (ORMD).

d. Risk & Control Self-Assessment (RCSA)

In a RCSA program, branches and departments takes the ownership of its own risks and controls and assess the risks that may exist in its area. RCSA programs are done on annual basis to assess the risk areas of the bank and apply controls where necessary. Information so gathered will also be used for capital computation purposes too in the future.

There are three types of RCSAs: Questionnaire approach, Workshop approach and Hybrid (mix of above two) approach. The questionnaire based approach is used by the bank to assess risks under RCSAs.

The Bank had conducted the RCSA during 2018 and such results have been independently validated by Internal Audit to minimise subjectivity and subsequently approved by the respective Risk Management Committee/s as per the Risk Sanctioning Policy stipulated in the ORMF. Further, RCSA has been conducted for 2019 during the 4th quarter.

e. Ad-hoc Incident Reporting

The Bank encourages staff to report any operational lapses or potential or actual frauds directly to designated senior management officials as described in the Bank's Whistleblower policy, if the staff member is fearful to route the concerns through the line management. Bank views this method as a useful method of communication to reduce potential losses to a greater extent and proved effective.

f. New Product, Service or Process Launch

Prior to launching new products, services or processes, the owners must identify and evaluate the risks inherent that have a material impact on the Bank's operational processes using the new product policy . Then the detailed Product Programme Guide with a Risk Matrix listing such risk identified and mitigations shall be signed off by all key stakeholders.

g. Customer complaints

The Bank monitors complaints and their root causes and provides relevant information to ORMD for identifying and measuring risk. ORMD further analyses and escalate to relevant risk management committee/s for further action.

h. Audit and regulatory recommendations

These provide relevant information on inherent risk due to internal and external factors, enabling weaknesses in the controls to be identified.

i. Training and Awareness Creation

Internal training sessions are conducted to enhance/inculcate the need of risk reporting for new recruits and refresher training sessions too conducted for existing staff.

j. Appointment of Operational Risk Coordinators within the first line of defense

Operational Risk Coordinators (ORCs) are appointed Bank-wide at branches and all departments who are the prime liaison with the Operational Risk Management Department (ORMD).

Operational Risk (OR) Information System:

The Bank's operational risk information system, called Care Kalypto, supports operational risk management tools, providing information for reporting functions. The objective of Care Kalypto is to improve decision making for OR management throughout the Bank.

Measuring Operational Risks:

The Bank calculates and measures the capital charge requirements for Operational Risk using the Basic Indicator Approach ('BIA') methodology where the average of the last three years annual gross income x 15% is considered as the capital charge

Information Security Management

The IT landscape is becoming complex day by day in the banking sector and due to the nature of business and potential financial impact,sets new demands on information/ cyber security for protecting customers and business-critical information. Information/ cyber security resilience is a fundamental part of the Bank's business, and vital for maintaining customers' trust.

The Bank is constantly updating its processes to achieve superior information security performance and uses different international standards as reference where applicable. For instance, ISO/IEC 27001:2013 Information Security Management System standard has been used for enhancing bank's current Information Security Policies and Procedures and ISO 31000:2018 Risk management standard has been used for the development of Risk Assessment and Risk Treatment (RART) Methodology and RART Plans. Subsequently the revised Information Security Policies and Procedures have been approved by IRMC and ratified by Board of Directors.

The Bank strives to increase information security awareness among employees by various means, such as organising e-learning courses, conferences and training programs to enable employees on new threat vectors and counter measures to safe-guard internal systems and business-critical information.

At Union Bank, the responsibility for Information Security arrangements are managed by Information Security Officer who is attached to Risk Management Department. Further, IT Security responsibilities relies with IT Security team, which is attached to IT Department. Internal and external audits are also regularly followed up by The Bank's Leadership Team and the Board Audit and

RISK MANAGEMENT

Risk Management Committees. The Bank has appointed Information Security Coordinators (ISCs) Bank-wide at branches and all department who are the prime liaison with the Information Security Officer and this enables the ISO to manage the Information Security in branches and departments effectively.

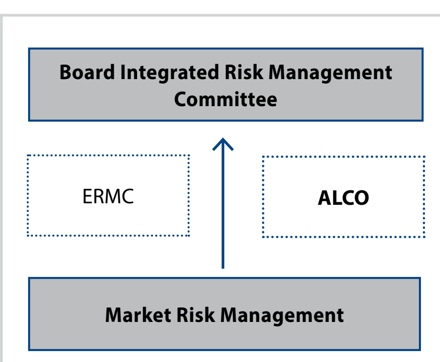
Moreover, ISO has conducted risk assessments of different assets and controlled environments and conducted the Privilege Access reviews.

Business Continuity Management

The Business Continuity Management (BCM) function, which is under the purview of ORMD ensures that a sound Business Continuity Plan (BCP) is in place for the Bank covering the branch network. The Bank-wide BCP is well structured and reviewed periodically, in assuring the immediate continuity of essential business operations. While being fully equipped with a Disaster Recovery Site along with an integrated IT recovery strategy, the Bank conducts drills to test the effectiveness of the BCP at least annually in order to ensure readiness. Furthermore, training sessions are conducted to create awareness among the Emergency Coordination Team members on fire safety aspects, while evacuation drills are facilitated to test the preparedness of staff to act in case of an emergency under supervision of the Fire Department. The Bank is in the process of enhancing the Business Recovery facility.

Market Risk

Market risk is defined as the risk of losses in On/Off balance sheet positions arising from movements in market prices. It comprises of Interest Rate Risk (IRR), Foreign Exchange Risk (FX), Equity Price Risk and Commodity Price Risk.



Managing of Market Risk

Asset and Liability Management Committee (ALCO) of the Bank is mainly responsible for managing the Interest Rate Risk, Exchange Rate Risk, and Liquidity Risk & Equity Price Risk. Within the overall Risk Management Framework, both treasury front office and back office functions are monitored by Treasury Middle office (TMO). TMO operates as an independent to the business functions. In the Bank market risk management is governed by the Integrated risk management Policy, Market Risk Management Policy and Asset Liability Risk Management Policy.

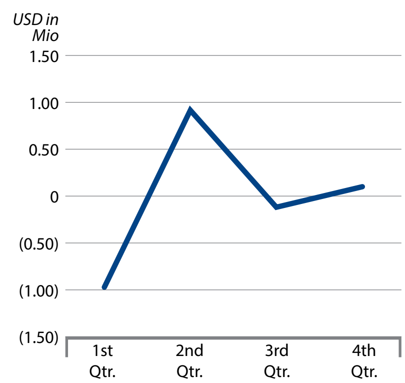
TMO is primarily responsible for the setting up of suitable policy/procedures for the treasury operations and setting up and monitoring of various limits to monitor business operations. TMO also maintains its independent MIS reports and dashboard reports which are reported to Senior Management, ALCO, Integrated Risk Management Committee and to the Board of Directors in support of the decision making process. TMO uses various tools in measuring Market Risk exposures such as Value at Risk(VaR) Duration, Modified Duration(MD), Mark to Market valuations (MTM) and Stress testing.

Managing Foreign exchange Risk

The foreign exchange (FX) risk arises due to mismatches in assets and liabilities in different currencies. The cost of aggregate exposure will fluctuate with the changes in the exchange rates. Foreign exchange risk is managed through approved limits by the Board of directors and in line with the CBSL requirements. Limits include Net Open Position, Trading Limits, and Dealer Limits, Counter Party Limits and Gap Limits.

The Bank has been prudent in managing the FX risk throughout. The Bank has been able to manage its open positions (NOP) within the limit allowed by CBSL and no major losses were incurred during the volatile period underwent by USD/LKR exchange rate in recent past.

Net Open Position



Stress Test on Net open Position

NOP as at 31.12.2019 in USD	106,267					
Spot Rate	181.40					
Scenarios	*Upward Movement*			*Downward Movement*		
Shock Levels	5%	10%	15%	-5%	-10%	-15%
Stressed Fx Spot Rate	190.47	199.54	208.61	172.33	163.26	154.19
Gain/Loss after stressed in Rs.'000	964	1,928	2,892	(964)	(1,928)	(2,892)

RISK MANAGEMENT

Foreign Exchange Position as at 31.12.2019

CURRENCY	On Balance Sheet		Off Balance Sheet		Net Position in Original Currency	FX Rate	Net Position in LCY
	+	-	+	-			
AED	38,608.00				38,608.00	49.39	1,906,723.62
AUD		(1,291,133.36)	1,400,000.00	(92,500.00)	16,366.64	127.14	2,080,907.96
BHD	29.50				29.50	481.10	14,192.55
BND	4,817.00				4,817.00	134.79	649,306.19
CAD	10,320.75			(13,510.00)	(3,189.25)	139.17	(443,845.14)
CHF	12,850.00			(11,500.00)	1,350.00	187.41	252,998.61
CNY	70,545.79				70,545.79	26.06	1,838,584.29
DKK	180,050.00			(180,050.00)	-	27.23	-
EUR		(2,386,215.43)	3,185,000.00	(776,300.00)	22,484.57	203.41	4,573,651.36
GBP		(1,860,085.90)	1,900,000.00	(30,000.00)	9,914.10	238.69	2,366,358.06
HKD	11,100.00			(8,880.00)	2,220.00	23.30	51,718.74
JOD	29.00				29.00	255.85	7,419.75
JPY		(594,947.07)	2,650,000.00	(1,700,000.00)	355,052.93	1.67	593,199.18
KWD	475.25				475.25	598.58	284,475.66
MYR	2,797.00				2,797.00	44.33	123,995.16
NOK	43,000.00			(32,500.00)	10,500.00	20.63	216,614.26
NZD	51,855.16			(51,805.00)	50.16	122.11	6,125.01
OMR	8.00				8.00	471.17	3,769.35
QAR	3,458.00				3,458.00	49.81	172,247.19
SAR	11,783.00				11,783.00	48.36	569,777.87
SEK	38,930.00			(36,930.00)	2,000.00	19.46	38,914.30
SGD	6,551.35				6,551.35	134.79	883,087.42
THB	3,060.00				3,060.00	6.05	18,522.87
USD		(4,760,870.52)	13,974,234.52	(9,196,406.30)	16,957.70	181.40	3,076,126.78
ZAR	550.00				550.00	12.92	7,106.66

Managing Liquidity

Liquidity risk is mainly managed through Stock approach and Floor approaches under the supervision of ALCO. Under Stock approach liquidity is measured in terms of key ratios which portray the liquidity stored in the balance sheet where as under Floor approach banks should prepare a statement of Maturities of Assets and Liabilities placing all cash inflows and outflows in the time bands according to the residual time to maturity.

With regard to the Stock approaches TMO monitors a comprehensive list of ratios against their approved limits and any deviations, exceptions to the approved ratios are reported to IRMC. In assessing the liquidity position of the Bank, advances to deposits ratio, maturity profile of the assets and liabilities, liquidity gap and statutory liquid asset ratio are considered pivotal.

Also the Bank conducts regular stress tests and scenario analysis to measure impact on liquidity due to adverse movements in its cash flows. The Bank has already devised the Contingency Funding Plan which makes sure the completeness of a comprehensive market risk management framework.

RISK MANAGEMENT

Maturities of Assets and Liabilities (MAL)

LKR Only										*Rs,000*
***Behavioural Pattern for OD & Deposit Liabilities**										
December 2019	*UBC's position (Before Stress)*									
Particulars	**Liquidity Risk**									
	Bucket 1	**Bucket 2**	**Bucket 3**	**Bucket 4**	**Bucket 5**	**Bucket 6**	**Bucket 7**	**Bucket 8**		
	Less than 7 Days (b)	**7-30 Days**	**1-3 Months**	**3-6 Months**	**6-12 Months**	**1-3 Years**	**3-5 Years**	**Over 5 Years**	**Unclassified**	**B/S Total**
Inflows										
Total Assets	18,143,993	9,528,292	16,328,734	10,402,249	18,085,124	23,843,578	14,545,809	13,968,024	4,498,223	129,344,026
Cash	2,276,241	-	-	-	-	-	-	-	-	2,276,241
Due from Banks	442,620	-	-	-	-	-	-	2,416,628	-	2,859,248
Investments-Current	1,924,393	-	544,200	2,633,106	8,291,495	10,799,281	7,732,354	3,446,354	-	35,371,182
Investments-Non-performing/2	-	-	-	-	-	-	-	-	-	-
Loans & Advances - Current	10,358,214	9,208,315	13,074,134	6,689,245	7,676,506	12,999,004	6,812,512	6,667,902	-	73,485,833
Bills of Exchange	270,732	667,848	873,381	110,474	-	-	-	-	-	1,922,435
Overdrafts	110,240	362,217	944,913	1,417,369	2,834,739	-	-	-	-	5,669,478
Loans & Advances	9,977,242	8,178,250	11,255,840	5,161,401	4,841,768	12,999,004	6,812,512	6,667,902	-	65,893,920
Loans & Advances - Non-performing	-	-	-	-	-	-	-	-	2,444,787	2,444,787
Fixed Assets	-	-	-	-	-	-	-	-	2,053,436	2,053,436
Other Assets	3,142,526	319,977	2,710,400	1,079,898	2,117,123	45,293	943	1,437,140	-	10,853,300
Outflows										
Total Liabilities	14,039,152	9,659,964	12,785,992	7,861,296	8,401,709	57,606,505	1,404,024	17,582,386	-	129,341,027
Total Capital Fund	-	-	-	-	-	-	-	17,581,887		17,581,887
Total Deposits	1,158,716	2,238,485	4,708,373	4,625,703	4,904,052	55,562,029	1,403,846	-	-	74,601,204
Demand deposits	88,715	291,491	380,206	304,164	456,247	2,343,055	-	-	-	3,863,878
Savings deposits	115,932	380,920	496,852	496,852	993,703	11,742,219	1,242,129	-	-	15,468,606
Time Deposits	952,070	1,454,562	3,800,882	3,427,499	3,365,877	39,780,826	161,717	-	-	52,943,434
Certificates of Deposits	1,999	111,512	30,433	397,188	88,225	1,695,928	-	-	-	2,325,285
Margin Accounts	-	-	-	-	-	-	-	-	-	-
Borrowings	9,324,901	6,067,700	1,472,781	2,678,215	2,463,315	2,000,000	-	-	-	24,006,912
Other Liabilities	3,555,535	1,353,778	6,604,838	557,379	1,034,342	44,476	177	500	-	13,151,025
Absolute Gap	4,104,841	(131,672)	3,542,742	2,540,952	9,683,415	(33,762,926)	13,141,786	13,967,525	4,498,223	17,584,886
Cumulative Gap	4,104,841	3,973,169	7,515,911	10,056,863	19,740,279	(14,022,648)	(880,862)	13,086,663	17,584,886	

RISK MANAGEMENT

Managing Interest Rate Risk

IRR is the risk to the Bank’s earnings and capital that arises out of meeting customers’ demands for interest rate-related products with various re-pricing profiles and the Bank’s interest rate mismatch strategy. As interest rates and yield curves change over time, theoretically the Bank may be exposed to a loss in earnings and capital due to the re-pricing structure of all on- and off-balance sheet items. Movements in interest rates can affect the Bank's earnings by changing its net interest income (NII). Changes in interest rates also affect the economic value of the bank's assets, liabilities and off-balance sheet items. An effective risk management process that maintains interest rate risk within prudent levels is essential not only to safety and soundness but also to the Bank’s profitability.

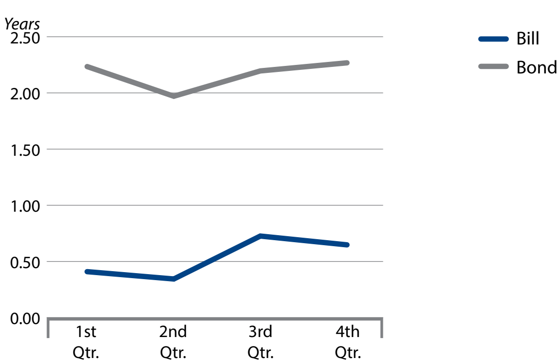
The Bank currently measures the interest rate risk from both Earnings perspective and Economic Value of Equity perspective.

The Bank's trading portfolio mainly comprises T-bills, T bonds and Unit trust and is monitored daily against the portfolio size limit, maturity bucket limits, portfolio category limit and VaR limits. TMO monitors duration and the PVO1 for FIS on a daily basis.

Sensitivity of Assets & Liabilities (SAL)

December 2019										RS.000
Item	**Non Sensitive**	**upto 1 month**	**1 to 3 Months**	**3 to 6 Months**	**6 To 9 Months**	**9 To 12 Months**	**1 To 3 Years**	**3 To 5 Years**	**Over 5 Years**	**Total**
Inflows										
Cash on Hand	2,276,241	-	-	-	-	-	-	-	-	2,276,241
Nostro	442,620	-	-	-	-	-	-	-	-	442,620
Deposits with CBSL	2,416,628	-	-	-	-	-	-	-	-	2,416,628
Investments	1,172,798	2,441,534	1,863,058	2,433,389	5,141,161	3,167,135	9,171,917	7,627,960	2,206,723	35,225,675
Bills of Exchange	-	1,008,612	840,700	110,474	-	-	-	-	-	1,959,786
Overdrafts	-	12,080,029	-	-	-	-	-	-	-	12,080,029
Loans & Advances	-	32,839,187	11,515,063	2,444,929	1,265,711	1,310,674	7,829,719	4,103,486	4,107,626	65,416,395
NPL	(3,525,591)	-	-	-	-	-	-	-	-	(3,525,591)
Other Assets	3,333,237	-	-	-	-	-	-	-	-	3,333,237
Fixed Assets	2,053,436	-	-	-	-	-	-	-	-	2,053,436
Total (a)	8,169,369	48,369,362	14,218,821	4,988,792	6,406,872	4,477,809	17,001,636	11,731,446	6,314,349	121,678,456
Outflows										
Demand deposits	3,863,878	-	-	-	-	-	-	-	-	3,863,878
Savings deposits	-	15,468,606	-	-	-	-	-	-	-	15,468,606
Time Deposits	-	10,091,049	12,840,295	12,661,614	7,824,482	4,609,493	4,319,097	597,404	-	52,943,434
Certificates of Deposits	-	419,324	112,424	1,467,262	304,309	21,606	360	-	-	2,325,285
Nostro	186,814	-	-	-	-	-	-	-	-	186,814
Borrowings	-	15,392,601	2,472,781	3,678,215	10,950	2,452,365	-	-	-	24,006,912
Other liabilities	5,447,147	-	-	-	-	-	-	-	-	5,447,147
Shareholders' Funds	17,581,887									17,581,887
Total (b)	27,079,726	41,371,580	15,425,500	17,807,091	8,139,741	7,083,464	4,319,457	597,404	-	121,823,963
Gap=(a)-(b)	(18,910,357)	6,997,782	(1,206,679)	(12,818,299)	(1,732,869)	(2,605,655)	12,682,179	11,134,042	6,314,349	(145,507)

Duration of FIS



Legal Risk

As per the definition of Basel the legal risk is covered under operational risk management. Legal risk is connected with the people, processes, systems and also the outside events affecting the normal cause of business.

In managing the Banks' legal risk, factors such as regulatory guidelines which may lead to subsequent penalties and fines in non compliance are taken into consideration. Banking relationships maintained with other entities, individuals both domestic and foreign, also give rise to legal risk. This is mainly due to the non-fulfillment of required precise contractual documentation and adherence to the same. The Bank takes adequate measures and process enhancements to ensure the compliance of such legal requirement under its overall risk governance structure.

Strategic Risk

Strategic Risk refers to the strategic decisions/plans/objectives which may go wrong due to actions or inactions by the parties to strategic decision making process, adversely affecting the shareholder wealth of the Bank e.g. incorrect decisions, inadequate information for decision making, delayed remedial actions, etc.

Drivers of Strategic Risk

Compliance Risk

Compliance risk is the current and prospective risk to earnings or capital arising from violations of, or non-conformance with, laws, rules, regulations, prescribed corporate governance practices, internal policies and procedures, or ethical standards.

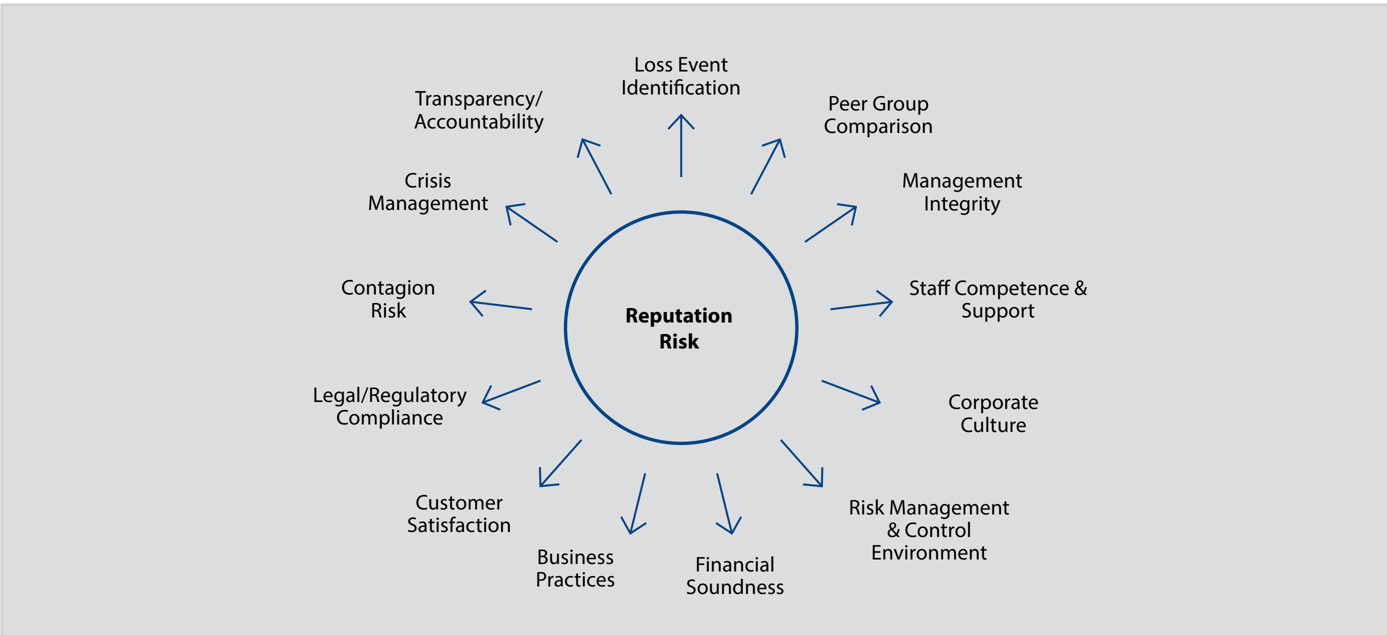
Compliance risk also arises in situations where the laws or rules governing certain bank products or activities of the Bank's clients may be ambiguous or untested. This risk exposes the institution to fines, penalties, payment of damages, and the voiding of contracts. Compliance risk can lead to diminish reputation, limited business opportunities, reduced expansion potential, and an inability to enforce contracts. The Bank has identified this risk as a material risk and various internal controls, policies, procedures are in place to manage risk.

RISK MANAGEMENT

Reputation Risk

Reputation Risk refers to the potential adverse effects, which can arise from the Bank's reputation being tarnished due to factors such as unethical practices, regulatory actions, subsidiary/associate company's actions, customer dissatisfaction and complaints, negative/adverse publicity, etc. The Bank remains committed to continuously strive to maintain and improve its reputation in all the businesses it operates.

Drivers of Reputation Risk



Stress Testing

The Bank uses various techniques (quantitative and/or qualitative) to gauge the vulnerability to exceptional but plausible risk events. Stress testing is a risk management technique used to evaluate the potential effects of a specific event and/or movement in a set of financial variables on the Bank's financial condition.

Stress testing is an important part of the risk management function in the Bank and is considered as an integral part of ICAAP under Pillar II.

The Bank has a robust Stress Testing Policy which describes the procedure for identifying principal risk factors, frequency, methodology for constructing stress tests, procedure for setting risk tolerance limits. The findings are communicated effectively to the management group in support of the decision making and capital planning process.

CORPORATE GOVERNANCE

"We believe that good corporate governance contributes to value creation through effective leadership, adequate controls, ethical behaviour and accountability. It is also fundamental to our success, sustainability and legitimacy."

Chairman's Statement

Dear stakeholders,

It gives me pleasure to present the 2019 corporate governance statement on behalf of the Board of Directors of Union Bank of Colombo PLC. This corporate governance statement details our approach to corporate governance principles and practices and how we ensure adherence to the regulatory requirements and recommended good practices relating to corporate governance.

Our approach to governance remains founded on the premise that a successful business requires strong controls, sound governance structures and unwavering commitment to ethical conduct in order to reach its full potential. Therefore, the Board is committed to leading ethically and effectively, upholding the highest standards of accountability, transparency and good corporate governance, while pursuing sustainable value creation.

The Board is responsible for ensuring that the governance arrangements across the Bank enable them to discharge their oversight and fiduciary duties effectively, with clear accountability and devolution of responsibility. To achieve this, we subscribe to a governance structure that clearly defines and demonstrates the distinction of the functions between the Board and the Management while at the same time fostering accountability and effective coordination. Our governance structures and processes are reviewed regularly so as to be current with the developments in the regulatory and governance framework.

We recognise that maintaining highest standards of ethics and integrity underpins an effective governance framework and forms the foundation of a culture that supports employee, customer and investor confidence. Hence, the Board, together with the Senior Management set the tone for an ethical culture within the organisation. Through various policies we have adopted, including the Staff Ethics & Code of Conduct, Code of Conduct on Share Dealing and Gift Declaration by Employees and Anti-Corruption Policy, we confirm our commitment to high moral, ethical and legal standards in dealing with all of our stakeholders.

Concluding, as its Chairman, I confirm that the Bank has been compliant with Direction No. 11 of 2007 on Corporate Governance issued by the Central Bank of Sri Lanka under the Banking Act No.30 of 1988 (as amended) in the manner discussed in this Report. The observations in the 'Factual Findings Report' of the External Auditors in respect of compliance with the said Direction reveals that it is in line with this Report, and to the best of my knowledge there are no material violations of the said Direction.

Atul Malik
Chairman
Union Bank of Colombo PLC

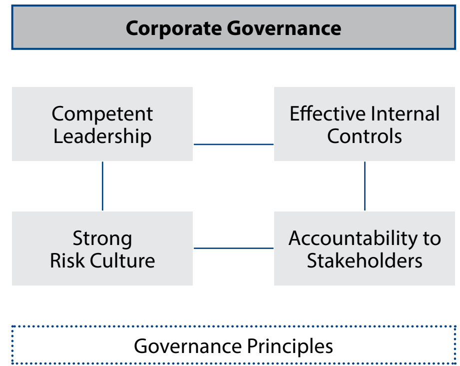
26 February 2020

CORPORATE GOVERNANCE

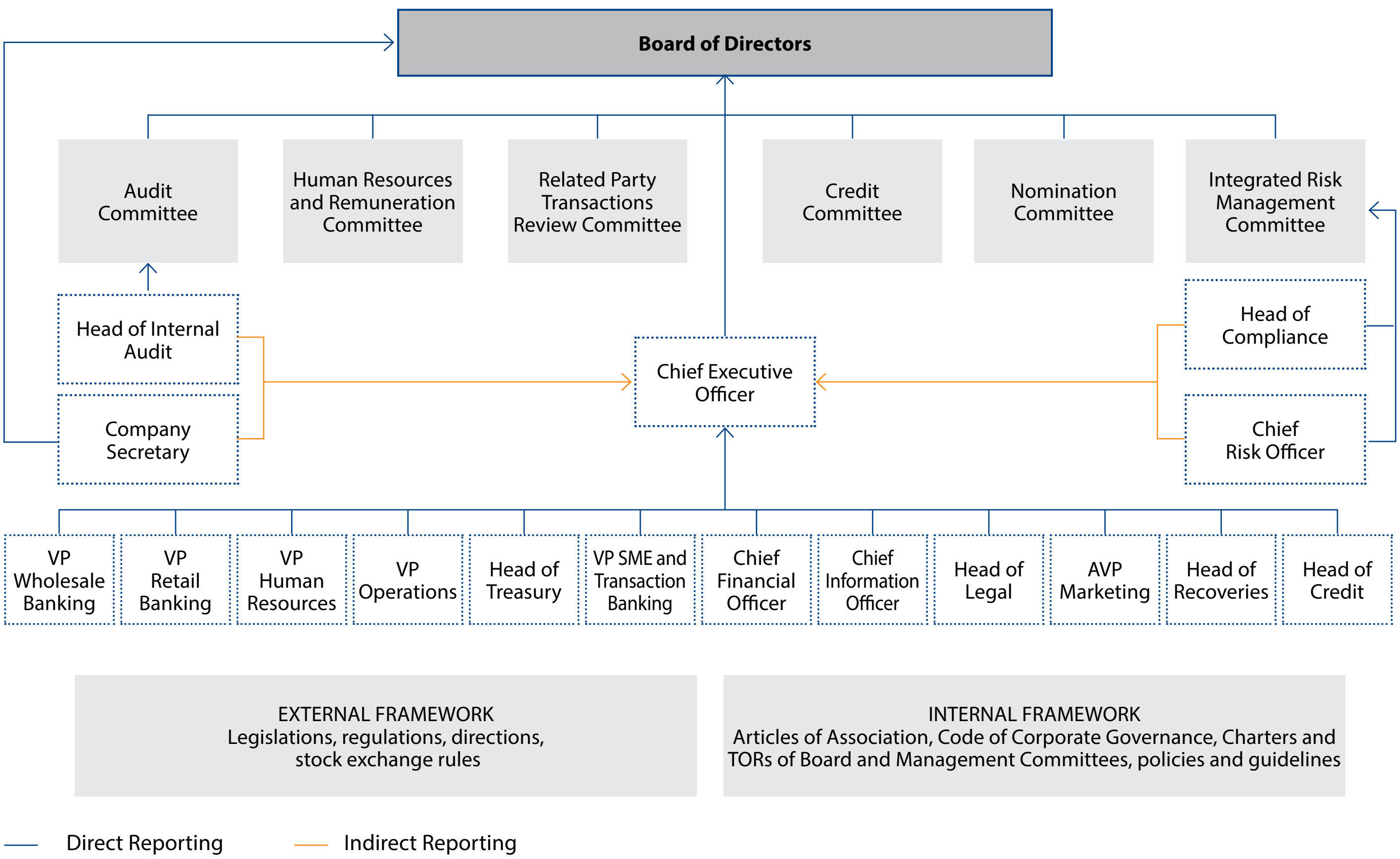
Governance Structure *{GRI 102-18}*

The governance structure of the Bank is anchored on competent leadership, effective internal controls, a strong risk culture and accountability to stakeholders. The Board plays a key role in setting the Bank's governance standards to meet its stakeholders' expectations, and the Bank's leadership model ensures an appropriate balance of power, accountability and independence in decision-making across its various functional units.

The Bank regularly reviews its governance structures to ensure that they support effective decision-making, establish a corporate culture aligned with its purpose, foster sustainable growth and align to evolving best practice.



The Governance Structure



CORPORATE GOVERNANCE

Competent Leadership

Board of Directors

Role and focus

The Board is the highest decision-making body and is responsible for overseeing the Bank's operations and providing effective governance over its key affairs, setting the vision and mission, approving of business strategies and objectives, evaluation of performance and assessment of major risks, and ensuring compliance with related laws and regulations.

The Board is collectively responsible for the long-term success of the Bank and is accountable to shareholders and other stakeholders for financial and operational performance.

Role of the Board

- Directs the Bank in the conduct of its affairs
  - Ensures that corporate responsibility and ethical standards underpin the conduct of business.
- Provides sound leadership to CEO and management
  - Sets the strategic vision, direction and long-term goals of the Bank.
  - Ensures that adequate resources are available to meet these objectives.
- Bears ultimate responsibility for
  - Governance
  - Strategy
  - Risk management
  - Financial performance
  - Sustainability

Board's key areas of focus

- Sets the strategic direction and long-term goals of the Bank.
- Monitors the responsibilities delegated to the Board committees to ensure proper and effective oversight and control of Bank's activities.
- Establishes a framework for risks to be assessed and managed.
- Reviews management performance.
- Determines Bank's values and standards (including ethical standards) and ensures that obligations to its stakeholders are understood and met.
- Develops succession plans for the Board and Key Management Personnel.
- Considers sustainability issues (including environmental and social factors) as part of Bank's strategy.

Composition

The Board is satisfied that its composition reflects an appropriate mix of knowledge, skills, experience, and diversity, and that appropriate measures are in place to ensure its independence.

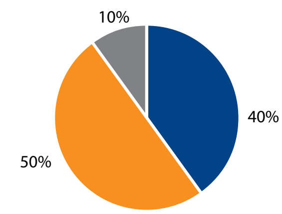
The profiles of the Board of Directors including their experience and expertise are set out on pages 144 to 146 of this Report.

As at the 2019 financial year-end, the Board comprised ten members, nine of whom were non-executive, five independent non-executive and one executive directors.

Board Meetings

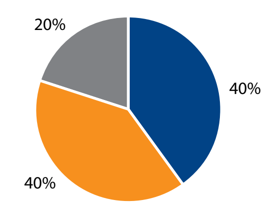
The Board meets every month to consider business philosophy and strategic issues, set risk parameters, approve financial results and budgets, and monitor the implementation of delegated responsibilities. Feedback from its committees, as well as a number of key performance indicators, variance reports and industry trends, are considered at these meetings.

Composition of the Board of Directors



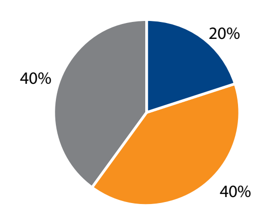
Breakdown by mix

- Non-Executive
- Independent
- Executive



Breakdown by years served

- 1-3 years
- 3-7 years
- >7 years



Breakdown by age

- 40-50 years
- 50-60 years
- >60 years

CORPORATE GOVERNANCE

Meeting dates are communicated to the Board in advance on a meeting plan. Agenda items for each meeting are carefully planned and put together by the Company Secretary in consultation with the Chairman and the Executive Director. The agenda also allows for flexibility when needed. Directors are provided with complete information related to agenda items in a timely manner. All materials for Board meetings are uploaded onto a secure portal which can be accessed on tablet devices provided to the Directors.

The Chairman promotes open and frank debates by all Directors at every Board meeting, and Directors are free to express their views. Decisions of the Board are made unanimously or by consensus with dissenting views raised by any Director being recorded in the minutes of meetings.

The table on page 98 of this Annual Report provides the details of attendance of the Board and Board Committee Members in respect of the Board and Board Committee meetings held during the year 2019.

Effective Engagement with the Board

Directors have ongoing interactions across various levels and functions within the Bank. The CFO provides the Board with detailed financial performance reports monthly. Throughout the year, the Directors have various opportunities to interact with members of the Management.

Annual Board Strategy Off-site

Each year, the Board and the Senior Management attend a two-day strategy off-site which enables them to focus on the Bank's long-term strategy apart from the regular agenda at the monthly Board meetings and engage in dynamic and in-depth strategic discussion to promote deeper understanding of the business environment and the Bank's operations, and refine its strategy.

Succession Planning

Recognising that careful management of the Board's succession process is vital to the successful evolution of the Board, the Board plans for its own succession with the assistance of the Nomination Committee.

The Code of Corporate Governance and the Articles of Association of the Bank provide for a comprehensive procedure applicable to the selection and appointment of Directors.

To achieve the objective of building an effective and cohesive Board, appointments to the Board are made with due cognisance of the need to ensure that the Board comprises a diverse range of skills, knowledge and expertise on the industry in which the Bank operates including, economic, social and environmental factors that impact its businesses, and has the requisite independence and appropriate demographic and ethnicity representation to meet its strategic objectives.

In terms of the Articles of Association, a Director appointed by the Board holds office until the next annual general meeting, where they must retire and stand for re-election by shareholders. In addition, one-third of the Bank's Non-Executive Directors are also required to retire by rotation at each annual general meeting, and the retiring Directors may offer themselves for reappointment by the shareholders.

In accordance with its mandate, the suitability of the directors eligible to be re-elected at the next Annual General Meeting was assessed by the Nomination Committee, and the Board resolved to submit these re-elections for shareholders' approval based on the recommendation of the committee.

The Board also considers the senior management succession plan with the assistance of the Nomination Committee and in doing so, takes into account the immediate, emerging and longer-term succession plan for the relevant roles.

Induction, on-going Education and Access to Information and Advice

When first appointed to the Board all Directors are provided with an induction which enables them to familiarise themselves with the Bank's values, business, operations, financial affairs, governance framework and strategic position, and their responsibilities as directors in terms of the applicable rules and regulations.

Ongoing education remains a focal point for the Board and accordingly, the Directors are kept abreast of all applicable legislation and regulations, changes to rules, standards and codes, as well as relevant sector developments which could potentially impact the Bank and its operations.

The Directors have access to information that is required for effective and efficient discharge of their responsibilities. The Bank has an established procedure that enables the Directors to seek the advice of the Company Secretary and other independent professional advisors.

Annual evaluations

Every year, a collective Board effectiveness evaluation is conducted under the auspices of the Chairman. This evaluation, which is transparent and well documented, is aimed at determining ways to improve the Board's effectiveness.

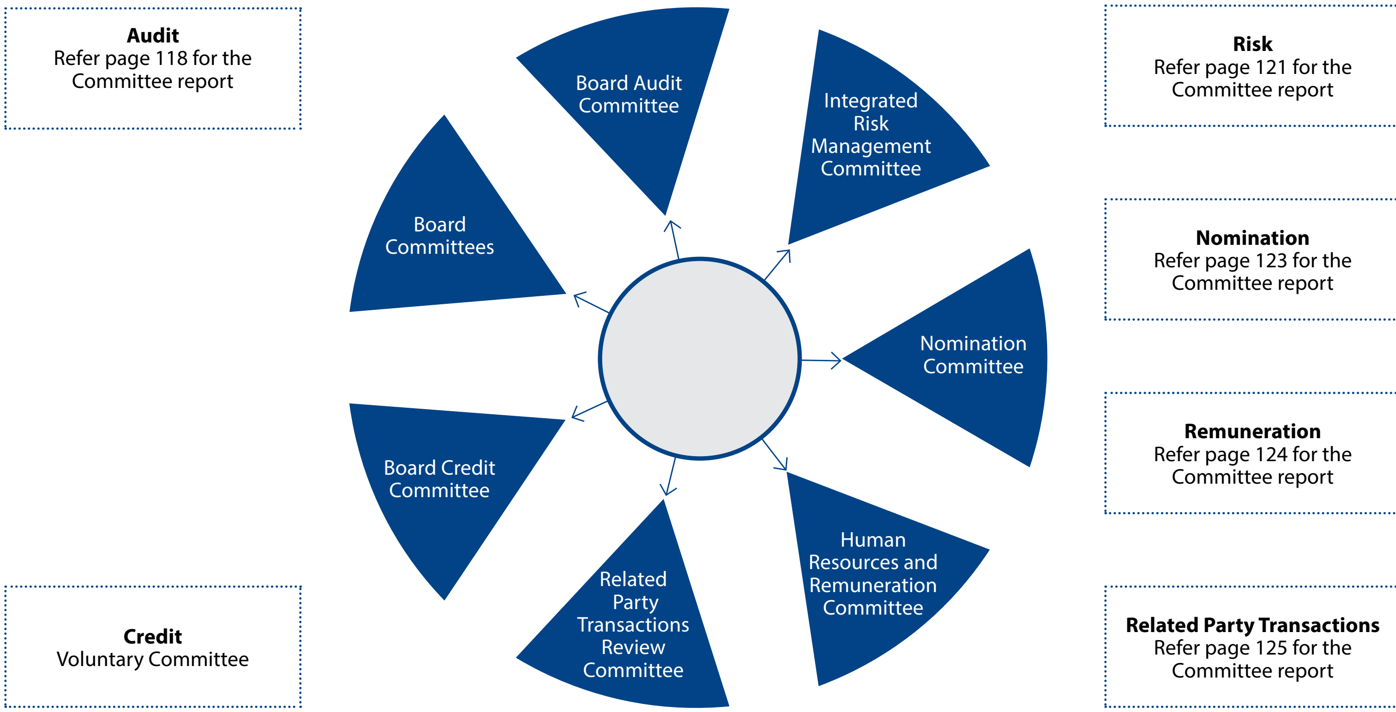
The evaluation for 2019 reported that overall the Board and the Board Committees operated effectively during the year and there were no material matters to report. The Board is satisfied that the evaluation process contributes to its performance and effectiveness.

Board Sub-Committees

The Board has established a number of committees with specific responsibilities, which are defined in terms of their respective charters as approved by the Board, to assist the Board in discharging its duties and responsibilities. The ultimate responsibility resides at all times in the Board and, as such, it does not abdicate this responsibility to the committees and exercise its oversight responsibility accordingly.

There is full disclosure, transparency and reporting from these committees to the Board at each Board meeting. Self-evaluations were done for all committees and the Board is satisfied that the evaluation processes support continued improvement in the Bank's performance and effectiveness.

CORPORATE GOVERNANCE



Separation of Roles

The roles of the Chairman and the Chief Executive Officer are separate, with their individual responsibilities clearly defined. In compliance with the requirements of Direction No. 11 of 2007 on Corporate Governance issued under the Banking Act No.30 of 1988, the Board of Directors of the Bank has designated Mr. Priyantha Fernando as the Senior Director with Board approved Terms of Reference.

The Chairman is responsible for leading the Board of Directors and ensuring its effectiveness. The Chief Executive Officer is responsible for the execution of the Bank's strategy, and the day-to-day business of the Bank and he is supported by the Management Team.

Key Governance Roles and Responsibilities

Chairman	Director/Chief Executive Officer	Senior Independent Director
Atul Malik	*Indrajit Wickramasinghe*	*Priyantha Fernando*
➲ Set the Board agenda, ensuring that there is sufficient time available for discussion of all items. ➲ Encourage open and honest dialogue between all Board members. ➲ Lead and manage the dynamics of the board, providing direction and focus. ➲ Ensure that the Board sets the strategy of the Bank and assist in monitoring progress towards achieving the strategy. ➲ Perform Board performance evaluations. ➲ Serve as the primary interface with regulators and other stakeholders on behalf of the Board.	➲ Lead and manage the Bank within the authorities delegated by the Board. ➲ Execution of the strategy. ➲ Ensuring the Bank's unique culture is embedded and perpetuated. ➲ Development and growth of all the Bank's businesses.	➲ Address any concerns or questions from shareholders and Non-Executive Directors. ➲ Provide a sounding board to the chairman. ➲ Being available to act as trusted intermediary for Non-Executive Directors if required to assist them to challenge and contribute effectively.

CORPORATE GOVERNANCE

Other Non-Executive Directors	Company Secretary
Sabry Ghouse, Gaurav Trehan, Puneet Bhatia, Michael O'Hanlon, Dilshani Wijayawardana, Trevine Fernandopulle, Sarath Wikramanayake	*Inoka Jayawardhana*
➲ Bring unique perspectives to the boardroom to facilitate constructive dialogue on proposals. ➲ Constructively challenge and contribute to assist in developing the Bank's strategy. ➲ Monitor the performance of management against their agreed strategic goals. ➲ Ensure the effectiveness of internal controls and the integrity of financial reporting. ➲ Contributes to board effectiveness through outside contacts and opinions. ➲ Ensure succession is in place. ➲ Manage risk.	➲ Maintain the flow of information to the Board and its committees and ensure compliance with Board procedures. ➲ Minute all Board and committee meetings to record the deliberations and decisions taken therein. ➲ Ensure that the Board complies with relevant legislation and regulations. ➲ Maintaining the Bank's statutory registers. ➲ Ensure good corporate governance is implemented and advise the Chairman and Board in that regard.

Attendance at Board and Committee Meetings

	Board	Board Audit Committee (BAC)	Integrated Risk Management Committee (IRMC)	Nomination Committee (NC)	Human Resources & Remuneration Committee (HRRC)	Board Credit Committee (BCC)	Related Party Transaction Review Committee (RPTRC)
Number of Meetings	12	08	04	07	09	11	04
Atul Malik	12	-	-	-	-	11	-
Priyantha Fernando	11	08	04	07	08	-	-
Sabry Ghouse	11	-	-	07	08	10	03
Ranvir Dewan*	08	06	03	-	-	-	-
Gaurav Trehan	08	-	-	02	01	-	-
Puneet Bhatia (or his alternate Keshav Thakkar** and Sanjeev Mehra***)	10	-	-	-	-	-	-
Michael J O'Hanlon	10	07	04	06	08	-	-
Sow Lin Chiew (or her alternate Yoke Sun Woon)****	01	-	-	-	-	-	-
Dilshani Wijayawardana	11	07	-	07	09	-	01
Trevine Fernandopulle	12	04	02	02	03	11	03
Indrajit Wickramasinghe	12	-	04	-	-	10	04
Sarath Wikramanayake*****	06	03	02	-	-	-	03
*Ranvir Dewan ceased to be a Director with effect from 21.11.2019							
**Keshav Thakkar ceased to be Alternate with effect from 14.06.2019							
*** Sanjeev Mehra was appointed as Alternate with effect from 29.07.2019							
**** Sow Lin Chiew ceased to be a Director and Yoke Sun Woon ceased to be her Alternate with effect from 05.04.2019							
***** Sarath Wikramanayake was appointed as a Director with effect from 21.06.2019							

Management Committees

The Board has delegated the management of the day-to-day business and affairs of the Bank to the Chief Executive Officer who is the apex executive. The Chief Executive Officer is accountable for the implementation of the strategy and its performance, and is supported by a number of committees established at the management level subject to statutory parameters and matters reserved for the Board which are documented in the Bank's Code of Corporate Governance.

Based on the governance requirements and the nature of operations of the Bank, six (06) such committees are in place. The composition and key tasks of these committees are outlined in written terms of reference which are reviewed periodically to ensure that levels of delegation and authority remain appropriate and consistent with the Bank's strategy.

Management Committees

Committee	Scope
Asset and Liability Management Committee	Optimising the financial resources and managing the connected risks in the areas of market and liquidity.
Executive Risk Management Committee	Reviewing, monitoring and evaluating the policies and procedures in the areas of credit risk, operational risk, and market risk in accordance with the guidelines of the Integrated Risk Management Committee.
Information Technology Steering Committee	Monitoring and reviewing the IT infrastructure to support the optimisation of overall business strategy and mitigating technological risks.
Operational Risk Management Committee	Reviewing and monitoring the operational risk related areas including people, process and systems in accordance with guidelines of the Integrated Risk Management Committee.
Outsourcing Management Committee	Reviewing, monitoring and evaluating outsourced functions of the Bank.
Executive Credit Committee	Reviewing and approving credit proposals within the delegated authority levels of the Committee as directed by Board Credit Committee.

Effective Controls

Internal Controls Framework

The internal controls framework of the Bank covers financial, operational, compliance and information technology controls, as well as risk management policies and systems. The Board, supported by the Board Audit Committee and Integrated Risk Management Committee, oversees the Bank's system of internal controls and reviews the same regularly for relevance and effectiveness.

Internal control is designed to mitigate significant risks faced by the Bank. It is recognised that such a system provides reasonable, but not absolute, assurance against material error, omission, misstatement or loss. This is achieved within the Bank through a combination of risk identification, evaluation and monitoring processes, appropriate decision and oversight forums, and assurance and control functions such as risk management, internal audit and compliance.

Internal Audit

Internal audit function at the Bank is responsible for providing an independent risk based oversight to the Board Audit Committee and the Board on the processes and controls within the Bank. Its mandate and authority are defined in the Internal Audit Charter which has been approved by the Board.

Internal audit reviews, all of which are risk-based and include provision of assurance over financial, operational and IT functions, are performed by a team of appropriately qualified and experienced employees. To maintain its independence, the Internal Audit directly reports to the Board Audit Committee.

Dealings In Securities

The Bank's Code of Corporate Governance and the Code of Conduct on Share Dealing and Gift Declaration by Employees prohibit the directors and employees from dealing directly or indirectly in the Bank's shares whilst in possession of unpublished price sensitive information and until such time as the information becomes publicly available or the information ceases to be relevant information of a material non-public nature.

Avoidance of Conflicts of Interests

The Code of Corporate Governance and the Code of Conduct on Share Dealing and Gift Declaration by Employees require all Directors and employees to avoid conflicts of interest or the appearance of conflict of interest in the activities with, and commitments to other organisations or related parties. Accordingly, the Directors and employees are required to refrain from using his or her position, or confidential and price-sensitive information as a benefit for himself or herself or any related third-party, whether financial or otherwise and to determine whether he or she has a potential or actual conflict of interests arising from personal relationships, external associations and interest in material matters which may have a bearing on his or her independent judgment.

In addition, the above Codes require the Directors and employees to timely inform the Bank of conflicts, or potential conflicts, of interest that they may have impairing his or her independent judgement. Directors who may have a conflicting interest in a matter that is under consideration at meetings of the Board refrain from engaging themselves in the deliberations on such matter and abstain from voting thereon after declaring such interest. Such abstentions are duly recorded by the Company Secretary in the minutes.

The Related Party Transactions Policy of the Bank acts as a guide in defining the categories of parties and persons who are considered related parties. The Bank's systems also facilitate the monitoring and reporting of related party transactions, thus ensuring that it maintains impartiality at all levels of the organisation.

Strong Culture

Risk Culture

Taking measured risks is a crucial factor for the sustainability of the Bank's business. Therefore, the Bank operates through a comprehensive risk management framework and has integrated risk management in its day to day business affairs and strategic planning to ensure that it operates in an ethical and sound manner. This framework also ensures the identification, measurement and control of risks at all levels of the organisation so that the Bank's financial strength is safeguarded.

The risk management function of the Bank also supports the Board in formulating the risk appetite, strategies, policies and limits and provides a review, oversight and support function throughout the Group on risk-related items.

Staff Ethics & Code of Conduct *{GRI 102-16}*

The Board of Directors sets the direction for the management of ethics in the Bank. In this regard, the Bank's Staff Ethics & Code of Conduct and Anti-Corruption Policy play a pivotal role. The Staff Ethics & Code of Conduct promotes a culture of entrenched values, principles, standards and norms that guide the behaviour of the Bank's employees, whilst the Anti-Corruption Policy aims to instil a culture of honesty, integrity and overall ethical behaviour in terms of employees' engagements with internal and external stakeholders. The Anti-Corruption Policy also binds the Non-executive Directors to the highest standards of ethical behaviour. The Bank's service providers, suppliers and trade partners are also subject to this Policy, thus ensuring that they avoid all forms of dishonesty, fraud and corruption.

Compliance

The Bank considers compliance with applicable laws, industry regulations, codes and its own ethical standards and internal policies to be an integral part of doing business. The Compliance Officer facilitates the management of compliance through analysing statutory and regulatory requirements, and monitoring the implementation and execution thereof. Material deviations are reported to the Integrated Risk Management committee.

Whistle-Blowing Mechanisms

The Code of Conduct on Share Dealing and Gift Declaration by Employees and the Anti-Corruption Policy encourage employees to talk to the Compliance Officer when in doubt about the best course of action in a particular situation and to report violations of laws, rules, regulations, policies or the Code.

The Bank's Whistle-blower Policy also serves as a wide spread informal channel for management of violations of laws, rules and regulations, unethical conduct and corporate frauds. This Policy enables employees who observe or notice any improper or illegal activity or unethical practices in the Bank or receives credible information of the same, to report the same to the Board Audit Committee. Information routed through the whistle-blower channel is verified carefully and appropriate actions are taken by the Committee. The confidentiality of those reporting violations is maintained and they are not subjected to any discriminatory action.

Accountability to Stakeholders

Equitable Treatment

The Bank promotes fair and equitable treatment of all shareholders and respects the equal information rights of all shareholders. Thus, all price-sensitive information is publicly released prior to any sessions with individual investors or analysts.

The Board provides shareholders with quarterly and annual financial reports. In presenting these statements, the Board aims to give shareholders a balanced assessment of the Group's financial performance and position. The Board also ensures timely and full disclosure of material corporate developments to shareholders.

Engagement with Stakeholders

The Bank actively holds constructive communication with shareholders and other investors according to a scope and means acceptable in order to contribute to sustainable growth and the enhancement of medium- to long-term corporate value. The Bank has a policy that governs and promotes constructive communication with its stakeholders.

As a means to promoting communication with shareholders and other investors, the Bank holds periodical briefings on financial results, and plan and conduct briefings on business activities and business strategies as appropriate to deepen understanding about the Bank's operations. Opinions received through communication with shareholders and other investors are shared with the Management in an appropriate and timely manner for use in the Bank's business planning.

Conduct of Shareholder Meetings

The Annual General Meeting (AGM) provides the shareholders with the opportunity to share their views and to meet the Board, including the Chairpersons of the Board Committees and certain members of the Senior Management. The Bank's external auditor is available to answer shareholders' queries. At the AGM, Bank's financial performance for the preceding year is presented to the shareholders.

At general meetings, the Chairman plays a pivotal role in fostering constructive dialogue between shareholders, Board Members and management. The Bank encourages and values shareholder participation at its general meetings. Resolutions requiring shareholders' approval are tabled separately for adoption at general meetings unless they are closely related and are more appropriate tabled together.

CORPORATE GOVERNANCE

The Bank's compliance with Direction No. 11 of 2007, issued by the Central Bank of Sri Lanka on the subject 'Corporate Governance for Licensed Commercial Banks in Sri Lanka'.

Annual Corporate Governance Report of Union Bank of Colombo PLC for the year ended 31 December 2019 is given below:-

Section	Rule		Level of Compliance
3 (1)	*The Responsibilities of the Board*		
3(1)(i)	*The Board shall strengthen the safety and soundness of the Bank by ensuring the implementation of the following*		
	(a)	Approve and oversee the Bank's strategic objectives and corporate values and ensure that these are communicated throughout the Bank;	Complied. The Bank has set its strategic objectives and goals through the Board approved strategic plan and through the annual budgets. Strategies and Corporate values have been communicated to all business units and other staff through regular management meetings.
	(b)	Approve the overall business strategy of the Bank, including the overall risk policy and risk management procedures and mechanisms with measurable goals, for at least the next three years.	Complied. The Bank's overall three year strategic plan for 2020 - 2022 was approved by the Board subsequent to detailed deliberations by the Board and the Corporate Management. Strategic plan includes measurable goals for the period of 2020-2022. Board has also discussed the risks arising out of new strategies and the ways and means to mitigate them.
	(c)	Identify the principal risks and ensure implementation of appropriate systems to manage the risks prudently;	Complied. Overall risk framework of the Bank is the Board's responsibility. Further Identifying principal risks and implementation of appropriate risk management techniques are performed via the Board appointed Integrated Risk Management Committee (IRMC). Risk Management Department has sent in policies and procedures on Integrated Risk Management Framework and have enforced mechanisms in order to assist the IRMC to identify principal risks prudently. Risk Reports in Pages 77-92 provide detailed insight of the Bank's Integrated Risk Management Framework.
	(d)	Approve implementation of a policy of communication with all stakeholders, including depositors, creditors, shareholders and borrowers.	Complied. Board approved Communication Policy is in place.
	(e)	Review the adequacy and the integrity of the Bank's internal control systems and management information systems.	Complied. Adequacy and the integrity of the Bank's internal control systems and Management Information Systems are reviewed by the Board Audit Committee (BAC) on a regular basis and annually by the Board of Directors.
	(f)	Board has identified and designated Key Management Personnel, as Officers Performing Executive Functions of LCBs as defined in Banking Act Determination No. 3 of 2010 as per Bank Supervision Dept. and Guideline ref. 02/17/550/0002/003 on 02 December 2015.	Complied. The Board of Directors has identified and designated the CEO, VPs, AVPs, Head of Compliance and Officers serving as Consultants/Advisors to the Board or Bank, as Key Management Personnel (KMPs) of the Bank.

Section	Rule		Level of Compliance
	(g)	Define the areas of authority and key responsibilities for the Board of Directors themselves and for the Key Management Personnel.	Complied. Segregation of duties and authority between the Board of Directors and KMPs is in place. Articles of the Bank stipulate the authority of Directors and matters specifically reserved for the Directors. The Bank's Internal Code of Corporate Governance, also sets areas of responsibility of the Directors. Further responsibilities and authority are delegated to the Directors and KMPs via Board approved policies, Terms of References and operational delegation arrangements. Key responsibilities of the KMPs are included in their respective job descriptions.
	(h)	Ensure that there is appropriate oversight of the affairs of the Bank by Key Management Personnel, that is consistent with Board policy;	Complied. Board of Directors has oversight on KMPs primarily at Board Meetings and Board Sub-Committee Meetings. KMPs make regular presentations to the Board on matters under their purview and are also called in by the Board and to Board Sub-Committees to explain matters relating to their concerns.
	(i)	Periodically assess the effectiveness of the Board Directors' own governance practices, including: i. The selection, nomination and election of Directors and Key Management Personnel; ii. The management of conflicts of interests; and iii. The determination of weaknesses and implementation of changes where necessary;	Complied. Directors' assessments are conducted annually and complied for 2019. The Board has a procedure for selection and appointment of Directors, CEO & KMPs, which is delegated to the Nominations Committee. Code of Corporate Governance approved by the Board has a provision (Section 8) in this regard. The Bank has a Self-evaluation process in place for the Board of Directors which includes the evaluation of Board Directors' own governance practices. Summary of self-evaluations obtained have been submitted to the Board for their review and action if deemed necessary.
	(j)	Ensure that the Bank has an appropriate succession plan for Key Management Personnel;	Complied. The HRRC and the Board has approved succession plan for KMPs, which has been reviewed for 2019.
	(k)	Meet regularly, on a needs basis, with the Key Management Personnel to review policies, establish communication lines and monitor progress towards corporate objectives;	Complied. KMPs make regular presentations to the Board on matters under their purview and are also called in by the Board and to Board Sub-Committees to explain matters relating to their concerns.
	(l)	Understand the regulatory environment and ensure that the Bank maintains an effective relationship with regulators;	Complied. Compliance Officer submits quarterly reports to the Board that assists the Board to identify the regulatory environment. Board ensures that an effective relationship with the regulators is maintained by way of active participation at meetings with the regulators by the CEO.

CORPORATE GOVERNANCE

Section	Rule	Level of Compliance
	(m) Exercise due diligence in the hiring and oversight of external auditors.	Complied. Terms of Reference of the Board Audit Committee (BAC) includes provisions to recommend appointment of External Auditors; Recommended the re-appointment of Messrs Ernst & Young, Chartered Accountants as the Bank's External Auditors for audit services for year 2019. Pursuant to recommendations, Messrs Ernst & Young was re-appointed as the Auditors for the financial year 2019 by the shareholders at the Annual General Meeting held on 28 March 2019.
3 (1)(ii)	The Board shall appoint the Chairman and the Chief Executive Officer and define and approve the functions and responsibilities of the Chairman and the Chief Executive Officer in line with Direction 3(5) of these Directions.	Complied. Positions of the Chairman and the Director/Chief Executive Officer (CEO) are separated. Further, functions and responsibilities of the Chairman and the CEO are properly defined and approved in line with the Direction 3(5) of these Direction through the Board approved Terms of Reference - Functions and Responsibilities of Chairman, CEO and Senior Director.
3 (1)(iii)	The Board shall meet regularly and Board meetings shall be held at least twelve times a year at approximately monthly intervals. Such regular Board meetings shall normally involve active participation in person of a majority of Directors entitled to be present. Obtaining the Board's consent through the circulation of written resolutions/ papers shall be avoided as far as possible.	Complied. The Board ensures that it meets regularly and involves active participation by the Directors. Board has met twelve times during the year at monthly intervals and as and when it was required. There were five Circular resolutions passed during the year.
3 (1)(iv)	The Board shall ensure that arrangements are in place to enable all Directors to include matters and proposals in the agenda for regular Board meetings where such matters and proposals relate to the promotion of business and the management of risks of the Bank.	Complied. Code of Corporate Governance sets a procedure to include such matters and proposals. Meetings are notified in advance allowing Directors to raise matters concerning promotion of business and management of risks.
3 (1)(v)	The Board procedures shall ensure that notice of at least 7 days is given of a regular Board meeting to provide all Directors an opportunity to attend. For all other Board meetings, reasonable notice may be given.	Complied. Regular monthly meetings are informed to the Directors prior to seven days giving them the opportunity to attend. Formal notices, agenda and Board Papers are circulated to Directors seven days in advance through the Board Paper Management system.
3 (1)(vi)	The Board procedures shall ensure that a Director, who has not attended at least two-thirds of the meetings in the period of 12 months immediately preceding or has not attended the immediately preceding three consecutive meetings held, shall cease to be a Director. Participation at the Directors' meeting through an alternate Director shall, however, be acceptable as attendance.	Complied. Director's attendance register is maintained by the Company Secretary to ensure compliance with the direction. As per Board Attendance schedule all Directors have attended the required number of meetings for 2019.
3 (1)(vii)	The Board shall appoint a Company Secretary who satisfies the provisions of Section 43 of the Banking Act No. 30 of 1988 whose primary responsibilities shall be to handle the secretariat services to the board and shareholder meetings and to carry out other functions specified in the statutes and other regulations.	Complied. The Board has appointed a Company Secretary whose primary responsibilities are handling secretariat services to the Board and Shareholder meeting and to carry out the other functions specified in the statues and other regulations and is also stipulated in the Code of Corporate Governance of the Bank.

CORPORATE GOVERNANCE

Section	Rule	Level of Compliance
3 (1)(viii)	All Directors shall have access to advice and services of the Company Secretary with a view to ensuring that Board procedures and all applicable rules and regulations are followed.	Complied. All the Directors have equal opportunity to access the Company Secretary. Board approved procedure is in place to enable all Directors to have access to advice and services of the Company Secretary.
3 (1)(ix)	The Company Secretary shall maintain the minutes of Board meetings and such minutes shall be open for inspection at any reasonable time, on reasonable notice by any Director.	Complied. Minutes of Board meetings are maintained by the Company Secretary and there is a Board approved procedure under Corporate Governance Code in place to enable all Directors to have access to such minutes. Any Director can inspect the minutes of Board meeting with reasonable notice that is being maintained by the Company Secretary.
3 (1)(x)	Minutes of Board meetings shall be recorded in sufficient detail so that it is possible to gather from the minutes, as to whether the Board acted with due care and prudence in performing its duties. The minutes shall also serve as a reference for regulatory and supervisory authorities to assess the depth of deliberations at the Board meetings. Therefore, the minutes of a Board meeting shall clearly contain or refer to the following: (a) a summary of data and information used by the Board in its deliberations; (b) the matters considered by the Board; (c) the fact-finding discussions and the issues of contention or dissent which may illustrate whether the Board was carrying out its duties with due care and prudence; (d) the testimonies and confirmations of relevant executives which indicate compliance with the Board's strategies and policies and adherence to relevant laws and regulations; (e) the Board's knowledge and understanding of the risks to which the Bank is exposed and an overview of the risk management measures adopted; and (f) the decisions and Board resolutions.	Complied. The Minutes of the meetings include: (a) A summary of data and information used by the Board in its deliberations; (b) The matters considered by the Board; (c) The fact-finding discussions and the issues of contention or dissent (d) The testimonies and confirmations of relevant Executives with regard to the Board's strategies and policies and adherence to relevant laws and regulations; (e) Matters regarding the risks to which the Bank is exposed to and an overview of the risk management measures including reports of the Board Integrated Risk Management Committee; and (f) The decisions and Board resolutions including reports of all Board Committees.
3 (1)(xi)	There shall be a procedure agreed by the Board to enable Directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the Bank's expense. The Board shall resolve to provide separate independent professional advice to Directors to assist the relevant Director or Directors to discharge his/her/their duties to the Bank.	Complied. Code of Corporate Governance includes provisions for Board of Directors to seek professional advice required to assist them on discharging their duties effectively.
3 (1)(xii)	Directors shall avoid conflicts of interests, or the appearance of conflicts of interest, in their activities with, and commitments to, other organisations or related parties. If a Director has a conflict of interest in a matter to be considered by the Board, which the Board has determined to be material, the matter should be dealt with at a Board meeting, where independent Non-Executive Directors who have no material interest in the transaction are present. Further, a Director shall abstain from voting on any Board resolution in relation to which he/she or any of his/her close relation or a concern in which a Director has substantial interest, is interested and he/she shall not be counted in the quorum for the relevant agenda item at the Board meeting.	Complied. The Board approved procedure is in place to avoid conflicts of interests or the appearance of conflicts of interest is included in the Corporate Governance Code and is implemented. This procedure further evidence that the Director is to abstain from voting on any Board resolution in relation to which he/ she or any of his/ her close relation or a concern in which a Director has substantial interest and he/ she not has been counted in the quorum. During the year Board of Directors has complied to the procedure.

Section	Rule	Level of Compliance
3 (1)(xiii)	The Board shall have a formal schedule of matters specifically reserved to it for decision to ensure that the direction and control of the Bank is firmly under its authority.	Complied. Article 98 of the Bank's Articles of Association defines the areas of authority and responsibilities for the Board and notes the matters that cannot be delegated and that are reserved exclusively to the Board. Various Polices, Terms of References, and operational delegation arrangements sets authority and responsibilities of Directors.
3 (1)(xiv)	The Board shall, if it considers that the Bank is, or is likely to be, unable to meet its obligations or is about to become insolvent or is about to suspend payments due to depositors and other creditors, forthwith inform the Director of Bank Supervision of the situation of the Bank prior to taking any decision or action.	Complied. The Board is aware of the requirements to inform the Director Banking Supervision of the situation of the Bank prior to taking any decisions or action. The Bank has not come across any situation as such during the year 2019.
3(1)(xv)	The Board shall ensure that the Bank is capitalised at levels as required by the Monetary Board in terms of the capital adequacy ratio and other prudential grounds.	Complied. The Bank has set Internal Capital Adequacy Arrangements with the approval of the Board and the Central Bank of Sri Lanka (CBSL). These are being implemented to ensure the Bank is capitalised at all times adequately. Reports of such are submitted to the Integrated Risk Management Committee (IRMC) and to the Board.
3 (1)(xvi)	The Board shall publish in the Bank's Annual Report, an annual corporate governance report setting out the compliance with Direction 3 of these Directions.	Complied. The Bank has published the Corporate Governance Report in the Annual Report 2019.
3 (1)(xvii)	The Board shall adopt a scheme of self-assessment to be undertaken by each Director annually, and maintain records of such assessment.	Complied. The Bank has a scheme of self-evaluation of Directors in place and the Company Secretary has obtained self assessment of Directors for the year 2019.
3 (2)	***Board's Composition***	
3 (2)(i)	The number of Directors on the Board shall not be less than 7 and not more than 13.	Complied. The Board comprises 10 Directors.
3 (2)(ii)	The total period of service of a Director other than a Director who holds the position of Chief Executive Officer shall not exceed nine years, and such periods in office shall be inclusive of the total period or service served by such Director up to 01 January 2008.	Complied. Service period has not exceeded nine years for any of the Directors.
3 (2)(iii)	An employee of a Bank may be appointed, elected or nominated as a Director of the Bank (hereinafter referred to as an "Executive Director") provided that the number of Executive Directors shall not exceed one-third of the number of Directors of the Board. In such an event, one of the Executive Directors shall be the Chief Executive Officer of the Bank.	Complied. There is only one Executive Director on the Board; the number does not exceed 1/3 of the Board.

Section	Rule	Level of Compliance
3 (2)(iv)	The Board shall have at least three Independent Non-Executive Directors or one third of the total number of Directors, whichever is higher. This sub-direction shall be applicable from January 1,2010 onwards. A Non-Executive Director shall not be considered independent if he/she a) has direct and indirect shareholdings of more than 1% of the Bank b) currently has or had during the period of two years immediately preceding his/her appointment as Director, any business transactions with the Bank as described in Direction 3 (7) hereof, exceeding 10% of the regulatory capital of the Bank; c) has been employed by the Bank during the two-year period immediately preceding the appointment as Director d) has a close relation who is a Director of Chief Executive Officer or a member of Key Management Personnel or a material shareholder of the Bank or another Bank. For this purpose, a 'close relation' shall mean the spouse or a financially dependent child; e) represents a specific stakeholder of the Bank; f) is an employee or a Director or a material shareholder in a company or business organisation: i. which currently has a transaction with the Bank as defined in Direction 3 (7) of these Directions, exceeding 10% of the regulatory capital of the Bank, or ii. In which any of other Directors of the Bank are employed or are Directors or are material shareholders; or iii. In which any of other Directors of the Bank has a transaction as defined in Direction 3(7) of these Directions, exceeding 10% of regulatory capital in the Bank.	Complied. The Board comprises 05 Independent Non-Executive Directors, which is more than one-third of the total number of Directors. Please refer pages 73 and 129.
3 (2)(v)	In the event an alternate Director is appointed to represent an Independent Director, the person so appointed shall also meet the criteria that apply to the Independent Director.	Complied. Independent Directors had not appointed Alternates during the year 2019.
3 (2)(vi)	Non Executive Directors shall be persons with credible track records and/or have necessary skills and experience to bring an independent judgment to bear on issues of strategy, performance and resources.	Complied. Nominations Committee has a procedure in place to appoint Non Executive Directors, who possess skills and experience and new appointments during 2019 done in accordance with the Policy.
3 (2)(vii)	A meeting of the Board shall not be duly constituted, although the number of Directors required to constitute the quorum at such meeting is present, unless more than one half of the number of Directors present at such meeting are Non-Executive Directors.	Complied. During 2019 all the quorum of meetings had been in line with the Direction.
3 (2)(viii)	The Independent Non-Executive Directors shall be expressly identified as such in all corporate communications that disclose the names of Directors of the Bank. The Bank shall disclose the composition of the Board, by category of Directors, including the names of the Chairman, Executive Directors, Non Executive Directors and Independent Non-Executive Directors in the Annual Corporate Governance Report.	Complied. Please refer pages 142-146.
3 (2)(ix)	There shall be a formal, considered and transparent procedure for the appointment of new Directors to the Board. There shall also be procedures in place for the orderly succession of appointments to the Board.	Complied. Nomination Committee has a procedure in place to appoint Directors and all new appointments have been done in accordance with the procedure.

Section	Rule	Level of Compliance
3 (2)(x)	All Directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after their appointment.	Complied. All Directors appointed to fill casual vacancies during the year 2019 are subject to election at the first Annual General Meeting after their appointment.
3 (2)(xi)	If a Director resigns or is removed from office, the Board shall: (a) announce the Director's resignation or removal and the reasons for such removal or resignation; and (b) issue a statement confirming whether or not there are any matters that need to be brought to the attention of shareholders.	Complied. Directors' resignation and the reason for such resignation are duly informed to CBSL and Colombo Stock Exchange (CSE). All resignations during the year are disclosed in the Annual Report. Please refer page 129.
3 (2)(xii)	A Director or an employee of a Bank shall not be appointed, elected or nominated as a Director of another Bank except where such Bank is a subsidiary company or an associate company of the first mentioned Bank.	Complied. The Bank has a process to identify whether a Director of a Bank is appointed, elected or nominated as a Director of another Bank based on the affidavit obtained and submitted to CBSL annually. Letter of Appointment of selected employees include a clause with regard to this restriction. None of the present Directors or an employee acts as a Director of any Banks. Nomination Committee shall ascertain at the time of selection of Directors for such appointment of their fit and propriety in accordance with the Banking Act and other regulations by the CBSL.
3 (3)	***Criteria to assess the fitness and propriety of Directors***	
3 (3)(i)	The age of a person who serves as Director shall not exceed 70 years.	Complied. None of the Directors exceeds 70 years.
3 (3)(ii)	A person shall not hold office as a director of more than 20 companies/entities/institutions inclusive of subsidiaries or associate companies of the Bank.	Complied. None of the Directors holds directorships of more than 20 Companies/entities/institutions inclusive of subsidiaries or associate companies of the Bank.
3 (4)	***Management functions delegated by the Board***	
3 (4)(i)	The Directors shall carefully study and clearly understand the delegation arrangements in place.	Complied. The Board is empowered by the Articles 98 of the Bank's Articles of Association to delegate its powers to CEO upon such terms and conditions and with such restrictions as the Board may think fit and in terms of the Articles. Directors are aware of such delegation arrangements.
3 (4)(ii)	The Board shall not delegate any matters to a Board Committee, Chief Executive Officer, Executive Directors or Key Management Personnel, to an extent that such delegation would significantly hinder or reduce the ability of the Board as a whole to discharge its functions.	Complied. The Board has delegated powers to the Sub-Committees, CEO and the KMPs without hindering their ability to discharge functions. Please refer 3.1.(i) g
3 (4)(iii)	The Board shall review the delegation processes in place on a periodic basis to ensure that they remain relevant to the needs of the Bank.	Complied. Section 98 of the Bank's Articles of Association defines the delegation process and review of such delegated powers on a periodic basis. Such delegated powers are reviewed periodically to ensure that they are remaining relevant to the needs of the Bank at Board meetings, Sub-Committee meetings when reviewing polices and Terms of References.

Section	Rule	Level of Compliance
3 (5)	*The Chairman and Chief Executive Officer*	
3 (5)(i)	The roles of Chairman and Chief Executive Officer shall be separate and shall not be performed by the same individual.	Complied. Roles of Chairman and CEO are held by two individuals appointed by the Board.
3 (5)(ii)	The Chairman shall be a Non-Executive Director and preferably an independent Director as well. In this case where the Chairman is not an Independent Director, the Board shall designate an Independent Director as the Senior Director with suitably documented terms of reference to ensure a greater independent element. The designation of the Senior Director shall be disclosed in the Bank's Annual Report.	Complied. An independent Non-Executive Director has been appointed as Senior Director of the Bank. Designation of the Senior Director is disclosed in pages 129, 143 and 144.
3 (5)(iii)	The Board shall disclose in its Corporate Governance Report, the identity of the Chairman and the Chief Executive Officer and the nature of any relationship [including financial, business, family or other material/ relevant relationship(s)], if any, between the Chairman and the Chief Executive Officer and the relationship among members of the Board.	Complied. Identity of the Chairman and the CEO are disclosed in the Annual Report. Refer pages 142 and 144. Directors' interests in contracts with the Bank have been separately disclosed in the Annual Report of 2019. Please refer page 132. The Bank has a process in this regard. Company Secretary obtains an annual declaration from all members of the Board to this effect. Accordingly, there are no financial, business, family or other material/relevant relationships between, Chairman, CEO and among Directors.
3 (5)(iv)	The Chairman shall: provide leadership to the Board; ensure that the Board works effectively and discharges its responsibilities; and ensure that all key and appropriate issues are discussed by the Board in a timely manner.	Complied. Functions and responsibilities of the Chairman approved by the Board includes the requirements stipulated and Chairman provides leadership to the Bank and to the Board in line with the Code of Corporate Governance of the Bank.
3(5)(v)	The Chairman shall be primarily responsible for drawing up and approving the agenda for each Board meeting, taking into account where appropriate, any matters proposed by the other Directors for inclusion in the agenda. The Chairman may delegate the drawing up of the agenda to the Company Secretary.	Complied. Chairman has delegated drawing of the agenda to the Company Secretary and is drawn in consultation with the Chairman.
3 (5)(vi)	The Chairman shall ensure that all Directors are properly briefed on issues arising at Board meetings and also ensure that Directors receive adequate information in a timely manner.	Complied. Board papers are circulated seven days prior to the meeting in order for Directors to request any other information if necessary.
3 (5)(vii)	The Chairman shall encourage all Directors to make a full and active contribution to the Board's affairs and take the lead to ensure that the Board acts in the best interests of the Bank.	Complied. Code of Corporate Governance sets Directors' responsibilities and principles in respect of leading and acting in the best interest of the Bank.
3 (5)(viii)	The Chairman shall facilitate the effective contribution of Non Executive Directors in particular and ensure constructive relations between Executive and Non-Executive Directors.	Complied. Code of Corporate Governance sets Directors' responsibilities and principles in respect of leading and acting in the best interest of the Bank, to ensure full and active contribution by Non-Executive Directors.
3 (5)(ix)	The Chairman shall not engage in activities involving direct supervision of Key Management Personnel or any other executive duties whatsoever.	Complied. Chairman is a Non-Executive Director. The Chairman does not directly get involved in the supervision of KMPs or any other executive duties.

CORPORATE GOVERNANCE

Section	Rule	Level of Compliance
3 (5)(x)	The Chairman shall ensure that appropriate steps are taken to maintain effective communication with shareholders and that the views of shareholders are communicated to the Board.	Complied. Communication with shareholders are done in accordance with the Board approved Communication Policy.
3 (5)(xi)	The Chief Executive Officer shall function as the apex executive-in-charge of the day-to-day-management of the Bank's operations and business.	Complied. The Chief Executive Officer is in charge of the day-to-day management of the Bank's operations and business and is supported by the Corporate Management.
3 (6)	***Board appointed committees***	
3 (6)(i)	Each Bank shall have at least four Board Committees as set out in Directions 3(6) (ii), 3(6) (iii), 3(6) (iv) and 3(6) (v) of these Directions. Each committee shall report directly to the Board. All committees shall appoint a secretary to arrange the meetings and maintain minutes, record, etc., under the supervision of the Chairman of the Committee. The Board shall present a report of the performance on each Committee, on their duties and roles at the Annual General Meeting.	Complied. The following mandatory Board Sub-Committees have been appointed by the Board requiring each such committee to report to the Board: 1. Human Resources and Remuneration Committee 2. Integrated Risk Management Committee 3. Nomination Committee 4. Audit Committee All committees have a secretary appointed. Report of each Board Committee is presented in the Annual Report. Refer Pages 118-125.
3 (6)(ii)	*The following rules shall apply in relation to the Audit Committee:*	
	(a) The Chairman of the committee shall be an Independent Non-Executive Director who possesses qualifications and experience in accountancy and/or audit.	Complied. Mr. Priyantha Fernando was acting as the Interim Chairman until the appointment of Mr. Sarath Wikramanayake. The Chairman, Audit Committee, Mr. Sarath Wikramanayake is an independent, Non-Executive Director who possesses required qualifications and related experiences.
	(b) All members of the committee shall be Non-Executive Directors.	Complied. All members of the Committee are Non-Executive Directors
	(c) The committee shall make recommendations on matters in connection with: i. The appointment of the External Auditor for audit services to be provided in compliance with the relevant statutes; ii. The implementation of the Central Bank guidelines issued to auditors from time to time; iii. The application of the relevant accounting standards; and iv. The service period, audit fee and any resignation or dismissal of the auditor; provided that the engagement of the Audit partner shall not exceed five years, and that the particular Audit partner is not re-engaged for the audit before the expiry of three years from the date of the completion of the previous term.	Complied. In line with its Terms of Reference, the Board Audit Committee (BAC) has reviewed and/ or made relevant recommendations including the following: i. The re-appointment of Messrs Ernst & Young, Chartered Accountants as the Bank's External Auditors for audit services in compliance with the relevant regulations and guidelines; ii. The implementation of guidelines applicable to the External Auditors issued from time to time by the Central Bank of Sri Lanka; iii. The application of relevant Accounting Standards, including the requirements of the Sri Lanka Financial Reporting Standards (SLFRS/LKAS) complying with the IAS and the IFRS complying to it in all material respects; iv. Reviewed and recommended the service period and audit fee. As required, the change of Partner was effected in 2018.

Section	Rule	Level of Compliance
	(d) Review and monitor External Auditor's independence and objectivity and the effectiveness of the audit processes	Complied. The BAC discussed with the External Auditors, the nature and the scope of audit and the effectiveness of the audit processes in respect of the financial year 2019 at a meeting held with the Auditors in the last quarter of 2019. Representation submitted by the External Auditors stating their independence and the objectivity and effectiveness of the audit processes in accordance with Sri Lanka Auditing Standards, and best practices.
	(e) The committee shall develop and implement a policy on the engagement of an External Auditor to provide non-audit services that are permitted under the relevant statutes, regulations, requirements and guidelines, in doing so; the Committee shall ensure that the provision by an External Auditor of non-audit service does not impair the External Auditor's Independence or objectivity. When assessing the external auditor's independence or objectivity in relation to the provision non-audit services, the Committee shall consider: i. whether the skills and experience of the audit firm make it a suitable provider of the non-audit services; ii. whether there are safeguards in place to ensure that there is no threat to the objectivity and/ or independence in the conduct of the audit resulting from the provision of such services by the External Auditor; and iii. whether the nature of the non-audit services, the related fee levels and the fee levels individually and in aggregate relative to the audit firm, pose any threat to the objectivity and/ or independence of the External Auditor	Complied. The Committee has implemented a process on the engagement of an External Auditor to provide non-audit services after considering relevant statutes, regulations, requirements and guidelines. Further, relevant information is obtained from External Auditors to ensure that their independence or objectivity is not impaired, as a result of providing any non-audit services.
	(f) The committee shall, before the audit commences, discuss and finalise with the external auditors the nature and scope of the audit , including i. An assessment of the Bank's compliance with the relevant Direction in relation to Corporate Governance and the management's internal controls over financial reporting; ii. The preparation of financial statements for external purposes in accordance with relevant accounting principles and reporting obligations; and iii. The co-ordination between firms where more than one audit firm is involved.	Complied. The Auditors make a presentation at the Board Audit Committee Meeting with details of the proposed Audit Plan and the Scope. The committee discussed and agreed on the nature and the scope of the audit to be performed in accordance with Sri Lanka Auditing Standards. The letters of engagement of the External Auditors in respect of the audits of the year 2019 were reviewed and recommended by the BAC prior to approval of the Board.
	(g) Check that the committee has a process to review the financial information of the Bank, in order to monitor the integrity of the financial statements of the Bank, its annual report, accounts and quarterly reports prepared for disclosure, and a process in place to receive from the CFO the following; i. major judgmental areas; ii. any changes in accounting policies and practices; iii. the going concern assumption; iv. the compliance with relevant accounting standards and other legal requirements, and; v. in respect of the annual financial statements the significant adjustments arising from the audit.	Complied. Committee has a process to review financial information of the Bank when the quarterly and annual audited financial statement and the reports prepared for disclosure are presented to the committee by the Chief Financial Officer. Once the members of the Board Audit Committee have obtained required clarifications in respect of all aspects included in the Financial Statements, such Financial Statements are recommended for approval by the Board of Directors.

Section	Rule	Level of Compliance
	(h) The committee shall discuss issues, problems and reservations arising from the interim and final audits, and any matters the auditor may wish to discuss including those matters that may need to be discussed in the absence of Key Management Personnel, if necessary.	Complied. The BAC met with the External Auditors during the year which included two meetings without the presence of the management and ensured that there was no limitation of scope or incidents that could have negatively impacted on the effectiveness of the External Audit.
	(i) The committee shall review the External Auditor's management letter and the management's response thereto.	Complied. BAC reviewed management letter with the management's responses thereto. A separate Board Audit Committee meeting was held with the External Auditors and relevant Heads of Departments to discuss significant findings and remedial action to be taken in respect of such findings.
	(j) The committee shall take the following steps with regard to the Internal Audit function of the Bank: i. Review the adequacy of the scope, functions and resources of the Internal Audit Department, and satisfy itself that the department has the necessary authority to carry out its work; ii. Review the Internal Audit programme and results of the Internal Audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the Internal Audit department; iii. Review any appraisal or assessment of the performance of the head and senior staff members of the Internal Audit department; iv. Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the Internal Audit function; v. Ensure that the committee is appraised of resignations of senior staff members of the Internal Audit Department; and vi. Ensure that the Internal Audit function is independent of the activities it audits and that it is performed with impartiality, proficiency and due professional care.	Complied. i. The Annual Audit Plan prepared by the Internal Audit Department is submitted to the Board Audit Committee for approval. The plan covers the scope and resources requirement relating to the Audit Plan; ii. The Head of Audit updates the BAC on status of the Audit Plan and the actions taken by the management on Internal Audit recommendations; iii. The appraisal of the Head of Audit is undertaken by the Audit Committee Chairman and performance appraisal of the Senior Staff are carried out by the Head of Audit and reviewed by the BAC; iv. No changes to the senior staff members were effected during 2019; v. The BAC's terms of Reference covers the stipulated requirement; and vi. The BAC reviewed the adequacy of the Internal Audit function and ensured that it conforms to the principles of the Internal Audit Charter. The BAC reviewed and recommended revisions to the Internal Audit Charter during the year. The Internal Audit Charter defines the scope, functions, authority, responsibility, adjudication, external relationship management and ethics that assist and direct/ guide the Internal Audit Department to discharge its functions independently. Also the BAC has ensured that the Internal Audit function was independent of the activities it audits and that it performs impartiality and with required proficiency and exercises due professional care in performing the audit function.

CORPORATE GOVERNANCE

Section	Rule	Level of Compliance
	(k) The committee shall consider the major findings of internal investigations and management's responses thereto;	Complied. The committee reviewed Investigation Reports issued and has considered the major findings of internal investigations. The BAC reviewed the management responses and made appropriate recommendations, where necessary.
	(l) The Chief Finance Officer, the Chief Internal Auditor and a representative of the External Auditor may normally attend meetings, other Board Members and the Chief Executive Officer may also attend meetings upon the invitation of the Committee. However, at least twice a year, the Committee shall meet with the External Auditors without the Executive Directors being present.	Complied. The Head of Audit who is secretary to the Audit Committee attends meetings regularly and the Chief Financial Officer, Director/CEO and other Corporate Heads have attended meetings by invitation as appropriate. Committee has met the external auditors twice without the executive Directors being present.
	(m) The committee shall have: i. explicit authority to investigate into any matter within its Terms of Reference; ii. the resources which it needs to do so; iii. full access to information; and iv. authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary.	Complied. The BAC's Terms of Reference provides its authority to investigate into any matter within its Terms of Reference; obtain the resources which it needs to carry out the investigation; full access to information and authority to obtain external professional advice and to invite outsiders with relevant experience to be involved, if necessary.
	(n) The committee shall meet regularly, with due notice of issues to be discussed and shall record its conclusions in discharging its duties and responsibilities.	Complied. The BAC met 08 times during the year with due notice. The agenda and the papers for discussions and consideration/ approval were circulated prior to the meeting. The minutes of the meetings were recorded by the Head of Internal Audit who functioned as the Secretary to the Committee. The minutes were approved by the BAC at the next regular meeting.
	(o) The Board shall disclose in an informative way, i. Details of the activities of the Audit Committee; ii. The number of Audit Committee meetings held in the year; and iii. Details of attendance of each individual Director at such meetings.	Complied. Please Refer the BAC Report on pages 118-120 which covers the details of number of meetings held and the attendance of the Audit Committee Members.
	(p) The secretary of the committee (who may be the company secretary or the head of the Internal Audit function) shall record and keep detailed minutes of the committee meetings.	Complied. The Head of Audit, who is the Secretary of the Committee, records and maintains all minutes of the meetings.
	(q) The committee shall review arrangements by which employees of the Bank may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters. Accordingly, the committee shall ensure that proper arrangements are in place for the fair and independent investigation of such matters and for appropriate follow-up action and to act as the key representative body for overseeing the Bank's relations with the External Auditor.	Complied. The Bank has in place a Whistle-Blower Policy which was reviewed/revised during the year. The BAC has ensured that all employees are duly informed and duly advised of the effective use of the Whistle-Blower process. Independent investigations were carried out by the Internal Audit Department on whistle blower complaints and were reported to the BAC.
3 (6)(iii)	*The following rules shall apply in relation to the Human Resources and Remuneration Committee:*	
	(a) The committee shall determine the remuneration policy (salaries, allowances and other financial payments) relating to Directors, Chief Executive Officer (CEO) and Key Management Personnel of the Bank.	Complied. A Board approved Remuneration Policy is in place to determine remuneration in relation to Directors, CEO and KMPs of the Bank.

Section	Rule	Level of Compliance
	(b) The committee shall set goals and targets for the Directors, CEO and the Key Management Personnel.	Complied. Goals and targets for Directors are in place approved by the Committee. Goals and Targets for KMPs had been set for the year 2019.
	(c) The committee shall evaluate the performance of the CEO and Key Management Personnel against the set targets and goals periodically and determine the basis for revising remuneration, benefits and other payments of performance-based incentives.	Complied. A balanced score card was used to set the targets for the Key Management Personnel in 2019. Their performance will be assessed in the 1st Quarter 2020 against the set targets. Revision of remuneration in 2020 will be linked to the 2019 performance of the respective KMP.
	(d) The CEO shall be present at all meetings of the committee, except when matters relating to the CEO are being discussed.	Complied. Board approved HRRC Charter defines the criteria that the CEO shall attend all meetings of the committee by invitation except when matters relating to him are being discussed.
3 (6)(iv)	*The following rules shall apply in relation to the Nomination Committee:*	
	(a) The committee shall implement a procedure to select/ appoint new Directors, CEO and Key Management Personnel.	Complied. Board approved policy is in place to select/appoint new Directors, CEO and KMPs.
	(b) The committee shall consider and recommend (or not recommend) the re-election of current Directors, taking into account the performance and contribution made by the Director concerned towards the overall discharge of the Board's responsibilities.	Complied. Board approved policy and process in place. The Committee has considered and recommended the appointment of current Directors.
	(c) The committee shall set the criteria for eligibility to be considered for appointment or promotion to the post of CEO and the key management positions.	Complied. Policy is in place for 'Selection Criteria for Directors, CEO and KMPs'which includes the required criteria and appointments and promotions. All KMPs have been appointed with the approval of the committee.
	(d) The committee shall ensure that Directors, CEO and Key Management Personnel are fit and proper persons to hold office as specified in the criteria given in Direction 3(3) and as set out in the Statutes.	Complied. Policy is in place for 'Selection Criteria for Directors, CEO and Key Management Personnel' which includes the required criteria for appointments and promotions. All Key Management Personnel have been appointed with the approval of the committee. A fit and proper certificate from CBSL has been obtained for all appointments of KMPs.
	(e) The committee shall consider and recommend from time to time, the requirements of additional/new expertise and the succession arrangements for retiring Directors and Key Management Personnel.	Complied. The committee has considered the requirements for succession arrangements for new Directors and KMPs during the year 2019.

CORPORATE GOVERNANCE

Section	Rule	Level of Compliance
	(f) The Committee shall be chaired by an Independent Director. The CEO may be present at meetings by invitation.	Complied. Chairman of Nomination Committee (NC) is an independent Director. CEO has attended NC meetings by invitation.
3 (6)(v)	*The following rules shall apply in relation to the Integrated Risk Management Committee:*	
	(a) The committee shall consist of at least three Non-Executive Directors, Chief Executive Officer and Key Management Personnel supervising broad risk categories, i.e., credit, market, liquidity, operational and strategic risks. The committee shall work with Key Management Personnel very closely and make decision on behalf of the Board within the framework of the authority and responsibility assigned to the Committee.	Complied. A Board approved Terms of Reference for the Integrated Risk Management Committee (IRMC) is in place. Committee consisted of four Non-Executive Directors, CEO and Chief Risk Officer. Other KMPs supervising broad risk categories, i. e. Chief Financial Officer, VP – Wholesale Banking, VP - Retail Banking, Chief Information Officer, VP – Operations, Head of Audit and Compliance Officer are called by invitation to discuss respective risk areas.
	(b) The committee shall assess all risks, i.e., credit, market, liquidity, operational and strategic risks to the Bank on a monthly basis. In the case of subsidiary companies and associate companies, risk management shall be done, both on a Bank basis and Group basis.	Complied. On monthly basis, IRMC has implemented a procedure to assess the risks such as credit, market, and operational risks of the Bank through relevant risk indicators and management information and such risks are reported to IRMC through Quarterly Risk Report and Risk Matrix table. Bank has also formed a Group Risk Governance structure covering its connected entities.
	(c) The committee shall review the adequacy and effectiveness of all management level committees such as the Credit Committee and the Asset-Liability Committee to address specific risks and to manage those risks within quantitative and qualitative risk limits as specified by the Committee.	Complied. The committee reviews the adequacy and effectiveness of all management level committees.
	(d) The committee shall take prompt corrective action to mitigate the effects of specific risks in the case such risks are at levels beyond the prudent levels decided by the Committee on the basis of the Bank's policies and regulatory and supervisory requirements.	Complied. Committee identifies specific risks through periodical reports submitted to them and gives advice on a need basis to mitigate such risks.
	(e) The committee shall meet at least quarterly to assess all aspects of risk management including updated business continuity plans.	Complied. Committee meets at least quarterly and at regular frequencies if need arises.
	(f) The committee shall take appropriate actions against the officers responsible for failure to identify specific risks and take prompt corrective actions as recommended by the committee, and/or as directed by the Director of Bank Supervision.	Complied. The Board approved Disciplinary Policy includes provisions and criteria for such situations.
	(g) The committee shall submit a risk assessment report within a week of each meeting to the Board seeking the Board's views, concurrence and/or specific directions.	Complied. Risk assessment reports are circulated to Board members within one week from the date of IRMC.

Section	Rule	Level of Compliance
	(h) The committee shall establish a compliance function to assess the Bank's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies on all areas of business operations. A dedicated compliance officer selected from Key Management Personnel shall carry out the compliance function and report to the committee periodically.	Complied. A compliance function has been established to assess the Bank's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies on all areas of business operations. This function is headed by the Compliance Officer who reports directly to the Board Integrated Risk Management Committee. Compliance function assesses the Bank's internal controls and approved policies on all areas of business operations.
3 (7)	*Related Party Transactions*	
3 (7)(i)	The Board shall take the necessary steps to avoid any conflicts of interest that may arise from any transaction of the Bank with any person, and particularly with the following categories of persons who shall be considered as "related parties" for the purpose of this direction (a) Any of the Bank's subsidiary companies; (b) Any of the Bank's associate companies; (c) Any of the Directors of the Bank; (d) Any of the Bank's Key Management Personnel; (e) A close relation of any of the Bank's Directors or Key Management Personnel; (f) A shareholder owning a material interest in the Bank; (g) A concern in which any of the Bank's Directors or a close relation of any of the Bank's Directors or any of its material shareholders has a substantial interest.	Complied. The Board takes necessary steps in line with the Banking Act, this direction and as stipulated in the Bank's Internal Code of Corporate and Related Party Transactions Policy to avoid any conflicts of interest that may arise from any transaction of the Bank with its related parties. Related Party Transaction Policy of the Bank has been reviewed by the Board and is implemented.
3 (7)(ii)	The type of transactions with related parties that shall be covered by this Direction shall include the following: (a) The grant of any type of accommodation, as defined in the Monetary Board's Directions on maximum amount of accommodation, (b) The creation of any liabilities of the Bank in the form of deposits, borrowings and investments, (c) The provision of any services of a financial or non-financial nature provided to the Bank or received from the Bank, (d) The creation or maintenance of reporting lines and information flows between the Bank and any related parties which may lead to the sharing of potentially proprietary, confidential or otherwise sensitive information that may give benefits to such related parties.	Complied.
3 (7)(iii)	The Board shall ensure that the Bank does not engage in transactions with related parties as defined in Direction 3(7)(i) above, in a manner that would grant such parties "more favourable treatment" than that accorded to other constituents of the Bank carrying on the same business.	Complied. The staff concerned are informed through operational circulars to refrain from granting accommodations with more favourable treatment as defined in the Banking Act Direction No.11 of 2007. Monitoring process has been strengthened by the implementation of on line preventive monitoring system to ensure that there is no favourable treatment offered as mentioned in point number 3(7)(iii).

CORPORATE GOVERNANCE

Section	Rule	Level of Compliance
3 (7)(iv)	A Bank shall not grant any accommodation to any of its Directors or to a close relation of such Director unless such accommodation is sanctioned at a meeting of its Board of Directors, with not less than two-thirds of the number of Directors other than the Director concerned, voting in favour of such accommodation and that this accommodation be secured by such security as may from time to time be determined by the Monetary Board as well.	Complied. Please refer 3.7 (i). All such accommodation has to be approved at the Board level meetings with not less than 2/3 of the number of Directors other than the Director concerned, voting for such accommodations granted.
3 (7)(v)	(a) Where any accommodation has been granted by a Bank to a person or a close relation of a person or to any concern in which the person has a substantial interest, and such person is subsequently appointed as a Director of the Bank, steps shall be taken by the Bank to obtain the necessary security as may be approved for that purpose by the Monetary Board, within one year from the date of appointment of the person as a Director. (b) Where such security is not provided by the period as provided in Direction 3(7)(v)(a) above, the Bank shall take steps to recover any amount due on account of any accommodation, together with interest, if any, within the period specified at the time of grant of accommodation or at the expiry of a period of eighteen months from the date of appointment of such Director, whichever is earlier (c) Any Director who fails to comply with the above sub-directions shall be deemed to have vacated the office or Director and the Bank shall disclose such fact to the public (d) This sub-direction, however, shall not apply to a Director who at the time of the grant of the accommodation was granted under a scheme applicable to all employees of such Bank.	Complied. The Bank did not encounter such a situation during the year.
3 (7)(vi)	A Bank shall not grant any accommodation or "more favorable treatment" relating to the waiver of fees and/or commissions to any employee or a close relation of such employee or to any concern in which the employee or close relation has a substantial interest other than on the basis of a scheme applicable to the employees of such Bank or when secured by security as may be approved by the Monetary Board in respect of accommodation granted as per Direction 3(7)(v) above.	Complied. No accommodation has given to employees on a favourable basis other than the general schemes applicable to all employees of the Bank, such as staff loan facilities. Please refer 3.7 (i)
3 (7)(vii)	No accommodation granted by a Bank under Direction 3 (7)(v) and 3 (7)(vi) above, nor any part of such accommodation, nor any interest due thereon shall be remitted without the prior approval of the Monetary Board and any remission without such approval shall be void and of no effect.	Complied. The Bank did not encounter such a situation during the year.
3 (8)	***Disclosures***	
3(8)(i)	The Board shall ensure that: (a) annual audited financial statements and quarterly financial statements are prepared and published in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards, and that (b) such statements are published in the newspapers in an abridged form, in Sinhala, Tamil and English	(a) Complied. b) Complied.

Section	Rule	Level of Compliance
3 (8)(ii)	The Board shall ensure that the following minimum disclosures are made in the Annual Report:	
	(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.	Please refer page 127.
	(b) A report by the Board on the Bank's internal control mechanism that confirms that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of financial statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements.	Please refer pages 135-136.
	(c) The External Auditor's certification on the effectiveness of the internal control mechanism reported by the Board of Directors	Please refer page 137.
	(d) Details of Directors, i. including names, fitness and propriety, ii. transactions with the Bank and iii. the total of fees/remuneration paid by the Bank.	Please refer pages 132, 133 and 142-146.
	(e) Total net accommodation as defined in 3 (7)(iii) granted to each category of related parties. The net accommodation granted to each category of related parties shall also be disclosed as a percentage of the Bank's regulatory capital.	Please refer page 132.
	(f) The aggregate values of remuneration paid by the Bank to its Key Management Personnel and the aggregate values of the transactions of the Bank with its Key Management Personnel, set out by broad categories such as remuneration	Please refer page 132.
	(g) The External Auditor's certification of the compliance with these Directions in the annual Corporate Governance reports published in the annual report.	The Bank has obtained External Auditor's factual finding report on this Corporate Governance Report.
	(h) A report setting out details of the compliance with i. prudential requirements, regulations, laws and ii. internal controls and iii. Measures taken to rectify any material non-compliance.	Please refer page 133.
	(i) A statement of the regulatory and supervisory concerns on lapses in the Bank's risk management, or non-compliance with these Directions that have been pointed out by the Director of Bank Supervision, if so directed by the Monetary Board to be disclosed to the public, together with the measures taken by the Bank to address such concerns.	There is no such non-compliance issues pointed out by the Director of Bank Supervision to be disclosed to the public.

BOARD AUDIT COMMITTEE REPORT

The Board appointed Audit Committee presently comprises four members - three Independent Non-Executive Directors and one Non-Executive Director.

The Committee of the Bank was Chaired by Mr. Sarath Wikramanayake, a Fellow member of the Institute of Chartered Accountants of Sri Lanka who count many years of experience in financial services Industry. Until his appointment as the Chairman Audit Committee in July 2019, Mr. Priyantha Fernando was appointed by the Board to Chair the Committee during the interim period.

Composition of the Audit Committee as at 31December 2019 along with the current status and the attendance:

Name	Eligibility	Attendance	Excused
Mr. Sarath Wikramanayake– *(Appointed w.e.f. 23 July 2019)*	Independent Non-Executive Director	3	-
Mr. Priyantha Fernando	Independent Non-Executive Director	8	-
Ms. Dilshani Wijewardena	Independent Non-Executive Director	7	1
Mr. Trevin Fernandopulle *(Ceased to be a member since August 2019)*	Independent Non-Executive Director	4	1
Mr. Ranvir Dewan *(Resigned w.e.f. 21 November 2019)*	Non-Independent Non-Executive Director	6	1
Mr. Michael J O'Hanlon	Non-Independent Non-Executive Director	7	1

The other attendees of the Audit Committee meeting included: D/CEO, CFO, CRO, CIO and Relevant Business Heads as and when necessary

The members of the Board Audit Committee (Committee) have detailed and relevant experience and bring an independent mind set to their role. Most of the Committee members serve on other committees including the Integrated Risk Management Committee. This interweaving linkage between the Board Audit Committee and other Committees within the Bank has been a key driver in ensuring that gaps and unnecessary duplications, if any, are avoided whilst ensuring that key issues having an impact on Financial Reporting are escalated to the Board Audit Committee.

The following report sets out the areas of significant and particular focus for the Committee's role on behalf of the Board.

During the course of the year the Committee has undertaken review of the Group's internal financial controls. It is also responsible for oversight and advice to the Board on financial reporting related matters and internal controls over financial reporting and has exercised oversight of the work undertaken by the Group Internal Audit and Group's External Auditors.

Significant amount of time has been spent discussing the root causes of control weaknesses and regulatory breaches and the resulting remediation and mitigating action taken by management. We have also discussed the Group's relationships with its regulators in light of compliance issues and internal control weaknesses that have arisen.

The Head of Internal Audit continues to function as the Secretary to the Committee. The Committee met 8 times during the period under review.

Terms of Reference

The Charter of the Committee, approved by the Board, clearly defines the Terms of Reference of the Committee and is annually reviewed to ensure that new developments relating to the Committee's functions are addressed. The Charter of the Committee was last reviewed and approved by the Board on November, 2019.

The Banking Act Direction No. 11 of 2007 on 'Corporate Governance for Licensed Commercial Banks in Sri Lanka' and its subsequent amendments (hereinafter referred to as the Direction), 'Rules on Corporate Governance under Listing Rules of the Colombo Stock Exchange' and 'Code of Best Practice on Corporate Governance', issued jointly by The Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka, further regulate the composition, roles and functions of the Committee.

The Committee meets regularly with the Bank's senior financial and internal audit management, and the external auditor to consider, inter alia, the Bank's financial reporting, the nature and scope of audit reviews and the effectiveness of the systems of internal control relating to financial reporting. It also assists the Board of Directors in its general oversight of financial reporting, internal controls and functions relating to internal and external audit. The Committee has the authority to investigate any matter within its terms of reference, and has full access to, and co-operation by, management.

Key Responsibilities of the BAC

Financial reporting:

The primary role of the Committee in relation to financial reporting is to monitor the integrity of the Group Financial Statement and formal announcements, if any, relating to Group financial performance.

The Committee reviewed and discussed with the management, the internal auditors and the external auditors the critical accounting policies, practices, related changes thereto, alternative accounting treatments, major judgmental areas, material audit adjustments,

BOARD AUDIT COMMITTEE REPORT

compliance with accounting standards, going concern assumptions, financial reporting controls and compliance with applicable laws and regulations that could impact the integrity of the Bank's financial statements, its annual report and its quarterly financial statements prepared for publication.

The Audit Committee reviewed the governance arrangements as well as the key drivers of the quarterly movements in Expected Credit Loss (ECL), including changes in portfolio asset quality, adjustments made to reflect prevailing economic conditions, and model refinements. The Audit committee was also apprised of External Auditors observations from their audit of the ECL methodology, processes and controls, as well as the regulatory allowances.

The CFO provides the Audit Committee a letter of representation attesting the integrity of the quarterly financial statements. The Audit Committee review the quarterly financial process and had discussions with the management. The Group's financial reporting process for preparing the consolidated Annual Report and Accounts 2019 is controlled using documented accounting policies. The changes to the Accounting Policies are approved at the Committee. The Committee reviews the financial statements prior to submission to the Board to ensure that a reliable and true and fair view of the state of affairs of the Bank, and the Group, are presented.

Internal Control:

The Directors are responsible for maintaining and reviewing the effectiveness of risk management and internal control systems and for determining the nature and extent of the principal risks it is willing to take in achieving its strategic objectives. In addition, Sections 3(8) (ii) (b) and (c) of the Banking Act Direction No. 11 of 2007, stipulates the requirements to be complied with by the Bank to ensure reliability of the financial reporting system in place at the Bank.

The Bank has adopted a risk-based audit approach to its audits to gauge the effectiveness of the internal control procedures in place and to assess whether additional risks emerging do in fact have mitigating controls. A Risk Matrix is used for assessing and measuring the risks identified during audit assignments carried out. The Committee seeks and obtains the required assurances from the Business line on the remedial action in respect of the identified risks to maintain the effectiveness of internal control procedures.

On a regular basis, the Internal Audit reports provide the Committee with Internal Auditors' view on the system of internal controls across all risk types. The Committee reviews the effectiveness of the Bank's internal controls through a review of follow-up on the Bank's internal audit reports. The Committee discussed the control environment issues, root causes, management responses and remediation activities.

The Committee reviews the adequacy and effectiveness of internal controls, such as financial, operational, compliance and information technology controls, as well as accounting policies and systems. This process assesses the adequacy and effectiveness of the internal controls and the processes for controlling business risks to ensure compliance with laws and regulations.

Internal Audit:

The establishment and maintenance of appropriate systems of risk management and internal control is primarily the responsibility of business management. The Group Internal Audit (GIA) function provides independent and objective assurance in respect of the adequacy of the design and operating effectiveness of the framework of risk management, control and governance processes across the Group, focusing on the areas of greatest risk to Union Bank using a risk-based approach. Executive management is responsible for ensuring that recommendations made by the Group Internal Audit function are implemented within an appropriate and agreed timetable.

During the year, the GIA reviewed the adequacy and effectiveness of the Group's internal audit function and processes. The BAC reviewed whether GIA is adequately resourced and set up to carry out its functions, including approving its budget and Audit Plan. The work undertaken by GIA has been reviewed and discussed against a backdrop of numerous significant projects and programmes so as to understand and fully challenge where GIA function has been focusing and how it maximises value from GIA resources so as to be as productive as possible.

The BAC has direct oversight of Group Audit and continues to interact regularly with the Head of Internal Audit (HIA) throughout the year. The BAC also monitored and assessed the role and effectiveness of the GIA function and is responsible for the hiring, removal, resignation and evaluation of HIA. The BAC is of the view that GIA function understands the risks that the Group faces and has aligned its work to review these risks. There are at least two scheduled private sessions annually for the HIA to meet the BAC. The BAC regularly meets the HIA to discuss the Audit Plan, current work, key findings and other significant matters.

External Audit:

The BAC has unfettered access to the Group External Auditor- Ernst and Young. During the financial year, separate sessions were held for the BAC to meet with the External Auditor without the presence of management at each BAC meeting to discuss and express their opinions on any matter and for the Committee to have the assurance that the Management has fully-provided all information and explanations requested by the Auditors and even on concerns that might have to be raised privately.

The BAC reviewed the non-audit services provided by the External Auditor during the financial year and the associated fees. The BAC is satisfied that the independence and objectivity of the External Auditor has not been impaired by the provision of those services. A BAC approved policy is in place on Non Audit Services provided by the External Auditors. The BAC is satisfied with the experience and expertise of the partner, the quality of the supporting audit team as well as the support from the External Auditor's global network.

The Committee continues to exercise oversight of the work undertaken by the Group External Auditor during the year. The Committee has also reviewed the scope of, and the results of, the external audits and

BOARD AUDIT COMMITTEE REPORT

the independence and objectivity of the external auditor. In its review of the External Auditor's performance and when formulating its recommendation on the re-appointment of the external auditor, the BAC took into consideration:

- Performance of the external auditor in providing constructive, practical and proactive solutions;
- Scope of the audit plan and areas of audit focus;
- Quality of audit services rendered, and reports and findings presented by, the external auditor during the year; and
- Feedback received on the adequacy and quality of the audit team's resources, the level of independence and scepticism exercised in carrying out their work, and its overall efficiency and effectiveness;

The Committee has discussed the business and financial risks with the Group External Auditor and has sought and received assurance that these risks have been addressed in their audit strategy. The Committee has enquired from the Group External Auditor that no undue pressure has been brought to bear on the Audit and the level of the audit fees paid has in no way negatively affected the audit work being conducted.

The Audit Committee makes recommendations to the Board for the appointment, re-appointment and dismissal of the external auditor including the remuneration and terms of engagement. The Audit Committee has recommended to the Board of Directors that Messrs Ernst & Young, Chartered Accountants, be reappointed for the financial year ending 31 December 2020 subject to the approval of shareholders at the next Annual General Meeting.

Keeping updated on relevant information:

The Members are regularly kept updated on changes to accounting standards, issues related to financial reporting and even on changes to regulatory guidelines through periodic meetings with the Finance Team, Internal Audit and External Auditors.

Ethics and Good Governance:

The Committee continuously emphasised upholding ethical values of the staff members. In this regard, a Code of Ethics and Whistle-Blowers Charter was put in place and followed for educating and encouraging all members of staff to resort to whistle-blowing if they suspect wrong doings or other improprieties. Highest standards of Corporate Governance and adherence to the Bank's Code of Ethics were ensured. All appropriate procedures were in place to conduct independent investigations into incidents reported through whistle-blowing or identified through other means. The Whistle-Blowers Policy guarantees the maintenance of strict confidentiality of the identity of the whistle blowers.

The Committee has spent time discussing enhancement of the Group Whistle Blowing policy. The whistle blowing policy of the Bank serves as a communication channel in order to take action about any genuine concern that the staff may have in relation to activities which they feel are wrongful or illegal or otherwise harmful to the interests of the Bank, its employees, customers and all other stakeholders. Highest standards of Corporate Governance and adherence to the Bank's code of ethics are ensured.

All appropriate procedures and techniques are in place to conduct independent investigations into incidents reported through whistle-blowing or identified through other channels. The policy is subject to annual review in order to further enhance the effectiveness.

Evaluation of the Committee:

An independent evaluation of the effectiveness of the Committee was carried out by the other members of the Board and the Committee has been concurred as effective in carrying out its responsibilities.

Sarath Wikramanayake
Chairman Board Audit Committee

26 February 2020

INTEGRATED RISK MANAGEMENT COMMITTEE REPORT

The Integrated Risk Management Committee, the apex body which formulates the risk appetite of the Bank under the guidance of the Board of Directors, comprised five members at the end of the year 2019. Four of the members are Non–Executive Directors as listed.

- Mr. P D J Fernando–Chairman/IRMC (Independent Non-Executive Director)
- Mr. Puneet Bhatia (Non Independent Non-Executive Director) (Re assigned since July 2019)
- Mr. Michael J O'Hanlon (Non Independent Non-Executive Director)
- Mr. Ranvir Dewan (Non Independent Non-Executive Director)
- Mr. Trevine Fernandopulle (Independent Non Executive Director) (Re assigned since July 2019)
- Mr. Yudhishtran Kanagasabai (Independent Non Executive Director) (Resigned since December 2018)
- Mr. Sarath Wikramanayake (Independent Non Executive Director) (Appointed since August 2019)
- Mr. Indrajit Wickramasinghe (CEO-Executive Director)
- Mr. Suhen Vanigasooriya (Chief Risk Officer)

Charter of the Committee

The IRMC was established as a Committee of the Board, in compliance with Section 3 (6) of the Banking Act Direction No. 11 of 2007, on "Corporate Governance for Licensed Commercial Banks in Sri Lanka". The composition and the scope of work of the Committee are in conformity with the provisions of the aforementioned Direction. The Bank has adopted an Integrated Risk Management (IRM) framework in line with the Central Bank of Sri Lanka Banking Act Direction No. 7 of 2011.

The Charter of the Integrated Risk Management Committee was approved by the Board outlining the responsibilities. The Charter details the composition, duties, responsibilities and authority. The detailed functionalities, supportive structures and framework are discussed in detail under "Risk Management at Union Bank" of this annual report.

Meetings of the Committee

The IRMC held four meetings on a quarterly basis in the year 2019.

The IRMC is responsible for the implementation of the Risk Strategy of the Bank as laid down by the Board of Directors. The Committee is vested with the responsibility of approving frameworks for the efficient functioning of business units and monitoring of risks. The Committee is in charge of reviewing the risk profile of the Bank within the context determined by the Board. The Committee is responsible for the assessment of all risks relating to Credit, Operational, Market, and Liquidity. Using appropriate risk indicators and management information, necessary recommendations will be made to the Board in order to enhance the risk controls wherever appropriate Among other responsibilities pertaining to risk management, the Committee has an oversight over the implementation and risk management in relation to legal and compliance functions and takes prompt corrective actions to alleviate the risk effects.

In compliance with the section no.3(6)(v)(g) of Corporate Governance Direction No.11 of 2007 issued by the Central Bank of Sri Lanka, the Committee submitted a quarterly Risk Assessment report within a week of each meeting to the Board for information as well as to seek the Board's views, concurrence and/ or specific directions.

Direction of the Committee

- To strengthen and streamline the capital management framework of the Bank, in the year 2019 the capital administration was vested with the Finance department while supported by the Risk Management and Treasury units under the supervision of the Board Risk Management Committee. The capital adequacy position and assessment is reported to the Committee periodically through IRMC. This initiative will further support the Bank's proactive management of its capital to meet regulatory and internal requirements as per the risk appetite considering the current and future business needs and the risks in its businesses.
- The Bank has met regulatory deadlines made during the year 2019 and has the ability to reach the required capital base over the next two years. The Committee was satisfied that Bank has trained staff to monitor and ensure smooth reporting mechanisms.
- In order to maintain a healthy and a robust portfolio a risk based segmentation of clients was implemented in year 2018. During the year the process was further tightened with additional proactive underwriting safeguards been placed. However the flexibility that is required to carry out the operations were carefully permitted within the framework.
- The watch list monitoring mechanisms were further strengthened, while analysing the causes and effects of the non performing advances in-depth. The portfolios were segmented by major behavioral character criteria to provide the insightful MISs to the Board of Directors. Further to the existing follow-up mechanism, all zones were allocated a dedicated staff to drive the recovery efforts and coordinate the information with the central recovery unit at head office.
- The committee believes the oversight of Subsidiaries is an essential element for the implementation of robust corporate governance across group entities and is an integral feature of a well-managed business, capable of creating value through enhanced reputation and investor confidence.
- Towards this objective, in the year 2019, The Chief Risk Officer (CRO) of the Bank, was entrusted with the overseeing and supervising of the Risk Management functions at the subsidiary level, ensuring that the risks arising out of subsidiary operations are managed efficiently as to not adversely affect the functions and reputation of the Bank.

INTEGRATED RISK MANAGEMENT COMMITTEE REPORT

- Review of key risk indicators are continuously performed to strengthen the review processes. Risk mitigating techniques and establishing of new portfolio/individual limits are placed to support the continuous growth of the Bank portfolio.
- Business Continuity Plan (BCP) for the year 2019 was reviewed by the Committee and thereafter Contingency Event Reports were submitted to CBSL on a quarterly basis. During the year 2019, a BCP and fire evacuation drills at Head Office were conducted and no major findings were observed that hinders business activity. Furthermore call tree testing, fire safety and first aid trainings were conducted to strengthen the overall business continuity management process.
- The Bank has undertaken various technology enabled business initiatives to empower the Bank's journey towards driving sustainable growth and improving customer experience.
- The committee notes the Increasing reliance on technology and digitisation increases the risks of cyber-attacks including computer viruses, malicious or destructive code, phishing attacks, denial of service or information, ransomware, unauthorised data access, attacks on personal emails of employees, application vulnerability and other security breaches. This could negatively impact the confidentiality, integrity or availability of data pertaining to the Bank and its customers. Given the nature of the new digital economy, the Bank has business and operational relationships with third parties and these could also be sources of information security risk.
- The Bank has adopted a holistic cyber security program with a comprehensive Cyber Security Policy and standards based on industry best practices with compliance to regulatory guidelines. The committee will further deliberate on implementing superior website Anti-Phishing monitoring solutions, Email Anti-Spamming and Anti-Phishing solution while Adopting Cloud Security Frameworks to support the growth of the security spectrum of the Bank.
- Internal Capital adequacy assessment process (ICAAP) was continuously upgraded with reviews on subsidiary companies, to assess the capital adequacy at group level. Moreover, ICAAP includes weightages to the Strategy, Reputation and Compliance risks. The Committee provided it's guidance in adopting Basel III and IFRS guidelines.
- The Compliance function assists the Board and the Leadership Team in managing the compliance risk. The Bank is committed to adhere to the highest standards of compliance vis-à-vis regulatory prescriptions and internal guidelines. During the year the committee reviewed the Compliance Policy, outlining the compliance philosophy of the Bank and roles and responsibilities of the Compliance Department. The function was further strengthened with providing the required staff strength. The Compliance function aims to improve compliance culture within the Bank through various enablers like dissemination of regulatory changes, percolation of compliance knowledge through training, Newsletters, e-learning initiatives and other means of communication apart from direct interaction. During the year these initiatives were carried out by the compliance function, while adding value to the overall operations.
- The Bank's risk infrastructure was reviewed by the Committee by reviewing the adequacy and performance of the closely related management committees such as Asset and Liability Committee (ALCO), Executive Risk Management Committee (ERMC) and Operational Risk Management Committee (ORMC).

The year 2019 had many unforeseen challenges due to geo-political uncertainties and challenging economic environment resulting from continuity in slow GDP growth, slack in investments, rising indebtedness and the adverse impact to key service sectors such as tourism since the second quarter of the year resulting from the unfortunate events in April. The Committee contends that the Bank has improved the risk controls parallely by tightening the policies, procedures and extensive use of risk management tools to better manage the risks.

The committee is committed to ensuring long-term risk Calibrated growth based on its strategic objectives. The Bank's performance in the year 2019 was aligned to its focus on pursuing this strategy based on opportunities and its risk appetite.

Mr. P D J Fernando
Chairman

Board Integrated Risk Management Committee

26 February 2020

NOMINATION COMMITTEE REPORT

Composition of the Nomination Committee

The Nomination Committee ("the Committee") comprises six Non-Executive Directors appointed by the Board of the Bank. The following Directors whose profiles are given on pages 144 to 146 of this Annual Report, currently serve on the Committee,

Name	Directorship Status	Committee Membership Status
Dilshani Wijayawardana	Independent, Non-Executive	Chairperson
Priyantha Fernando	Independent, Non-Executive	Member
Sabry Ghouse	Independent, Non-Executive	Member
Michael O'Hanlon	Non-Independent, Non-Executive	Member
Gaurav Trehan	Non-Independent, Non-Executive	Member
Trevine Fernandopulle	Independent, Non-Executive	Member

The Committee reports directly to the Board of Directors and the Company Secretary functions as the secretary to the Committee.

Meetings

The Committee met seven times during the year 2019. Attendance of the members at each of these meetings is given in the table on page 98 of this Annual Report. Where necessary, the Chief Executive Officer and the Vice President, Human Resources attended the meetings of the Committee by invitation.

The proceedings of the Committee meetings have been regularly reported to the Board of Directors.

Terms of Reference

Terms of Reference (TOR) sets out the main responsibilities entrusted to the Committee, Committee's composition and authority and conduct and scheduling of meetings. The Committee was established by the Board in compliance with Section 3 (6) of the Banking Act Direction No. 11 of 2007 (as amended) on "Corporate Governance for Licensed Commercial Banks in Sri Lanka" issued by the Monetary Board of the Central Bank of Sri Lanka under the Banking Act No. 30 of 1988 (as amended).

Key Responsibilities of the Committee

The key responsibilities of the Committee are as follows,

- Implementing a procedure to select/appoint new directors, CEO and Key Management Personnel according to the applicable regulations and directions.
- Considering and recommending the re-election of current directors, taking into account the performance and contribution made by the directors concerned towards the overall discharge of the Board's responsibilities.
- Setting the criteria such as qualifications, experience and key attributes required for eligibility to be considered for appointment or promotion to the post of CEO and Key Management positions.
- Ensuring that Directors, CEO and Key Management Personnel are fit and proper persons to hold office as specified in the applicable rules and regulations.
- Considering and recommending, from time to time, the requirements of additional/new expertise and the succession arrangements for retiring Directors and Key Management Personnel.

Activities in 2019

During the year, the Committee reviewed the fitness and propriety of the existing directors in terms of the provisions of the Banking Act No.30 of 1988 (as amended) and the Directions issued thereunder and made recommendations to the Board on their continuation in office. The Committee also recommended to the Board the re-election of Directors retiring by rotation and offering themselves for re-election at the Annual General Meeting. All these reviews and recommendations were made taking into account the performance and contribution made by each of the directors towards the overall discharge of the Board's responsibilities. Further, the Committee reviewed and recommended the following appointments to the Board of the Bank,

(i) appointment of Sarath Wikramanayake as an Independent, Non-Executive Director; and

(ii) appointment of Sanjeev Mehra as alternate to Puneet Bhatia, a Non-Executive, Non-Independent Director.

The Committee, also reviewed the expertise, skills and talents of potential candidates both internally and externally in line with internal policies and applicable rules and regulations, in order to fill several key managerial positions of the Bank.

The succession planning efforts at the level of Key Management Personnel (KMP) also remained a key area of focus during the year. Accordingly, the Committee deliberated in depth the succession plan of the Bank to ensure the achievement of strategic objectives.

Evaluation of the Committee's Effectiveness

As part of the annual self-assessment of the Directors, the performance and effectiveness of the Committee was also assessed by the Board as a whole.

Dilshani Wijayawardana
Chairperson - Nomination Committee

26 February 2020

HUMAN RESOURCES AND REMUNERATION COMMITTEE REPORT

Composition of the Committee

The Human Resources and Remuneration Committee ("the Committee") comprises five Directors appointed by the Board of Directors of the Bank out of whom three are Independent Non-Executive Directors.

The present Committee is constituted with Ms. Dilshani Wijayawardana as Chairperson and Mr. Priyantha Fernando, Mr. Micheal O'Hanlon, Mr. Trevine Fernandopulle, Mr. Sabry Ghouse, and Mr. Gaurav Trehan as Committee members.

Given the significance of the Committee towards the strategic objective of investing and developing employees, the Chairman of the Board, Mr. Atul Malik and the Director/ Chief Executive Officer (CEO) Mr. Indrajit Wickramasinghe, attended and participated in meetings of the Committee by invitation.

The Committee reported directly to the Board of Directors of the Bank.

The Company Secretary of the Bank functioned as the Secretary to the Committee.

The Committee Charter

The Committee which is governed by the Human Resources and Remuneration Committee Charter has set the following as its objectives:

- To establish and maintain performance and market oriented remuneration policies in relation to Directors, Chief Executive Officer, Key Management Personnel and Staff.
- To determine goals and targets for the Directors, Chief Executive Officer and Key Management Personnel of the Bank and evaluate performance against those.
- To provide assistance to the Board on Corporate Governance matters in relation to the Committee
- To prepare a sustainable succession plan for all Key Management Positions.

In achieving the above objectives in the year under review, the Committee strived to strengthen and develop the human resource pool of the Bank with appropriate professional, managerial and operational expertise necessary to achieve the overall objectives of the Bank.

Key Focus Areas in 2019

In 2019 the Committee focused on the following areas;

Performance Management - The Committee reviewed the performance of the Key Management Personnel (KMP) of the Bank in 2018 against set goals and targets. Necessary recommendations with regard to increments and bonus payments of KMPs were made for the approval of the Board of Directors. The Committee also set goals and targets of the KMPs for 2019 aligned to the Banks strategic goals and annual financial budgets.

In addition to the above the Committee also reviewed and approved the performance management process, related remuneration changes and performance bonus payments of the non KMP staff.

Staff Remuneration and Benefit review – The Committee reviewed and approved multiple proposals to enhance the sales staff incentives and staff loan policies in order to provide bank staff with market leading benefit schemes.

Career Progression – Policies relating to sales staff and contract staff career progression were reviewed and revisions approved by the Committee to provide this cadre with enhanced opportunities for career development. Promotions of staff in permanent grades were also approved by the Committee as part of the Annual Promotion process.

Organisation Development Initiatives – in 2019 the Bank launched several initiatives to improve the work environment and to recognise key milestones. The Committee reviewed and approved a flexi-hour policy as part of these initiatives.

Governance and HR Policies – The Committee reviewed all HR policies and approved changes where required to ensure that the Banks HR policies remain relevant and are compliant with all legal and regulatory requirements.

Meetings

The Committee held nine (09) meetings during the year 2019.

The minutes of these meetings reflecting the decisions of the Committee including recommendations were presented at subsequent monthly meetings of the Board of Directors for discussion, approval and ratification or to otherwise be acted upon by the Board.

Dilshani Wijayawardana
Chairperson
Human Resources and Remuneration Committee

26 February 2020

RELATED PARTY TRANSACTIONS REVIEW COMMITTEE REPORT

Composition of the Committee

The Related Party Transactions Review Committee ("the Committee") currently comprises three Non-Executive Directors and one Executive Director appointed by the Board of the Bank. The following Directors whose profiles are given on pages 144 to 146 of this Annual Report, serve on the Committee,

Name	Directorship Status	Committee Membership Status
Sabry Ghouse	Independent, Non-Executive	Chairman
Trevine Fernandopulle	Independent, Non-Executive	Member
Sarath Wikramanayake	Independent, Non-Executive	Member
Indrajit Wickramasinghe	Executive	Member

The Committee reports directly to the Board of Directors and the Company Secretary functions as the secretary to the Committee.

Meetings

The Committee met four times during the year under review. Attendance of the members at each of these meetings is given in the table on page 98 of this Annual Report.

The proceedings of the Committee meetings have been regularly reported to the Board of Directors.

Terms of Reference

Terms of Reference (TOR) sets out the functions of the Committee in line with Section 9 of the Listing Rules of the Colombo Stock Exchange ('the Listing Rules'), Banking Act Direction No 11 of 2007 on Corporate Governance for Licensed Commercial Banks in Sri Lanka ('Directions') and the Related Party Transactions Policy of the Bank.

Key Responsibilities of the Committee

The TOR adopted on the 20th of January 2016 and periodically reviewed by the Board, provides for the responsibilities and functions of the Committee, which include:

- reviewing all related party transactions of the Bank as per the Listing Rules prior to the transaction being entered into, and/or if the transaction is expressed to be conditional on such review, prior to completion of the transaction.
- advising the Board to convene a shareholders' meeting and to obtain shareholder approval as and when mandatorily required, for related party transactions.
- in the absence of a Related Party Transactions Review Committee of a subsidiary, which is a listed entity, functioning as the Related Party Transactions Review Committee of such subsidiary on the instructions and advice of the Board of the Bank.
- reviewing and making recommendations for changes to the Related Party Transactions Policy of the Bank from time to time, as and when deemed fit.
- considering any other matters relating to a related party transaction, as the Management, the Committee or the Board of the Bank may think relevant taking into account the interests of the shareholders as a whole when entering into a related party transaction and to prevent a related party taking advantage of his or her or its position.
- referring related party transactions for approval of the Board.

Related Party Transactions Policy

The Bank has in place a Board approved Related Party Transactions Policy (the Policy') whereby categories of persons who shall be considered as 'related parties' have been defined in line with the applicable rules and regulations, including the Listing Rules, Directions and the Sri Lanka Accounting Standards.

The Policy provides for the procedure to ensure that the Bank does not engage in transactions with related parties in a manner that would grant such parties 'more favourable treatment'.

Methodology Used by the Committee

In the performance of its duties, the Committee avoids 'conflicts of interest' which may arise from any transaction of the Bank with any person, particularly with related parties, ensure arm's length dealings with related parties and strict compliance with the provisions of the Listing Rules, Directions and the Policy.

Activities in 2019

Details of all transactions with the related parties during the year 2019 were reviewed by the Committee and duly reported to the Board with its recommendations. The Committee also reviewed its TOR for the year 2019.

Details of related party transactions are disclosed under Note 50 on pages 242 to 244 of the Financial Statements.

Evaluation of the Committee's Effectiveness

As part of the annual self-assessment of the Directors, the performance and effectiveness of the Committee was also assessed by the Board as a whole.

Disclosures and Declarations

In compliance with Section 9.3.2 of the Listing Rules, the Committee hereby confirms that,

(i) transactions with related parties during the financial year ended 31 December 2019 were reviewed by the Committee with the Committee's observations and recommendations thereon being duly communicated to the Board of Directors; and

(ii) there were no non-recurrent or recurrent related party transactions that exceeded the respective thresholds specified in Sections 9.3.2 (a) and (b) of the Listing Rules.

The declaration by the Board of Directors that it has complied with the provisions of the Listing Rules relating to related party transactions is contained in the Annual Report of the Board of Directors on the Affairs of the Company on page 133 of this Annual Report.

Sabry Ghouse
Chairman – Related Party Transactions Review Committee

26 February 2020

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

General

The Board of Directors of Union Bank of Colombo PLC is pleased to present the Annual Report on the Affairs of the Bank for the year ended 31 December 2019 together with the Audited Financial Statements of the Bank, the Audited Consolidated Financial Statements of the Group for that year and the Auditor's Report on these Financial Statements conforming to all statutory requirements.

The Financial Statements and this Report was reviewed and approved by the Board of Directors on 26 February 2020. This Report includes the information as required by the Companies Act No. 07 of 2007, Banking Act Direction No. 11 of 2007 on Corporate Governance for Licensed Commercial Banks and subsequent amendments thereto, the Listing Rules of the Colombo Stock Exchange and the recommended best practices on Corporate Governance.

1. Legal Status

Union Bank of Colombo PLC ("the Bank") is a Licensed Commercial Bank registered under the Banking Act No. 30 of 1988 and was incorporated as a public limited liability company in Sri Lanka on 2 February 1995. The Bank was re-registered as required under the provisions of the Companies Act No.7 of 2007 on 23 September 2008 under the Registration No. PB 676 PQ. The Registered Office as well as the Head Office of the Bank is situated at No.64, Galle Road, Colombo 3.

The Ordinary Shares of the Bank are listed on the Main Board of the Colombo Stock Exchange since 29 March 2011.

2. Vision, Mission and Values

The Bank's Vision, Mission and Values are given on page 5 of this Annual Report. The business activities of the Bank are conducted in keeping with the highest level of ethical standards and integrity in achieving its Vision and Mission.

3. Principal Business Activities

There were no significant changes in the nature of the principal activities of the Bank and the Group during the financial year under review. The said principal business activities of the Bank and its subsidiaries during the year are set out below.

3.1 The Bank

The principal activities of the Bank are commercial banking and provision of related financial services including, accepting deposits, personal banking, retail banking, trade financing, off-shore banking, resident and non-resident foreign currency operations, corporate and retail credit, pawning, project financing, lease financing, rural credit, internet banking, money remittance facilities, dealing in Government Securities and treasury related products and margin trading, etc.

3.2 Subsidiaries

The Bank had two Subsidiaries as at 31 December 2019. The details of these subsidiaries, including their principal business activities and directorate are tabulated below:

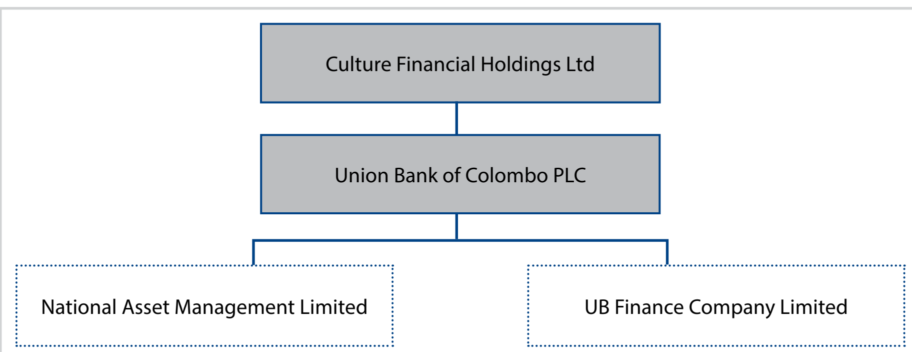
Name of the Subsidiary	National Asset Management Limited (NAMAL)	UB Finance Company Limited (UBF)
Principal business activities	NAMAL is the pioneer Unit Trust management company in Sri Lanka established in 1991. With 26 years of experience and a successful track record of investing in equity and fixed income markets, NAMAL launched the first Unit Trust to be licensed in Sri Lanka (National Equity Fund) and the first listed Unit Trust (NAMAL Acuity Value Fund). NAMAL Operates five Unit Trusts and offer private portfolio management services as well.	The principal activity of UBF is carrying on finance business including, providing financial services namely accepting deposits, maintaining savings accounts, lease financing, hire purchase, vehicle loans, mortgage loans, pawning, factoring, working capital financing and real estate.
Legal status and Registered office	A company incorporated in Sri Lanka as a Limited Liability Company and re-registered under the Companies Act No.7 of 2007. Registered office and principal place of business is situated at No. 07, Glen Aber Place, Colombo 03, Sri Lanka.	A company incorporated in Sri Lanka as a Limited Liability Company and re-registered under the Companies Act No.7 of 2007. Registered office and principal place of business is situated at No. 10, Daisy Villa Avenue, Colombo 04, Sri Lanka.
Bank's Shareholding in the Subsidiary	The Bank holds 51% of the issued capital of NAMAL.	The Bank holds 73.31% of the issued capital of UBF.

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

Name of the Subsidiary	National Asset Management Limited (NAMAL)	UB Finance Company Limited (UBF)
Board of Directors and CEO as at 31 December 2019	Alexis Indrajit Lovell - Chairman Suren Madanayake Indrajit Wickramasinghe Wijenanda Punchi Banda Dambawinne Siew Bee Khoo Tyrone Wilfred de Silva Kapila Nanayakkara Rusiru Abeyasinghe – Director/Chief Executive Officer	Alexis Indrajit Lovell – Chairman Atul Malik Lisa Gayle Thomas Indrajit Wickramasinghe Chandrakumar Ramachandra Mohan Balendra *(Alternate)* Ransith Karunaratne - Chief Executive Officer/Executive Director

4. Changes to the Group Structure

During the year 2019, there were no changes to the Group structure which is exhibited below.



5. Review of Operations

A review of the financial and operational performance of the Bank during the financial year 2019 are contained in the Chairman's Message on pages 22 to 23, the Chief Executive Officer's Message on pages 24 to 26 and the Management Discussion and Analysis on pages 29 to 69. These reports form an integral part of the Annual Report of the Board of Directors.

6. Future Developments

An overview of the future developments of the Bank is given in the Chairman's Message on pages 22 to 23, the Chief Executive Officer's Message on pages 24 to 26 and the Management Discussion and Analysis on pages 29 to 69.

7. Financial Statements

The financial statements of the Bank and the Group have been prepared in accordance with the Sri Lanka Accounting Standards laid down by the Institute of Chartered Accountants of Sri Lanka, and comply with the requirements of the Companies Act No. 7 of 2007 and the Banking Act No. 30 of 1988. These Financial Statements of the Bank and the Group for the year ended 31 December 2019 duly signed by the Acting Head of Finance, two Directors of the Bank and the Company Secretary are given on pages 156 to 276 and form an integral part of the Annual Report of the Board of Directors.

8. Directors' Responsibility for Financial Reporting

The Directors are responsible for the preparation of the Financial Statements of the Bank to present a true and fair view of its state of affairs. The Directors are of the view that these Financial Statements appearing on pages 156 to 276 have been prepared in conformity with the requirements of the Sri Lanka Accounting Standards, Companies Act No. 7 of 2007, Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995, Banking Act No. 30 of 1988 (as amended), Banking Act Direction No. 11 of 2007 (Corporate Governance for Commercial Banks in Sri Lanka as amended) and the Listing Rules of the Colombo Stock Exchange. The Directors' Statement on Internal Control over Financial Reporting appearing on pages 135 to 136 forms an integral part of the Annual Report of the Board of Directors.

9. Auditor's Report

The Auditors of the Bank Messrs Ernst & Young carried out the audit on the Financial Statements of the Group and the Bank for the year ended 31 December 2019 and their report thereon is given on pages 156 to 158 of this Annual Report.

10. Accounting Policies

The significant accounting policies adopted in the preparation of the Financial Statements are given on pages 166 to 276.

11. Financial Results and Appropriations

11.1 Income

The gross income of the Group for 2019 was Rs. 16,782 Mn (Rs. 16,076 in 2018) while the Bank's gross income was Rs. 14,712 Mn (Rs. 13,910 Mn in 2018). An analysis of the income is given in Note 8 to the financial statements on page 179.

11.2 Profit and appropriations

The Bank has recorded a growth in profit before all taxes of 52.6% and a growth in profit after tax of 50.3% in 2019. The Group's profit before all taxes recorded a growth of 40.1% in 2019.

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

Total Comprehensive Income of the Group (net of tax) for the year is Rs. 1,150 Mn (Rs. 42 Mn in 2018) while the Bank has recorded a total comprehensive income (net of tax) of Rs. 1,056 Mn (Loss of Rs. 7 Mn in 2018). Details of the Bank's performance and appropriation of profit are tabulated as follows,

	2019 Rs. '000	2018 Rs. '000
Profit before income tax	1,191,601	777,394
Less: income tax expense	481,254	304,846
Profit for the year	710,347	472,548
Profit brought forward from previous year	345,374	1,154,757
Transitional adjustment on the implementation of		
SLFRS 9	-	(1,130,841)
SLFRS 16	(46,215)	-
Restated profit brought forward	299,159	23,916
Profit available for appropriation	1,009,506	496,464
Less: Appropriations		
Transfer to the reserves	(35,517)	(23,627)
Dividend paid for previous year	-	(109,141)
Repurchase of shares in the current year	(125,798)	-
Other comprehensive income	(9,376)	(18,322)
Change in control	-	-
Total appropriation	(170,691)	(151,090)
Unappropriated profit carried forward	838,815	345,374

12. Taxation

Income tax rate applicable on the Bank's operations is 28% (2018: 28%). The Bank is also liable for Financial Services VAT at 15% and VAT on services other than financial services are taxed at 8% (2018: 15%), NBT on Financial Services at 2% (2018: 2%), Debt Repayment Levy on Financial Services at 7%.

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

On 26 February 2020, the Board of Directors decided to declare a final dividend of Rs. 0.14 per share to the ordinary shareholders of the Bank for the financial year ended 31 December 2019. The Board of Directors was satisfied that the Bank would meet the solvency test immediately after the said final dividend was paid in terms of the provisions of the Companies Act No. 7 of 2007 and Listing Rules of the Colombo Stock Exchange. The Board provided the Statements of Solvency to the auditors and obtained the Certificates of Solvency from the auditors in respect of the said dividend payment conforming to the statutory provisions.

14. Property, Plant and Equipment and Intangible Assets

Information on Property, Plant & Equipment and Intangible Assets of the Group and the Bank are given in Notes 35 and 36 to the Financial Statements on pages 220 and 226.

The details of capital expenditure approved and contracted for are given in Note 48.2 to the Financial Statements on page 240.

15. Net Book Value of Freehold Properties

The net book values of freehold properties owned by the Group as at 31 December 2019 are included in the accounts at Rs. 43 Mn (2018: Rs. 44 Mn).

16. Stated Capital

The stated capital of the Bank as at 31 December 2019 was Rs. 16,334 ,781,723 consisting of 1,083,558,338 ordinary shares (2018: Rs.16,334,781,723 consisting of 1,091,406,249 ordinary shares).

Pursuant to a Share Repurchase Offer made by the Bank to its shareholders in June 2019, the Bank repurchased 7,847,911 ordinary shares at a consideration of Rs. 15/- per share and the said shares so repurchased were cancelled with effect from 5 September 2019. Consequently, the number of shares representing the Stated Capital of the Bank was reduced from 1,091,406,249 to 1,083,558,338 with effect from 5 September 2019.

17. Share Information

Information relating to earnings, dividend, net assets and market value per share is given in 'Financial Highlights' on page 4.

Information on the trading of the shares is given in the Section on 'Investor Relations' on pages 71 to 76.

18. Shareholdings

As at 31 December 2019, there were 30,693 registered ordinary shareholders (2018: 31,221). Names of the twenty largest shareholders, percentages of their respective holdings and percentage holding of the public, etc. are given in the Section on 'Investor Relations' on pages 71 to 76.

19. Equitable Treatment to Shareholders

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

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

20. The Board of Directors

20.1 Profiles of the Board of Directors

The Board of Directors of the Bank comprises 10 (2018:12) Directors with wide financial and commercial knowledge and experience as detailed in their profiles given on pages 144 to 146.

20.2 Classification of Directors and appointments, retirements and cessations during 2019

Names of the Directors of the Bank during the year 2019 including the new appointments and cessations are given in the table below:

Name	Status	Length of service	Name of Alternate Director
Atul Malik (Chairman)	Non-Independent, Non-Executive Director	Director since 02.10.2017 and Chairman since 25.10.2017	None
Priyantha Damian Joseph Fernando (Deputy Chairman/Senior Director)	Independent, Non-Executive Director	Director since 02.11.2011	None
Indrajit Asela Wickramasinghe (Director/ CEO)	Non-Independent, Executive Director	Director since 19.11.2014	None
Mohamed Hisham Sabry Ghouse	Independent, Non-Executive Director	Director since 30.08.2012	None
Ranvir Dewan	Non-Independent, Non-Executive Director	Director since 29.09.2014 (Resigned on 21.11.2019)	None
Gaurav Trehan	Non-Independent, Non-Executive Director	Director since 29.09.2014	None
Puneet Bhatia	Non Independent, Non-Executive Director	Director since 27.10.2014	Sanjeev Mehra (appointed on 29.07.2019) (Keshav Thakkar who was the alternate to Puneet Bhatia resigned on 14.06.2019)
Michael J O' Hanlon	Non-Independent, Non-Executive Director	Director since 27.10.2014	None
Sow Lin Chiew	Non-Independent, Non-Executive Director	Director since 20.01.2015 (Resigned on 05.04.2019)	Yoke Sun Woon (ceased to be alternate with effect from 05.04.2019)
Dilshani Gayathri Wijayawardana	Independent, Non-Executive Director	Director since 01.04.2017	None
Trevine Sylvester Anthony Fernandopulle	Independent, Non-Executive Director	Director since 01.04.2017	None
Drayton Sarath Palitha Wikramanayake	Independent, Non-Executive Director	Director since 21.06.2019	None

20.3 Retirement by rotation/reappointment of Directors

Mr. Atul Malik, Mr. Trevine Fernandopulle and Ms. Dilshani Wijayawardana who are subject to retirement by rotation in terms of Article 88 read together with Article 89 of the Articles of Association of the Bank, will offer themselves for re-election in terms of Article 89.

Mr. Sarath Wikramanayake who was appointed during the year 2019 to fill a casual vacancy on the Board, will offer himself for re-election in terms of Article 95 of the Articles of Association of the Bank.

Having considered the contents of the Affidavits and Declarations submitted by each of the above Directors and all other related issues, and based on the endorsement of the Nomination Committee, the Board recommended the re-election of the said Directors at the forthcoming Annual General Meeting.

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

20.4 Other Directorships of Directors

Information on other directorships of the Directors who served the Bank during 2019 are tabulated below.

Name of Director	Name of Entity	Position
Atul Malik	Bob Financials (formerly known as Bobcards Limited)	Director
	UB Finance Company Limited	Non-Executive Director
Priyantha Fernando	Commercial Leasing & Finance PLC	Chairman
	Ambeon Holdings PLC (formerly known as Taprobane Holdings PLC)	Director
	Golden Key Credit Card Company Limited	Chairman
	Imperial Institute of Higher Education	Director
	Ceylon Leather Products PLC	Director
	Thomas Cook Travels Sri Lanka (Pvt) Ltd.	Director
	Golden Key Hospitals Limited	Chairman
	Millenium Information Technologies (Pvt) Ltd.	Director
Indrajit Wickramasinghe	National Asset Management Ltd.	Non-Executive Director
	UB Finance Company Ltd.	Non-Executive Director
Sabry Ghouse	Shah Associates (Pvt) Ltd.	Director
Ranvir Dewan (Ceased to be a Director w.e.f. 21.11.2019)	Shriram City Union Finance Limited	Director
	UB Finance Co. Ltd	Director
Gaurav Trehan	ESS KAY Fincorp Ltd.	Nominee Director
	Five-Star Business Finance Ltd.	Director
	Shriram General Insurance Co. Ltd.	Director
	Shriram Life Insurance Co. Ltd.	Director
	Jana Capital Ltd.	Nominee Director
	Manipal Health Enterprises Private Ltd.	Nominee Director
Puneet Bhatia	Flare Estate Private Limited	Additional Director
	TPG Capital India Private Limited	Director
	Janalakshmi Financial Services Limited	Director
	Manipal Health Enterprises Private Limited	Nominee Director
	Havells India Limited	Director
	Shriram Transport Finance Company Limited	Director
	Shriram Capital Limited	Nominee Director
	Jana Capital Limited	Nominee Director
	Campus Activewear Private Limited	Nominee Director
	Shriram Holdings Madras Private Limited	Nominee Director
	R R Kabel Limited	Director
	Ram Ratna Electricals Limited	Director
	Sai Life Sciences Limited	Director
Michael J O'Hanlon	Roosevelt Management Company LLC	Director & Chairman
	Rushmore Loan Management Services LLC	Director & Chairman
	The Northview Group Ltd.	Alternate Director

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

Name of Director	Name of Entity	Position
Sow Lin Chiew (Ceased to be a Director w.e.f. 05.04.2019)	Capax Trading Sdn Berhad	Director
	Genting Management and Consultancy Services Sdn Bhd	Director
	Sri Highlands Express Sdn Bhd	Director
	Genting Risk Solutions Sdn Bhd	Director
	Genting CDX Singapore Pte Ltd. formerly known as Genting International Industries (Singapore) Pte Ltd.	Director
	Genting Bhd (Hongkong) Limited	Director
	Resorts World Limited	Director
	Resorts World Bhd (Hong Kong) Limited	Director
	Genting Power Holdings Limited	Director
	Genting Global Pte Ltd. - formally known as Genting (Singapore) Pte Ltd	Director
	Oxalis Limited	Director
	Web Energy Ltd.	Director
	Genting Power International Limited	Director
	Awana Hotels & Resorts Management Sdn Bhd	Director
	CIMB (Private) Limited (Alternate Director to Chong Kin Leong)	Director
	Vista Knowledge Pte Ltd.	Director
Trevine Fernandopulle	National Insurance Trust Fund	Director
	Dutch Lanka Trailer Manufacturers Ltd.	Director
	AMW Capital Leasing and Finance PLC	Chairman
	Trustees of Joseph Frazer Memorial Hospital	Chairman
Dilshani Wijyawardana	None	-
Sarath Wikramanayake	NDB Capital Holdings Limited	Director
	NDB Capital Limited (Bangladesh)	Director
	NDB Investment Bank Ltd.	Director
	NDB Wealth Management Ltd.	Director
	NDB Zephyr Partners Lanka (Pvt) Ltd.	Director
	AIA Insurance Lanka PLC	Director
Yoke Sun Woon (Alternate Director to Sow Lin Chiew -Ceased w.e.f. 05.04.2019)	Taurx Pharmaceuticals Ltd.	Alternate Director
	Genting Taurx Diagnostic Centre Sdn Bhd	Alternate Director
	Lacustrine Limited	Director
	Genting Group Sdn Bhd	Director
	Genting Gaming Solutions Pte Ltd.	Director
	Genting Multimodal Imaging Pte Ltd.	Alternate Director
	Genting Innovation Pte Ltd.	Director
	Resorts World (Singapore) Pte Ltd.	Director
	Genting Management (Singapore) Pte Ltd.	Director
	Genting Laboratory Service Sdn Bhd	Director
	DNAE Group Holdings Limited (formerly known as DNA Electronics Limited)	Alternate Director
	Genting Dementia Centre Sdn Bhd	Director
Keshav Thakkar (Alternate Director to Puneet Bhatia - Ceased w.e.f. 14.06.2019)	None	-
Sanjeev Mehra (Alternate Director to Puneet Bhatia)	None	-

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

20.5 Board Sub-Committees

In compliance with the 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 the Listing Rules of the Colombo Stock Exchange, the Board formed five mandatory Board Sub-committees namely, Nomination Committee, Human Resources and Remuneration Committee, Integrated Risk Management Committee, Audit Committee and Related Party Transactions Review Committee.

The Board of Directors also has voluntarily formed a Credit Committee at the Board level to assist the Board in the appraisal and approval of credit proposals above a pre-determined threshold in line with the Bank's risk appetite.

The scope and composition of all of the above committees are detailed in the reports of these committees on pages 118 to 125.

20.6 Meetings

The details of Board meetings and Board subcommittee meetings are presented in the 'Corporate Governance Report' on page 98 of this Annual Report.

20.7 Directors' Remuneration

Details of Directors' remuneration and other benefits paid in respect of the Bank during the financial year ended 31 December 2019 are given in Note 17 to the Financial Statements on page 186.

20.8 Interests Register/Directors' Interest in Transactions

In compliance with the Companies Act No. 07 of 2007, the Bank maintains an interest register and the general declarations made by the Directors as per Section 192 (1) and (2) of the Companies Act No. 07 of 2007 of their interests in contracts or proposed contracts have been duly recorded in the Interests Register. Details of the transactions disclosed therein are given in this Report as well as on pages 242 to 244 under related party transactions.

Furthermore, the Chairman, the Board of Directors and the Chief Executive Officer of the Bank have made general declarations that there is no financial, business, family or other material/relevant relationship(s) between themselves as required to be disclosed by the 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.

20.9 Directors' Interest in Shares

The Directors have disclosed to the Board their interests in the shares of the Bank and any acquisitions or disposals thereof in compliance with Section 200 of the Companies Act No. 07 of 2007. None of the Directors held any shares in the Bank as at 31 December 2019.

21. Related Party Transactions

The details of the related party transactions are set out in Note 50 to the Financial Statements on pages 242 to 244. The aggregate value of remuneration/fees paid by the Bank to its Key Management Personnel (KMPs), including Directors and the aggregate values of the transactions of the Bank with KMPs and their close family members and subsidiaries as at 31 December 2019, are as follows:

Key Management Personnel*	2019 Rs. 000	As a % of Bank's Regulatory Capital
Remuneration and other employment benefits	328,134	
Loans	138,340	0.85
KMPs	138,340	0.85
Close Family Members	-	
Deposits	50,670	
KMPs	34,750	
Close Family Members	15,920	

*Figures include the Executive Director's remuneration, other employment benefits, loans and deposits.

Directors	2019 Rs. 000	As a % of Bank's Regulatory Capital
Director Fees	12,982	
Loans	-	
Directors	-	-
Close Family Members	-	-
Deposits	12,225	
Directors	4,660	
Close Family Members	7,565	

Transactions With Subsidiaries		
*Loans	859,681	5.26
Repurchased agreements	-	
Deposits	223,417	

* This includes Rs.312,253,068 investment in subordinated debenture of UB Finance Company Limited.

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

During the year ended 31 December 2019, there were no related party transactions, which exceeded 10% of the equity, or 5% of the total assets whichever is lower and the Bank has complied with the requirements of the Listing Rules issued by the Colombo Stock Exchange on Related Party Transactions.

22. Human Resources

Human Resource Practices and Policies of the Bank are aligned to ensure efficiency, effectiveness and productivity of the work force and these policies are reviewed periodically.

As at 31 December 2019, 1,344 persons were in employment of the Bank (2018: 1,266).

23. Insurance and Indemnity

Pursuant to a decision of the Board, the Bank obtained an Insurance Policy to cover Directors' and Officers' liability, which extends to the Bank's subsidiaries as well.

24. Employee Share Option Plan

In the year 2015, with the approval of the shareholders, the Bank formulated an Employee Share Option Plan (ESOP) for key employees and Directors of the Bank and its subsidiaries based on the Bank achieving certain pre-determined performance criteria.

During the year 2019, no options were offered to the employees under the ESOP and no options previously offered were vested.

The Board of Directors confirms that the Bank or any of its subsidiaries have not, directly or indirectly provided funds for the ESOP.

25. Environmental Protection

The Directors confirm that to the best of their knowledge the Bank has not engaged in any activity, which causes detriment to the environment. Specific measures taken to protect the environment are given on pages 57 to 67 of this Annual Report.

26. Statutory Payments

The Directors, to the best of their knowledge and belief, are satisfied that all statutory payments in relation to the Government, other regulatory bodies and related to the employees have been paid on a timely basis or where relevant provided for.

27. Compliance With Laws and Regulations

To the best knowledge and belief of the Directors, the Group and the Bank have not engaged in any activity contravening any laws and regulations.

28. Donations

During the year, the Bank made donations amounting to Rs. 50,000 (2018: Nil) in terms of the resolution passed at the last Annual General Meeting.

29. Events After the Reporting Period

The Board of Directors resolved at the Board meeting held on 26 February 2020 to pay a final dividend on 1,083,558,338 shares of the Bank amounting to Rs. 151,698,167 for the year ended 31 December 2019.

The Board of Directors has satisfied itself that the Bank will meet the requirement of the Solvency Test in terms of Section 56(3) of the Companies Act No. 7 of 2007, immediately after the payment of the said dividend.

30. Going Concern

After making necessary inquiries and reviews, the Board of Directors has a reasonable expectation that the Bank possesses adequate resources to continue in operation for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the Financial Statements.

31. Auditors

Messrs Ernst & Young, Chartered Accountants served as the Bank's Auditors during the year under review. Based on the declaration made by Messrs Ernst & Young and as far as the Directors are aware, the Auditors do not have any relationship or interest in the Bank or its subsidiaries.

31.1 Auditors' Remuneration

A sum of Rs. 10.31 Mn (2018: Rs. 10.77 Mn) and Rs. 12.43 Mn (2018: Rs. 12.99 Mn) were paid by the Bank and the Group respectively for audit related and non-audit services including reimbursement of expenses.

31.2 Re-appointment of Auditors

The retiring Auditor, Messrs Ernst & Young have expressed their willingness to continue in office and a resolution to reappoint them as the Bank's Auditor for the ensuing financial year, and authorising the Directors to fix their remuneration will be proposed at the forthcoming Annual General Meeting

32. Risk Management and System of Internal Controls

The Bank has an ongoing process in place to identify, evaluate and manage the risks that are faced by the Bank. This process detailed in the Section on 'Risk Management' on pages 77 to 92 is continuously reviewed by the Board through the Integrated Risk Management Committee.

The Board of Directors is satisfied with the effectiveness of the system of internal control for the year under review and up to the date of approval of the Annual Report and Financial Statements. The Directors' Statement on Internal Control and the Auditors' Report thereon are given on pages 135 to 137.

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

33. Corporate Governance
The Board of Directors operates on the firm belief that sound governance practices are fundamental to earn stakeholder trust which is critical to sustaining performance and enhancing shareholder value. Thus, in the management of the Bank, the Directors have placed emphasis on conforming to the best corporate governance practices and procedures, and introduced/improved appropriate systems and structures to enhance risk management measures and to improve accountability and transparency. A detailed report on Corporate Governance is given on pages 93 to 100.

As required by Section 3(8) (ii) (g) of Direction No 11 of 2007 of the Banking Act on Corporate Governance for Licensed Commercial Banks issued by the Central Bank of Sri Lanka, the Board of Directors confirms that all the findings of the "Factual Findings Reports" of auditors issued under "Sri Lanka Related Services Practice Statement 4400" have been incorporated in the Annual Corporate Governance Report on pages 101 to 117.

The Directors declare that,
(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 level of compliance in each quarter to the Board;
(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 equitable treatment of shareholders;
(iv) the business is a going concern; 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.

34. Stakeholder Management and Communication
The Bank believes that building and maintaining good stakeholder relationships help it to manage and respond to expectations, minimise reputational risk and form strong partnerships, all of which support commercial sustainability. The measures initiated by the Bank to manage its valued stakeholders is given in the Section on 'Stakeholder Engagement' on pages 13 to 15.

35. Annual General Meeting
The 25th Annual General Meeting will be held at the "Auditorium" of Sri Lanka Foundation at No. 100, Sri Lanka Padanama Mawatha, Independence Square, Colombo 07 on 31 March 2019 at 2.00 p.m. Notice of the meeting relating to the 25th Annual General Meeting is enclosed at the end of the Annual Report.

36. 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,

Atul Malik
Chairman

Indrajit Wickramasinghe
Director/Chief Executive Officer

Inoka Jayawardhana
Company Secretary

26 February 2020

DIRECTORS' STATEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Responsibility

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

The Board of Directors ("Board") is responsible for the adequacy and effectiveness of the internal control mechanism in place at Union Bank of Colombo PLC, ("the Bank"). In considering such adequacy and effectiveness, the Board recognises that the business of banking requires reward to be balanced with risk on a managed basis and as such the internal control systems are primarily designed with a view to highlighting deviations, if any from the limits and indicators which comprise the risk appetite of the Bank. In this light, the system of internal controls could only provide reasonable, but not absolute assurance, against material misstatement on financial reporting and records, and against financial losses or frauds.

The Board had established an ongoing process for identifying, evaluating and managing significant risks faced by the Bank and mitigates such risks by enhancing the system of internal control over financial reporting as and when there are changes to the operations and business environment including compliance with regulatory guidelines. This ongoing process is regularly reviewed by the Board and accords with the Guidance for Directors of Banks on the Directors' Statement on Internal Control issued by the Institute of Chartered Accountants of Sri Lanka. The Board had assessed the internal control over financial reporting taking into account principles for the assessment of internal control system as given in that guidance.

The Board is of the view that the system of internal controls over financial reporting in place is sound and adequate to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of financial statements for external purposes is in accordance with relevant accounting principles and regulatory requirements.

The Management assists the Board in the implementation of the Board's policies and procedures on risk and control by identifying and assessing the risks faced, and in the design operation and monitoring of appropriate internal controls to mitigate these risks.

Key Features of the Process Adopted in Applying in Reviewing the Design and Effectiveness of the Internal Control System Over Financial Reporting

The key processes that had been established in assessing the adequacy and effectiveness of the system of internal controls with respect to financial reporting include the following:

- Committees had been established to assist the Board to ensure the corporate objectives, strategies, annual budget as well as the policies and business directions that had been approved by the Board are implemented effectively and are reflected in the Bank's operations;
- The Internal Audit Division of the Bank checks for compliance with policies and procedures and assesses the effectiveness of the internal control systems on an ongoing basis and highlight significant findings in respect of instances of non-compliance. Audits are carried out to ensure coverage on all departments and branches in accordance with the annual audit plan approved by the Board Audit Committee (BAC). The frequency of audits and coverage is determined by the level of risk assessed. The annual audit plan is reviewed periodically by the BAC and the plan aligned to suit the changes in the risk profile of the Bank. Findings from the Internal Audit are submitted to the BAC for review at their periodic meetings;
- The BAC of the Bank reviews gaps in internal controls identified by Internal Audit, External Auditors, Regulatory Authorities and the Management: and provides advice and direction on remediation and follows up on corrective action taken. The BAC also reviews the Internal Audit function with particular emphasis on the scope and quality of audits. The minutes of the BAC meetings are forwarded to the Board on a periodic basis. Further details of the activities undertaken by the BAC of the Bank are set out in the Audit Committee Report on pages 118 to 120;
- The Integrated Risk Management Committee (IRMC) is established to assist and support the Board in assuring that the Risk Management framework is adequate and robust to perform the oversight function in relation to the risk categories of credit, market, liquidity and operations risks. All information pertaining to the statutory, regulatory and fiduciary developments and requirements, are shared by the committees with Key Management;
- Operational committees had also been established with appropriate mandates to ensure effective management and supervision of the Bank's core areas of business operations.
- In assessing the internal control system over financial reporting, the Bank continues to review and update all procedures and controls that are connected with significant accounts and disclosures in the financial statements. The Bank had processed and procedures to adopt new and revised Sri Lanka accounting standards. The Bank would continue to improve procedure manuals for incorporating changes to, and adopting new Sri Lanka Accounting standards as appropriate.
- Further to the adoption of new Sri Lanka Accounting Standards comprising SLFRS and LKAS, the Bank further strengthened the processes and procedures initially applied to adopt the aforementioned accounting standards during the years based on the feedback received from the External Auditors, Internal Audit Department, Regulators and the Board Audit Committee. The Bank would continue to further strengthen the processes such as impairment of Loans & Advances and Financial Statement Disclosures related to risk management based on the feedback received from Internal and External Auditors and as per best practices. The Bank had 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. The Management is currently reviewing options available to automate the financial reporting process.

DIRECTORS' STATEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

- SLFRS 9 – "Financial Instruments", became applicable for financial reporting periods beginning on or after 1 January 2018. SLFRS 9 poses a significant impact on impairment assessment of financial assets where by the impairment assessment approach shifted from an "incurred credit loss model" applied based on LKAS 39 – "Financial Instruments – Recognition and Measurement" to an "expected credit loss model". Further, this standard creates a significant impact on the processes adopted for classification of financial instruments which is now driven by the "business model" based on which the financial instruments are held and the contractual cash flow characteristics of the instrument. Giving due regard to the complexities involved with the implementation of this standard, the Bank began the implementation journey in 2017 with the assistance of a firm of external consultants. During the year, the Bank continued to refine the statistical models used in the computations and the procedures used for data extraction which is essential for the successful implementation of the standard. The Financial Statements for the year ended 31 December 2019 have been presented in line with SLFRS 9.
- The Bank adopted Sri Lanka Accounting Standard - SLFRS 16 "Leases" which became effective for financial reporting periods beginning on or after 1 January 2019 and required adjustments have been incorporated in financial statements for the year ended 31 December 2019.
- 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 had been taken to rectify them. The recommendations made by the External Auditors in 2019 in connection with the internal control system over financial reporting would be dealt with in the next financial year.

Confirmation

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

Review of the Statement by External Auditors

The External Auditors, Messrs Ernst & Young, had reviewed the above Directors Statement on Internal Control over Financial Reporting included in the Annual Report of the Bank for the year ended 31 December 2019 and reported to the Board that nothing had 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 137 of this Annual Report.

By order of the Board

Sarath Wikramanayake
Chairman - Board Audit Committee

Atul Malik
Chairman

Indrajit Wickramasinghe
Chief Executive Officer

Inoka Jayawardhana
Company Secretary

Colombo, Sri Lanka

26 February 2020

ASSURANCE REPORT ON INTERNAL CONTROL

Building a better working world

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INDEPENDENT ASSURANCE REPORT TO THE BOARD OF DIRECTORS OF UNION BANK OF COLOMBO PLC

Report on the Director's Statement on Internal Control

We were engaged by the Board of Directors of Union Bank of Colombo PLC ("Bank") to provide assurance on the Directors' Statement on Internal Control over Financial Reporting ("Statement") included in the annual report for the year ended 31 December 2019.

Management's responsibility

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

Our Independence and Quality Control

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

26 February 2020
Colombo

GRI CONTENT INDEX

GENERAL DISCLOSURES			
GRI Topics	*Description*	*Page Number*	*External Assurance*
Organisational Profile			
GRI 102-1	Name of the organisation	Inner Back Cover	Yes
GRI 102-2	Activities, Brands, Products and services	29	Yes
GRI 102-3	Location of organisation's head quarters	Inner Back Cover	Yes
GRI 102-4	Location of operations	7	Yes
GRI 102-5	Ownership and Legal form	166, Inner Back Cover	Yes
GRI 102-6	Markets served	29, 46-47	Yes
GRI 102-7	Scale of the organisation	59, 73, 160	Yes
GRI 102-8	Information on employees and other workers	59	Yes
GRI 102-9	Supply chain	66-67	Yes
GRI 102-10	Significant changes to the organisation and its supply chain	7	Yes
GRI 102-11	Precautionary Principle or approach	11	Yes
GRI 102-12	External initiatives	7	Yes
GRI 102-13	Membership of associations	66	Yes
Strategy			
GRI 102-14	Statement from senior decision-maker	22-23	Yes
GRI 102-15	Key impacts, risks, and opportunities	18-19	Yes
Ethics and Integrity			
GRI 102-16	Values, principles, standards, and norms of behavior	5, 11, 100	Yes
Governance			
GRI 102-18	Governance structure	94	Yes
Stakeholder Engagement			
GRI 102-40	List of stakeholder groups	13	Yes
GRI 102-41	Collective bargaining agreements	58-59	Yes
GRI 102-42	Identifying and selecting stakeholders	15	Yes
GRI 102-43	Approach to stakeholder engagement	14	Yes
GRI 102-44	Key topics and concerns raised	14	Yes
Reporting Practice			
GRI 102-45	Entities included in the consolidated financial statements	39	Yes
GRI 102-46	Defining report content and topic boundaries	7, 12	Yes
GRI 102-47	List of material topics	8-12	Yes
GRI 102-48	Restatements of information	7	Yes
GRI 102-49	Changes in reporting	8	Yes
GRI 102-50	Reporting period	7	Yes
GRI 102-51	Date of most recent report	7	Yes
GRI 102-52	Reporting cycle	7	Yes
GRI 102-53	Contact point for questions regarding the report	12	Yes
GRI 102-54	Claims of reporting in accordance with the GRI Standards	7	Yes
GRI 102-55	GRI content index	138-139	Yes
GRI 102-56	External assurance	7, 140-141	Yes
Management Approach			
GRI 103-1	Explanation of the material topic and its boundary	8-11	Yes
GRI 103-2	The management approach and its components	8-11	Yes
GRI 103-3	Evaluation of the management approach	8-11	Yes

GRI CONTENT INDEX

TOPIC SPECIFIC DISCLOSURES			
GRI Topics	*Topics*	*Page Number*	*External Assurance*
Category: Economic			
GRI 201 - Economic Performance			
GRI 201-1	Direct economic value generated and distributed	292	Yes
GRI 201-2	Financial implications and other risks and opportunities due to climate change	18-19	Yes
GRI 201-3	Defined benefit plan obligations and other retirement plans	232-233	Yes
GRI 206 - Anti Competitive Behaviour			
GRI 206-1	Legal actions for anti-competitive behaviour, anti-trust, and monopoly practices	67	Yes
Category : Environmental			
GRI 302 - Energy			
GRI 302-1	Energy consumption within the organisation	8	Yes
Category: Social			
GRI 401 - Employment			
GRI 401-1	New employee hires and employee turnover	60-61	Yes
GRI 401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	61	Yes
GRI 402 - Labour/Management Relations			
GRI 402-1	Minimum notice periods regarding operational changes	11	Yes
GRI 403 - Occupational Health and Safety			
GRI 403-2	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	65	Yes
GRI 404 - Training and Education			
GRI 404-1	Average hours of training per year per employee	63	Yes
GRI 404-2	Programs for upgrading employee skills and transition assistance programs	63	Yes
GRI 404-3	Percentage of employees receiving regular performance and career development reviews	64	Yes
GRI 405 - Diversity and Equal Opportunity			
GRI 405-1	Diversity of governance bodies and employees	60	Yes
GRI 405-2	Ratio of basic salary and remuneration of women to men	62	Yes
GRI 406 - Non Discrimination			
GRI 406-1	Incidents of discrimination and corrective actions taken	58	Yes
GRI 408 - Child Labour			
GRI 408-1	Operations and suppliers at significant risk for incidents of child labour	58-59	Yes
GRI 409 - Forced or Compulsory Labour			
GRI 409-1	Operations and suppliers at significant risk for incidents of forced or compulsory labour	58-59	Yes
GRI 417 - Marketing and Labelling			
GRI 417-1	Requirements for product and service information and labelling	57	Yes
GRI 417-2	Incidents of non-compliance concerning product and service information and labellWing	67	Yes
GRI 417-3	Incidents of non-compliance concerning marketing communications	67	Yes
GRI 418 - Customer Privacy			
GRI 418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	67	Yes
GRI 419 - Socio Economic Compliance			
GRI 419-1	Non-compliance with laws and regulations in the social and economic area	67	Yes

INDEPENDENT ASSURANCE REPORT ON SUSTAINABILITY REPORTING

Building a better working world

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Chartered Accountants
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Independent Assurance Report to Union Bank of Colombo PLC on the Sustainability Reporting Criteria Presented in the Integrated Annual Report- 2019.

Introduction and scope of the engagement
The management of Union Bank of Colombo PLC ("the Company") engaged us to provide an independent assurance on the following elements of the sustainability reporting criteria presented in the annual report- 2019 ("the Report").

- Reasonable assurance on the information on financial performance as specified on page 292 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' – Core guidelines.

Basis of our work and level of assurance

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

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

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

Management of the Company's responsibility for the Report

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

Ernst & Young's responsibility

Our responsibility is to express a conclusion as to whether we have become aware of any matter that causes us to believe that the Report is not prepared in accordance with the requirements of the Global Reporting Initiative, GRI Standards: 'In accordance' - Core guidelines. This report is made solely to the Company in accordance with our engagement letter dated 09 December 2019. We disclaim any assumption of responsibility for any reliance on this report to any person other than the Company or for any purpose other than that for which it was prepared. In conducting our engagement, we have complied with the independence requirements of the Code for Ethics for Professional Accountants issued by the CASL.

Key assurance procedures

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

- Interviewing relevant the company's personnel to understand the process for collection, analysis, aggregation and presentation of data.
- Reviewing and validation of the information contained in the Report.
- Checking the calculations performed by the Company on a sample basis through recalculation.
- Reconciling and agreeing the data on financial performance are properly derived from the Company's audited financial statements for the year ended 31 December 2019.

INDEPENDENT ASSURANCE REPORT ON SUSTAINABILITY REPORTING

EY
Building a better working world

- Comparison of the content of the Report against the criteria for a Global Reporting Initiative, GRI Standards: 'In accordance' – Core guidelines.

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

Limitations and considerations

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

Conclusion

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

- The information on financial performance as specified on page 292 of the Report are properly derived from the audited financial statements of the Company for the year ended 31 December 2019.
- Nothing has come to our attention that causes us to believe that other information presented in the Report are not fairly presented, in all material respects, in accordance with the Company's sustainability practices and policies some of which are derived from Sustainability Reporting Guideline, GRI Standards- 'In accordance' Core.

Ernst & Young

Ernst & Young
Chartered Accountants

26 February 2020
Colombo

BOARD OF DIRECTORS

1. Gaurav Trehan
Non Independent, Non Executive Director

2. Michael J O'Hanlon
Non Independent, Non Executive Director

3. Sabry Ghouse
Independent, Non Executive Director

4. Atul Malik
Chairman/ Non Independent Non Executive Director

5. Indrajit Wickramasinghe
Executive Director/ Chief Executive Officer

BOARD OF DIRECTORS

6. Priyantha Fernando
Deputy Chairman/ Senior Director/ Independent, Non Executive Director

7. Sarath Wikramanayake
Independent, Non Executive Director

8. Dilshani Wijayawardana
Independent, Non Executive Director

9. Trevine Fernandopulle
Independent, Non Executive Director

10. Puneet Bhatia
Non Independent, Non Executive Director

PROFILES OF THE BOARD OF DIRECTORS

Atul Malik
Chairman/ Non Independent Non Executive Director

Atul Malik, who currently functions as a Senior Advisor to TPG for their financial services portfolio, is a senior financial services executive with extensive experience and a successful track record in establishing, expanding and managing scale businesses across Asian developed and emerging markets.

Prior to joining TPG in October 2017, he was an advisor to General Atlantic from 2015 to 2017, the CEO of Maritime Bank, one of the largest private banks in Vietnam, from 2012 to 2015 and a Senior Advisor to Asia Capital & Advisors, a boutique private equity firm, from 2011 to 2012.

Between 2007 and 2011, he was the Managing Director/Regional Head Asia-Private & Business Clients of Deutsche Bank with operations covering India, China and Vietnam. During this period he was also a member of the DB Asia Pacific Executive Committee and the Global Private and Business Clients (PBC) Executive Committee, and was nominated as the Non-Executive Director of DB China Limited.

During his 20 years long career at Citibank that commenced in 1988 with Citibank India, Mr. Malik has held a variety of senior roles, the last of which was as the Chief Executive Officer of Citibank Hong Kong (2004 to 2007), which is the Bank's largest retail and business banking operations in Asia. He was also a member of Citibank's Global Consumer Group Management Committee and the Asia Pacific Executive Committee.

Mr. Malik holds a Master's Degree in Business Administration from the Rice University, USA (1987) and B Tech Degree from IIT Bombay (1985).

Priyantha Fernando
Deputy Chairman/ Senior Director/ Independent, Non Executive Director

Priyantha Fernando has more than 37 years of experience in the banking and finance sectors. He was attached to the Central Bank of Sri Lanka serving in senior and diverse capacities. He was the Deputy Governor of the Central Bank in 2010-2011 in charge of the Financial System Stability and the Corporate Service clusters. Mr. Fernando has extensive experience and expertise in the fields of Banking and Financial Sector Regulation, Information Technology, National Accounting and Statistics, Fund Management, Risk Management and Restructuring, Recovery and Stabilisation of Financially Distressed Companies. At the Central Bank he was the Chairman of the Financial Stability Committee, Member of the Monetary Policy Committee, Member of the Risk Management Committee and the Chairman of the National Payment Council.

He was an Ex-Officio Board Member in several regulatory organisations namely, the Securities and Exchange Commission, the Insurance Board of Sri Lanka, the Chairman of the Credit Information Bureau, Institute of Bankers - Sri Lanka and Board Member at Employee's Trust Fund, Lanka Clear (Pvt) Ltd and Lanka Financial Services Bureau. During his career he has initiated and spearheaded several key projects of national importance, especially in the area of the advancement of the national payments and settlement system.

Mr. Fernando has served in a number of committees at national level covering a range of subjects representing the Central Bank.

Presently, Mr. Fernando holds directorships in Commercial Leasing and Finance PLC, Ambeon Capital PLC (formerly known as Taprobane Holdings PLC), Ceylon Leather Products PLC, Thomas Cook Travels Sri Lanka (Pvt) Ltd, Imperial Institute of Higher Education and Millennium Information Technologies (Pvt) Ltd.

Indrajit Wickramasinghe
Executive Director/ Chief Executive Officer

Indrajit Wickramasinghe was appointed as Director/Chief Executive Officer on the 15th of November 2014. He counts for over 30 years of Management experience having worked in both the financial and consumer sectors in both local and multinational companies. He holds an MBA from the University of Sri Jayewardenepura and is a Fellow of the Chartered Institute of Marketing UK, a Member of the Association of Professional Bankers and a member of the Oxford Business Alumni, University of Oxford.

Prior to his appointment as Director/CEO of the Bank, he served as the Chief Operating Officer of NDB Bank where he was responsible for all business areas including Retail Banking, Corporate Banking, SME Banking and Project Finance. Prior to that he held positions as a Vice President looking after functions such as HR, Marketing and seven years as Vice President heading Retail Banking. Mr. Wickramasinghe was also a Non-Executive Director of Eagle Insurance/Aviva NDB Insurance, NDB Capital Holdings PLC, NDB Securities (Pvt) Ltd, Development Holdings (Pvt) Ltd and the Credit Information Bureau of Sri Lanka.

He currently serves as a Non-Executive Director of National Asset Management Ltd and UB Finance Company Ltd.

Sabry Ghouse
Independent, Non Executive Director

Sabry Ghouse was appointed to the Board as an Independent, Non-Executive Director on 30th August 2012. His banking career spans over 27 years with leading international Banks. He counts 10 years' experience serving in overseas markets.

He was employed by American Express Bank, Standard Chartered Bank and Al Rajhi Banking and Investment Corporation of Saudi Arabia, and was responsible for the setting up of Retail Banking, allied operations and crafting of Strategy at all of these banks to emerge a leader in their chosen market.

PROFILES OF THE BOARD OF DIRECTORS

He joined American Express Bank Sri Lanka in 1991 to launch the American Express card to the Sri Lankan market which was the first corporate card to be launched in the country and was responsible for the card issuance and acquisition business in Sri Lanka and the Maldives. Thereafter he moved to Standard Chartered Bank as Head of Retail Banking. He was seconded by Standard Chartered Bank in 2000 as Regional Head of Consumer Banking for the Levant Region where he was responsible for the successful acquisition and transition of the Grindlays Bank business, subsequent to Standard Chartered's global acquisition of Grindlays franchise.

He was recognised by Standard Chartered Bank for his contribution to society and sustainable business particularly his contribution to the community through his work with the mentally challenged Children in Jordan. He was selected for executive leadership programs conducted by the London Business School, UK and Templeton, Oxford UK.

In 2006 he was appointed Director Retail Banking Al Rajhi Bank Malaysia by its parent Al Rajhi Banking and Investment Corporation, Saudi Arabia, to develop a retail banking model and set up operations, on their entry into the Malaysian market. This was a first for the most profitable bank among the top 50 banks in the Gulf Cooperation Council (GCC) at the time. Under his stewardship Al Rajhi Bank Malaysia, was able to break even in the 4th year with a network of branches throughout Malaysia.

Mr. Ghouse was a former Director of the Credit Information Bureau (CRIB) in Sri Lanka and holds a Master's Degree in Business Administration (MBA) from the University of Western Sydney, Australia.

Gaurav Trehan

Non Independent, Non Executive Director

Gaurav Trehan is a Partner of TPG based in Mumbai. Since joining TPG in 2004, Gaurav has spent time in TPG's Hong Kong and Mumbai offices and has evaluated and executed private equity transactions in India and Southeast Asia. Prior to joining TPG, he worked in the Mergers, Acquisitions and Restructurings Department of Morgan Stanley in Menlo Park with a focus on the technology sector. Gaurav received a BS in Mathematics and Applied Science and Economics from UCLA. He also serves on the Boards of Manipal Health Enterprises Private Ltd, Jana Capital Ltd, Shriram General Insurance Co Ltd, Shriram Life Insurance Co Ltd, Five-Star Business Finance Limited and Ess Kay Fincorp Limited.

Puneet Bhatia

Non Independent, Non Executive Director

Puneet Bhatia is the Co-Managing Partner for TPG Capital Asia and the head of TPG Capital India. He has created and led over a dozen transactions and invested close to $2bn for TPG Capital in India including Matrix Laboratories, Vishal Retail, invested over $500m in the Shriram group in four of the group companies, in Manipal Hospitals, Union Bank of Colombo PLC and Jana Capital Ltd and recently in the largest private equity transaction in India in UPL, Sai Pharma and RR Kabel. He currently serves on the Board of Directors of these companies.

Prior to joining TPG in April 2002, Mr. Bhatia was Chief Executive, Private Equity Group for GE Capital India ("GE Capital"), where he was responsible for conceptualising and creating its direct and strategic private equity investment group. As Chief Executive, he created and handled a portfolio of almost a dozen companies such as TCS, Patni Computers, BirlaSoft, Sierra Atlantic, iGate, Indus Software and Rediff. He was also responsible for consummating some of GE Capital's joint ventures in India. Prior to this, Mr. Bhatia was with ICICI Ltd from 1990 to 1995 in the Project and Corporate Finance group and worked as Senior Analyst with Crosby Securities from 1995 to 1996.

Mr. Bhatia was born, grew up in and is based in India. He has a B.Com Honors degree from the Sriram College of Commerce, Delhi and an MBA from the Indian Institute of Management, Calcutta.

Michael J O'Hanlon

Non Independent, Non Executive Director

Michael J O'Hanlon is a Senior Advisor to TPG focusing on its financial institution investments. He currently is Chairman of the Board of Roosevelt Management Company, LLC, an asset manager, and Chairman of the Board of Rushmore Loan Management Services, LLC, a residential mortgage loan originator and servicer. He has served on the boards of other TPG portfolio companies including Shenzhen Development Bank, Korea First Bank and Bank Thai. Until December 2005, Mr. O'Hanlon was a Managing Director at Lehman Brothers where he worked for over 25 years. Mr. O'Hanlon led the firm's commercial and residential mortgage finance efforts during the late 1980s through 1995. In 1996, he became the head of the Financial Institutions Group and in mid-1999, he moved to Japan to head Japanese Investment Banking and the Asian Financial Institutions Groups, among other roles. Some key projects in Asia included leading the teams for TPG's investment in Korea First Bank and Lehman Brother's investment in Aozora Bank.

Dilshani Wijayawardana

Independent, Non Executive Director

Dilshani Wijayawardana is an Attorney-at-Law of the Supreme Court of Sri Lanka. She has obtained her Masters in Law Degree from the University of Cambridge and has been in active commercial law practice since 1996. As of date she also appears in primary and appellate court litigation with President's Counsel K. Kanag-Isvaran.

Ms. Wijayawardana began her legal career in the year 1996 as a Research Assistant to Hon. Justice Mark Fernando and then went on to work as a Legal Executive at Shook Lin & Bok-Advocates and Solicitors, Singapore in the year 1999. She has published many articles on commercial law and is also the co-author of the book 'Company Law' published in the year 2014. She has served as a Commissioner at the Securities and Exchange Commission of Sri Lanka. She also served as a member of the Committee appointed for the revision of the Code of Intellectual Property in Sri Lanka and the Advisory Committee appointed for the drafting of the new Securities and Exchange Act.

PROFILES OF THE BOARD OF DIRECTORS

Trevine Fernandopulle
Independent, Non Executive Director

Trevine Fernandopulle is a veteran Banker with over 40 years' experience in the financial services sector. Prior to being appointed as a director of Union Bank, he served as the Group Chief Risk Officer/Executive Vice President - Risk of the DFCC Group from 2012 to 2016. During 2009 to 2012, he served as the Chief Risk Officer at Bank of Ceylon, having initiated the setting up of its Risk Management functions as an Independent Risk Specialist.

Mr. Fernandopulle commenced his banking career in 1978 with HSBC -Sri Lanka, where he served for 30 years until his retirement in 2008. During his tenure at HSBC, he acquired wide knowledge and exposure to international banking and risk management specialisms; having provided leadership to numerous functions including Risk Management, Foreign Exchange and Treasury, International Trade, Corporate Banking and Retail Operations of the Bank and rising to the position of Deputy Chief Executive Officer (DCEO) of HSBC Sri Lanka.

Mr. Fernandopulle, is a Board member of the National Insurance Trust Fund and also serves on their Audit, Investment and Remuneration committees. He serves as a member of the Board of AMW Capital Leasing and Finance PLC (an Al Futtaim Group Dubai owned company) and its Audit, Risk and Remuneration Committees. He is the Chairman of the Board of Trustees of Joseph Frazer Memorial Hospital, a Past President of Chartered Institute of Bankers (Sri Lanka Branch) and, a Founder Member/past Vice President of the Association of Banking Risk Professionals of Sri Lanka. Mr. Fernandopulle holds a BSc. (Mathematics) from Imperial College, University of London (UOL), an MSc (Statistics) from the London School of Economics, UOL and is also an Associate/ Fellow of the Chartered Institute of Bankers, London.

Sarath Wikramanayake
Independent, Non Executive Director

Sarath Wikramanayake is a senior financial executive with extensive experience of over 27 years in the banking industry and 16 years in the insurance industry. He has served on the boards of a number of leading entities including National Development Bank PLC and was the CEO of Union Assurance Limited from 1999 to 2003. Prior to that, he worked for the Bank of Butterfield, a Bermuda-based international bank for 19 years, where he served as an Executive Vice President and CFO, and also held overall responsibility for running operations in the UK, Channel Islands, Hong Kong, Singapore and the Cayman Islands.

He is also a Director of several other companies including AIA Insurance Lanka PLC, NDB Wealth Management Ltd, NDB Investment Bank Ltd, NDB Capital Holdings Ltd, NDB Zephyr Partners Lanka (Private) Ltd and NDB Capital Ltd (Bangladesh).

Mr. Wikramanayake is a fellow of the Institute of Chartered Accountants of Sri Lanka since 1979.

Sanjeev Mehra
Alternate Director To Puneet Bhatia

Sanjeev Mehra is a Vice President at TPG Capital Asia based in Mumbai. Prior to joining TPG in 2018, he worked with WestBridge Capital, Actis and SAIF Partners. Mr. Mehra holds an MBA from London Business School and an undergraduate degree in Economics from Delhi University.

LEADERSHIP TEAM

01. Indrajit Wickramasinghe
Director/Chief Executive Officer

02. Wije Dambawinne
Vice President - Head of Treasury

03. Hiranthi de Silva
Vice President - Wholesale Banking

04. Sri Ganendran
Vice President - Operations

05. Ravi Jayasekera
Vice President - Human Resources

06. Chaya Jayawardane
Vice President - Retail Banking

07. Inoka Jayawardhana
Vice President - Head of Legal and Company Secretary

08. Nisala Kodippili
Chief Information Officer

09. Asanka Ranhotty
Vice President – SME & Transaction Banking

10. Suhen Vanigasooriya
Chief Risk Officer

ASSISTANT VICE PRESIDENTS


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01. Naveen Anthonypillai
Assistant Vice President - Head of SME

02. Rushira De Silva
Assistant Vice President - Corporate Banking Team Head

03. Thishani Dissanayake
Assistant Vice President - Marketing

04. Manisha Fernando
Assistant Vice President - Head of Retail Liability Products & Alternate Channels

05. Mahendra Illangasinghe
Assistant Vice President - Head of Branch Network

06. Indika Mendis
Assistant Vice President - Treasury

07. Malinda Perera
Assistant Vice President - Head of Retail Liability Sales & Contact Centre

08. Nirosha Perera
Assistant Vice President - Head of Internal Audit

09. Asanga Tennakoon
Assistant Vice President - Corporate Banking Team Head

CHIEF MANAGERS

01. Nalin Ahangama
Chief Manager - Trade Operations

02. Myuravathani Balamurali
Chief Manager - Treasury Operations

03. Chaminda Fernando
Chief Manager - Zonal Head - Zone I B

04. Nipuna Ganegoda
Chief Manager - Head of Elite Banking

05. Chamara Gomis
Chief Manager - Head of Cards

06. Darsha Hendahewa
Chief Manager - Treasury and Bank Notes Operation

07. Janaka Iroshan
Chief Manager - Application Development & Support

08. Jayanath Kariyakarawana
Chief Manager - Recoveries

09. Irani Karunanayake
Chief Manager - Legal

10. Saman Kottawatta
Chief Manager - Zonal Head - Zone III

11. Sandamali Munasinghe
Chief Manager - Legal

CHIEF MANAGERS

12. Ayesha Naotunna
Chief Manager - Finance

13. Kathirgamathamby Nishaaharan
Chief Manager - Zonal Head - Zone IV

14. Jeewantha Perera
Chief Manager - Branch Operations / Head of Leasing

15. Ruchira Perera
Chief Manager - Corporate Banking

16. Shiran Punchihewa
Chief Manager - Business Information Technology

17. Anuruddha Ranasinghe
Chief Manager - Zonal Head - Zone II

18. Gihan Samarasinghe
Chief Manager - Bancassurance

19. Damith Sumathirathne
Chief Manager - Retail Assets Sales

20. Dhananjeyan Wijendra
Chief Manager - Retail Assets Centre

21. Dinuke Wijesinghe
Chief Manager - Risk

SENIOR MANAGERS

01. Dinesh Balendran
Senior Manager - Operational Risk

02. Lashika Bhareti
Senior Manager - Card Products

03. Kanchana De Silva
Senior Manager - Exports and Imports

04. Kolitha De Silva
Senior Manager - Old Moor Street Branch

05. Kasun De Silva
Senior Manager - Zonal Head - Zone I A

06. Shihan De Silva
Senior Relationship Manager

07. Janaka Edirisinghe
Senior Manager - Development Financing & Portfolio Monitoring

08. Deepal Edirisinghe
Senior Manager - Premises

09. Rangika Ekanayaka
Senior Manager - Attidiya Branch

10. Manula Ekanayake
Senior Manager - Implementations & Client Integration

11. Minoli Fernando
Senior Manager - Finance

12. Roshan Fernando
Senior Manager - Internal Audit

13. Clifford Fernando
Senior Manager - Kandy Branch

14. Rukmal Fernando
Senior Manager - Credit Risk

15. Ashanthi Fernando
Senior Relationship Manager

16. Thangavelu Gobinath
Senior Manager - Institutional CASA

17. Osadhi Gunasekara
Senior Manager - Internal Audit

18. Asintha Gunawardena
Senior Relationship Manager - SME Zone I A

19. Mohamed Shazly Hasseen
Senior Manager - Head Office Branch

20. Minesh Jayasekera
Senior Manager - Remittances & NR Products

SENIOR MANAGERS

21. Suranga Jayaweera
Senior Manager - Retail Liability Sales

22. Sameera Kakulandara
Senior Manager - Nugegoda Branch

23. Nirosha Kapurubandara
Senior Manager - Product Development

24. Wimal Karunarachchi
Senior Manager - Portfolio Risk & Reporting

25. Kaminda Kumarasinghe
Senior Manager - Recoveries

26. Sailajah Nadarajah
Senior Manager - Treasury

27. Kithunika Nawalage
Senior Manager - Corporate Communications

28. Nimesha Nawalage
Senior Manager - SME Asset Centre

29. Frank Nesarajah
Senior Manager - Pettah Branch

30. Madhavi Obadage
Senior Manager - SME Credit

31. Surani Ondatjie
Senior Manager - Consumer Risk

32. Rohan Peiris
Senior Manager - Branch Operations

33. Mangala Perera
Senior Manager - IT Core Banking

34. Janithi Perera
Senior Manager - Clearing Operations

35. Chandani Perera
Senior Manager - Credit Operations

36. Dinuk Perera
Senior Relationship Manager - Mid-Market & Factoring

37. Shabbir Raheem
Senior Manager - Card Operations

38. Menaka Raigambandarage
Senior Manager - Head of Compliance

39. Dulin Rajapakse
Senior Manager - IT Projects

40. Asanka Ranasinghe
Senior Manager - Credit Referrals

SENIOR MANAGERS

41. Achala Ratnayake
Senior Manager - Finance

42. Dilan Rodrigo
Senior Manager - Transaction Banking Sales

43. Visal Rupasinghe
Senior Manager – Human Resources

44. Prashanthi Sabesan
Senior Manager – Human Resources and Organisation Development

45. Sivashankar Sakthivel
Senior Manager - Finance

46. Natalie Salgado
Senior Manager - Treasury

47. Thilini Samarasinghe
Senior Manager - Contact Centre

48. Sakthitharan Sarma
Senior Manager - Systems & Network Administration

49. Nadika Senaratne
Senior Manager - IT Operations

50. Dhanushka Sethuhewa
Senior Manager - Market Risk

51. Jesdharajan Shanmugeswaran
Senior Manager - Kotahena Branch

52. Christella Sivapragasam
Senior Relationship Manager - Elite Circle

53. Shehan Uduwara
Senior Manager - Head of Retail Recoveries

54. Nilmini Weerasekera
Senior Relationship Manager - Corporate Banking

55. Mithila Wickramasinghe
Senior Manager - Maharagama Branch

56. Ramani Wijeratne
Senior Manager - Ganemulla Branch

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FINANCIAL CALENDAR

2018 Annual Report and Audited Financial Statements was signed on	26 February 2019
24th Annual General Meeting held on	28 March 2019
Share Repurchase Offer at Rs.15/- per share	05 September 2019

	2019			
	Colombo Stock Exchange	**Newspapers (as required by CBSL)**		
		English	**Sinhala**	**Tamil**
Q1 ended 31 March*	07 May 2019	29 May 2019	29 May 2019	29 May 2019
Q2 ended 30 June*	23 July 2019	29 August 2019	29 August 2019	29 August 2019
Q3 ended 30 September*	01 November 2019	28 November 2019	28 November 2019	28 November 2019
Q4 ended 31 December	26 February 2020	30 March 2020	30 March 2020	30 March 2020

2019 Annual Report and Audited Financial Statements to be signed on	26 February 2020
25th Annual General Meeting to be held on	31 March 2020
Dividend for 2019 to be payable on	18 March 2020

	2020 to be submitted on or before			
	Colombo Stock Exchange	**Newspapers (as required by CBSL)**		
		English	**Sinhala**	**Tamil**
Q1 ended 31 March*	15 May 2020	29 May 2020	29 May 2020	29 May 2020
Q2 ended 30 June*	15 August 2020	31 August 2020	31 August 2020	31 August 2020
Q3 ended 30 September*	15 November 2020	30 November 2020	30 November 2020	30 November 2020
Q4 ended 31 December	28 February 2021	31 March 2021	31 March 2021	31 March 2021

* Based on unaudited information

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Building a better working world

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF UNION BANK OF COLOMBO PLC

Report on the audit of the consolidated financial statements

Opinion

We have audited the financial statements of Union Bank of Colombo PLC ("the Bank") and the consolidated financial statements of the Bank and its subsidiaries ("the Group"), which comprise the statement of financial position as at 31 December 2019, and the statement of profit or loss, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements of the Bank and the Group give a true and fair view of the financial position of the Bank and the Group as at 31 December 2019, and of their financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Basis for opinion

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

Key audit matters

Key audit matters are those matters that, in our professional 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.

INDEPENDENT AUDITOR' S REPORT ON FINANCIAL STATEMENTS

Key audit matter	How our audit addressed the key audit matter
Impairment allowance for loans and advances to customers We considered the Impairment allowance for loans and advances to customers as a key audit matter due to the materiality of the balances, Significant estimates, judgments and assumptions involved along with complex calculations. As at 31 December 2019, loans and advances to customers, net of impairment amounted to LKR 84,780 Million representing 65% of the Group's total assets as detailed in Note 29 to the Financial Statements. The Note 5.7 of the Financial Statements describes the basis of impairment allowance for loans and advances to customers and significant judgements and assumptions used by the management in its calculation.	Our audit procedures (among others) were designed to obtain sufficient and appropriate audit evidences, to assess the reasonableness of the impairment allowance these included the following: ➲ Focusing on the oversight, review and approval of impairment policies by the board audit committee and management, we evaluated the design, implementation of controls over measurement of loans and advances, in the light of the requirements in SLFRS 9. ➲ We tested the underlying calculations and data used in such calculations of impairment allowances; ➲ For loans and advances to customers individually assessed for impairment: - where impairment indicators existed, we evaluated 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; - where loans and advances to customers granted to customers with a higher risk of credit loss, we assessed the main criteria used by the management for determining whether an impairment event had occurred and the reasonableness of management estimation of such additional impairment. ➲ For loans and advances to customers collectively assessed for impairment: - we tested the completeness, relevance and accuracy 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 and re-performing the calculations. - 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 notes 5.7 and 29.

Other information included in the Group's 2019 Annual Report

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

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Building a better working world

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 1697.

26 February 2020
Colombo

FINANCIAL STATEMENTS

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STATEMENT OF PROFIT OR LOSS

For the year ended 31 December	Note	Page	BANK 2019 Rs.'000	BANK 2018 Rs.'000	GROUP 2019 Rs.'000	GROUP 2018 Rs.'000
Gross income	8	179	**14,712,069**	13,910,425	**16,781,718**	16,075,953
Interest income			**12,956,243**	12,142,268	**14,875,016**	14,120,894
Less: Interest expenses			**8,477,329**	8,490,006	**9,641,012**	9,655,390
Net interest income	9	179	**4,478,914**	3,652,262	**5,234,004**	4,465,504
Fee and commission income			**1,069,370**	968,008	**1,182,771**	1,120,153
Less: Fee and commission expenses			**214,146**	135,158	**224,552**	162,578
Net fee and commission income	10	180	**855,224**	832,850	**958,219**	957,575
Net fair value gains/ (losses) from financial instruments at fair value through profit or loss	11	181	**350,771**	309,519	**354,893**	309,519
Net gains/(losses) from financial investments	12	182	**323,660**	173,026	**324,186**	174,559
Other operating income	13	182	**12,025**	317,604	**44,852**	350,828
Total operating income			**6,020,594**	5,285,261	**6,916,154**	6,257,985
Less: Impairment for loans and other losses	14	183	**390,294**	342,282	**580,288**	576,339
Net operating income			**5,630,300**	4,942,979	**6,335,866**	5,681,646
Less:						
Personnel expenses	15	185	**1,883,326**	1,821,782	**2,128,124**	2,058,923
Depreciation and amortisation	16	186	**636,879**	382,573	**699,264**	415,895
Other expenses	17	186	**1,309,790**	1,525,120	**1,525,600**	1,791,648
Total operating expenses			**3,829,995**	3,729,475	**4,352,988**	4,266,466
Results from operating activities			**1,800,305**	1,213,504	**1,982,878**	1,415,180
Share of profit of equity accounted investees, net of tax	34.1	218	**103,823**	34,614	**-**	-
Profit before value added tax (VAT), nation building tax (NBT) and debt repayment levy (DRL) on financial services			**1,904,128**	1,248,118	**1,982,878**	1,415,180
Less: VAT, NBT and DRL on financial services	18	187	**712,527**	470,724	**781,623**	521,775
Profit before tax			**1,191,601**	777,394	**1,201,255**	893,405
Less: Tax expense	19	188	**481,254**	304,846	**397,037**	358,755
Profit for the year			**710,347**	472,548	**804,218**	534,650
Attributable to:						
Equity holders of the parent			**710,347**	472,548	**765,133**	517,750
Non controlling interest			**-**	-	**39,085**	16,900
Profit for the year			**710,347**	472,548	**804,218**	534,650
Earnings per share						
Earnings per share - Basic (Rs.)	20.1	190	**0.65**	0.43	**0.70**	0.47
Earnings per share - Diluted (Rs.)	20.2	190	**0.65**	0.43	**0.70**	0.47

The Notes to the Financial Statements from pages 166 - 276 form an integral part of these Financial Statements.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December	Note	Page	BANK 2019 Rs.'000	BANK 2018 Rs.'000	GROUP 2,019 Rs.'000	GROUP 2018 Rs.'000
Profit for the year			**710,347**	472,548	**804,218**	534,650
Other comprehensive income that will be reclassified to profit or loss in subsequent periods:						
Debt instruments at fair value through other comprehensive income						
Net change in fair value during the year			**51,225**	(840,798)	**51,225**	(840,798)
Reclassification to the income statement			**442,581**	199,740	**442,581**	199,740
Less: Income tax effect on above			**(138,266)**	179,497	**(138,266)**	179,497
Total items that will be reclassified to the statement of profit or loss			**355,540**	(461,561)	**355,540**	(461,561)
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:						
Actuarial gains/ (losses) on defined benefit plans	43.2.2	233	**(13,243)**	(9,051)	**(11,775)**	(3,724)
Revaluation gains/ (losses) on equity instruments at fair value through other comprehensive income			**-**	-	**(1,175)**	(28,650)
Less: Income tax effect on above			**3,708**	2,534	**3,297**	1,041
Share of other comprehensive income of equity accounted investees, net of tax	34.1	218	**159**	(11,805)	**-**	-
Total items that will not be reclassified to the statement of profit or loss			**(9,376)**	(18,322)	**(9,653)**	(31,333)
Other comprehensive income/(loss) for the year, net of taxes			**346,164**	(479,883)	**345,887**	(492,894)
Total comprehensive income for the year, net of tax			**1,056,511**	(7,335)	**1,150,105**	41,756
Attributable to:						
Equity holders of the parent			**1,056,511**	(7,335)	**1,111,297**	37,867
Non-controlling interest			**-**	-	**38,808**	3,889
Total comprehensive income for the year, net of tax			**1,056,511**	(7,335)	**1,150,105**	41,756

The Notes to the Financial Statements from pages 166 - 276 form an integral part of these Financial Statements.

STATEMENT OF FINANCIAL POSITION

As at 31 December	Note	Page	BANK 2019 Rs.'000	BANK 2018 Rs.'000	GROUP 2019 Rs.'000	GROUP 2018 Rs.'000
Assets						
Cash and cash equivalents	23	194	2,718,860	2,917,866	3,104,542	3,306,393
Balances with Central Bank of Sri Lanka	24	195	2,314,197	4,219,932	2,314,197	4,219,932
Placements with banks	25	195	94,257	3,265,425	94,257	3,265,425
Reverse repurchased agreements	26	196	426,823	417,146	1,009,581	950,998
Derivative financial instruments	27	196	6,230	34,274	6,230	34,274
Financial investments at fair value through profit or loss	28	197	3,228,565	2,863,121	3,270,208	2,863,121
Financial assets at amortised cost - loans and advances to customers	29	199	77,358,301	73,749,208	84,780,138	82,120,068
Financial assets at amortised cost - debt and other instruments	30	208	13,441,040	16,567,940	12,670,558	15,942,404
Financial investments at fair value through other comprehensive income	31	213	17,503,245	17,735,959	17,516,485	17,787,621
Current tax asset	32	216	1,148	336,167	1,148	336,167
Investments in real estate	33	216	-	-	112,563	118,633
Investments in subsidiaries	34	217	912,268	835,373	-	-
Goodwill and intangible assets	35	220	1,329,791	1,202,532	1,678,668	1,550,544
Property, plant and equipment and Right of use assets	36	223	1,482,366	789,158	1,741,074	1,013,541
Deferred tax assets	37	226	-	115,596	497,620	517,374
Other assets	38	228	936,568	870,457	1,042,696	1,005,213
Total assets			121,753,659	125,920,154	129,839,965	135,031,708
Liabilities						
Due to banks	39	229	11,475,176	9,348,209	11,601,966	9,515,547
Derivative financial instruments	27	196	4,515	71,750	4,515	71,750
Repurchased agreements	40	229	12,116,040	17,585,912	12,116,040	17,535,900
Due to customers	41	230	76,532,012	79,251,073	82,751,668	86,266,123
Other borrowed funds	42	231	1,242,450	1,234,220	2,514,058	2,921,647
Current tax liability	32	216	-	-	197,957	188,001
Deferred tax liabilities	37	226	62,299	-	63,062	1,436
Other liabilities	43	231	2,810,711	1,801,642	3,151,428	2,058,270
Total liabilities			104,243,203	109,292,806	112,400,694	118,558,674
Equity						
Stated capital	44	234	16,334,782	16,334,782	16,334,782	16,334,782
Share warrants	44.1	234	65,484	65,484	65,484	65,484
Statutory reserve fund	45	234	175,400	139,883	200,020	157,569
ESOP reserve	46.3.2	236	51,426	52,816	51,426	52,816
Fair value through OCI reserve			44,549	(310,991)	56,785	(306,184)
Retained earnings			838,815	345,374	490,129	(43,734)
Total equity attributable to equity holders of the Bank			17,510,456	16,627,348	17,198,626	16,260,733
Non-controlling interests	47	236	-	-	240,645	212,301
Total equity			17,510,456	16,627,348	17,439,271	16,473,034
Total equity and liabilities			121,753,659	125,920,154	129,839,965	135,031,708
Commitments and contingencies	48	237	32,014,254	34,337,204	32,104,191	34,528,827
Net asset value per share (Rs.)			16.16	15.23	15.87	14.90

The Notes to the Financial Statements from pages 166 - 276 form an integral part of these Financial Statements.

I certify that these Financial Statements are in compliance with the requirements of the Companies Act No. 07 of 2007.

Ayesha Naotunna
Acting Head of Finance

The Board of Directors is responsible for these Financial Statements.
Signed for and on behalf of the Board;

Priyantha Fernando
Deputy Chairman

Indrajit Wickramasinghe
Director/Chief Executive Officer

Inoka Jayawardene
Company Secretary

Colombo

26 February 2020

STATEMENT OF CHANGES IN EQUITY

BANK

	Note	Page	Stated Capital Rs.'000	Share Warrants Rs.'000	Statutory Reserve Fund Rs.'000	ESOP Reserve Rs.'000	Available for Sale Reserve Rs.'000	Fair value through OCI Reserve Rs.'000	Retained Earnings Rs.'000	Total Equity Rs.'000
Balance as at 31 December 2017			16,334,782	65,484	116,256	35,848	150,570	-	1,154,757	17,857,697
Transitional adjustment on the implementation of SLFRS 9										
- Bank			-	-	-	-	(150,570)	150,570	(952,085)	(952,085)
- Subsidiaries			-	-	-	-	-	-	(403,355)	(403,355)
Deferred tax on transitional adjustment			-	-	-	-	-	-	224,599	224,599
Restated opening balance as at 1 January 2018 under SLFRS 9			16,334,782	65,484	116,256	35,848	-	150,570	23,916	16,726,856
Total comprehensive income for the year										
Net profit for the year			-	-	-	-	-	-	472,548	472,548
Other comprehensive income			-	-	-	-	-	(461,561)	(18,322)	(479,883)
Total comprehensive income			-	-	-	-	-	(461,561)	454,226	(7,335)
Transactions with equity holders, recognised directly in equity										
Fair value of ESOP	46.3.1	236	-	-	-	16,968	-	-	-	16,968
Dividends to equity holders			-	-	-	-	-	-	(109,141)	(109,141)
Transfers during the year	45	234	-	-	23,627	-	-	-	(23,627)	-
Balance as at 31 December 2018			16,334,782	65,484	139,883	52,816	-	(310,991)	345,374	16,627,348
Transitional adjustment on the implementation of SLFRS 16										
- Bank			-	-	-	-	-	-	(31,435)	(31,435)
- Subsidiaries			-	-	-	-	-	-	(26,663)	(26,663)
Deferred tax on transitional adjustments			-	-	-	-	-	-	11,883	11,883
Restated opening balance as at 1 January 2019 under SLFRS 16			16,334,782	65,484	139,883	52,816	-	(310,991)	299,159	16,581,133
Total comprehensive income for the year										
Net profit for the year			-	-	-	-	-	-	710,347	710,347
Other comprehensive income			-	-	-	-	-	355,540	(9,376)	346,164
Total comprehensive income			-	-	-	-	-	355,540	700,971	1,056,511
Transactions with equity holders, recognised directly in equity										
Repurchase of shares			-	-	-	-	-	-	(125,798)	(125,798)
Fair value of ESOP			-	-	-	(1,390)	-	-	-	(1,390)
Transfers during the year			-	-	35,517	-	-	-	(35,517)	-
Balance as at 31 December 2019			16,334,782	65,484	175,400	51,426	-	44,549	838,815	17,510,456

GROUP

	Note	Page	Stated Capital Rs.'000	Share Warrants Rs.'000	Statutory Reserve Fund Rs.'000	ESOP Reserve Rs.'000	Available for Sale Reserve Rs.'000	Fair value through OCI Reserve Rs.'000	Retained Earnings Rs.'000	Total Equity Rs.'000	Non Controlling Interest Rs.'000	Total Rs.'000
Balance as at 31 December 2017			16,334,782	65,484	131,519	35,848	155,377	-	714,444	17,437,454	404,262	17,841,716
Transitional adjustment on the implementation of SLFRS 9			-	-	-	-	(155,377)	155,377	(1,347,014)	(1,347,014)	(146,850)	(1,493,864)
Deferred tax on transitional adjustment			-	-	-	-	-	-	224,599	224,599	-	224,599
Restated opening balance as at 1 January 2018 under SLFRS 9			16,334,782	65,484	131,519	35,848	-	155,377	(407,971)	16,315,039	257,412	16,572,451
Total comprehensive income for the year												
Net profit for the year			-	-	-	-	-	-	517,750	517,750	16,900	534,650
Other comprehensive income			-	-	-	-	-	(461,561)	(18,322)	(479,883)	(13,011)	(492,894)
Total comprehensive income			-	-	-	-	-	(461,561)	499,428	37,867	3,889	41,756
Transactions with equity holders, recognised directly in equity												
Fair value of ESOP	46.3.1	236	-	-	-	16,968	-	-	-	16,968	-	16,968
Transfers during the year	45	234	-	-	26,050	-	-	-	(26,050)	-	-	-
Dividends paid			-	-	-	-	-	-	(109,141)	(109,141)	(49,000)	(158,141)
Balance as at 31 December 2018			16,334,782	65,484	157,569	52,816	-	(306,184)	(43,734)	16,260,733	212,301	16,473,034
Transitional adjustment on the implementation of SLFRS 16			-	-	-	-	-	-	(58,204)	(58,204)	(10,564)	(68,768)
Deferred tax on transitional adjustments			-	-	-	-	-	-	11,988	11,988	100	12,088
Restated opening balance as at 1 January 2019 under SLFRS 16			16,334,782	65,484	157,569	52,816	-	(306,184)	(89,950)	16,214,517	201,837	16,416,354
Total comprehensive income for the year												
Net profit for the year			-	-	-	-	-	-	765,133	765,133	39,085	804,218
Other comprehensive income			-	-	-	-	-	355,540	(9,376)	346,164	(277)	345,887
Total comprehensive income			-	-	-	-	-	355,540	755,757	1,111,297	38,808	1,150,105
Transactions with equity holders, recognised directly in equity												
Repurchase of shares			-	-	-	-	-	-	(125,798)	(125,798)	-	(125,798)
Fair value of ESOP			-	-	-	(1,390)	-	-	-	(1,390)	-	(1,390)
Transfers during the year			-	-	42,451	-	-	-	(42,451)	-	-	-
Transfer of realised loss on share disposal			-	-	-	-	-	7,429	(7,429)	-	-	-
Balance as at 31 December 2019			16,334,782	65,484	200,020	51,426	-	56,785	490,129	17,198,626	240,645	17,439,271

STATEMENT OF CASH FLOWS

Accounting Policy

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 for the purpose of cash flow statement comprise of cash in hand and at banks, placements with banks, reverse repurchased agreements and unfavourable balances with local & foreign banks that are subject to an insignificant risk of change in their value.

			BANK		GROUP	
For the year ended			**2019**	**2018**	**2019**	**2018**
	Note	**Page**	**Rs.'000**	**Rs.'000**	**Rs.'000**	**Rs.'000**
Cash flow from operating activities						
Interest receipts			**12,891,606**	11,889,016	**14,714,098**	13,703,475
Fee and commission receipts			**855,224**	832,850	**958,219**	957,575
Interest payments			**(8,363,755)**	(8,055,095)	**(9,311,792)**	(9,164,848)
Receipts from other operating activities			**699,669**	1,393,556	**507,018**	1,584,492
Payments on other operating activities			**(4,141,374)**	(3,750,393)	**(4,582,527)**	(4,299,259)
Operating profit before changes in operating assets & liabilities			**1,941,370**	2,309,934	**2,285,016**	2,781,435
(Increase)/decrease in operating assets:						
Balances with Central Bank of Sri Lanka			**1,905,735**	(434,253)	**1,905,735**	(434,253)
Financial assets at amortised cost - loans and advances to customers			**(3,922,185)**	(4,278,727)	**(3,153,986)**	(4,709,728)
Others			**(38,066)**	(43,274)	**203,864**	(60,246)
			(2,054,516)	(4,756,254)	**(1,044,387)**	(5,204,227)
Increase /(decrease) in operating liabilities:						
Due to banks			**70,939**	(127,214)	**70,939**	(127,214)
Due to customers			**(2,742,477)**	8,423,480	**(3,697,400)**	9,024,538
Repurchased agreements			**(5,444,447)**	7,227,481	**(5,394,435)**	7,340,608
Others			**165,068**	(181,971)	**27,601**	(414,073)
			(7,950,917)	15,341,776	**(8,993,395)**	15,823,859
Net cash from/(used in) operating activities before income tax			**(8,064,063)**	12,895,457	**(7,752,767)**	13,401,067
Retirement benefit obligation paid	43.2.2	233	**(17,001)**	(18,836)	**(17,795)**	(23,694)
Income tax paid			**(91,103)**	(27,420)	**(112,763)**	(37,722)
Net cash flow from/(used in) operating activities			**(8,172,167)**	12,849,201	**(7,883,325)**	13,339,651
Cash flow from/(used in) investing activities						
Dividends received			**935**	46,732	**1,461**	2,303
Financial investments at fair value through profit or loss			**(384,363)**	3,100,762	**(421,995)**	3,100,762
Financial investments at fair value through other comprehensive income			**646,087**	(1,946,055)	**684,510**	(1,846,163)
Financial assets at amortised cost - debt and other instruments			**3,141,765**	(4,295,962)	**3,419,747**	(4,482,627)
Purchase of property, plant & equipment			**(181,752)**	(143,050)	**(193,829)**	(231,317)
Purchase of intangible assets			**(306,781)**	(62,336)	**(314,658)**	(65,454)
Proceeds from Sale of property, plant & equipment			**14,718**	13,381	**24,021**	16,284
Net cash flow from/(used in) investing activities			**2,930,609**	(3,286,528)	**3,199,257**	(3,506,212)
Cash flow from/(used in) financing activities						
Proceeds from shares			**(125,799)**	-	**(125,799)**	-
Increase/decrease in borrowings			**2,094,958**	(8,353,520)	**763,645**	(8,633,418)
Dividend paid	21.2	191	**-**	(109,141)	**-**	(158,141)
Net cash flow from/(used in) financing activities			**1,969,159**	(8,462,661)	**637,846**	(8,791,559)
Net increase/ (decrease) in cash and cash equivalents			**(3,272,399)**	1,100,012	**(4,046,222)**	1,041,879
Cash and cash equivalents at beginning of the year			**6,325,430**	5,225,418	**7,081,221**	6,039,341
Cash and cash equivalents at end of the year			**3,053,031**	6,325,430	**3,034,999**	7,081,220
Reconciliation of cash and cash equivalents						
Cash in hand and at banks	23	194	**2,718,860**	2,917,866	**3,104,542**	3,306,393
Placements with banks			**94,257**	3,265,382	**94,257**	3,266,132
Due to banks			**(186,814)**	(274,669)	**(1,173,285)**	(442,007)
Reverse repurchased agreements			**426,728**	416,851	**1,009,485**	950,702
Total cash and cash equivalents at end of the year			**3,053,031**	6,325,430	**3,034,999**	7,081,220

The Notes to the Financial Statements from pages 166 - 276 form an integral part of these Financial Statements.

STATEMENT OF CASH FLOWS

Reconciliation of liabilities arising from financing activities;

For the year ended 31 December 2019	31 December 2019 Rs.'000	Cash change Cash flow Rs.'000	Non cash change Foreign exchange movement Rs.'000	1 January 2019 Rs.'000
BANK				
Due to banks	10,997,784	2,043,819	12,208	8,941,756
Other borrowed funds	1,242,450	8,230	-	1,234,220
Less : Unfavorable balances with banks	(186,814)	87,855	-	(274,669)
Interest payable	(145,084)	(44,947)	-	(100,137)
Total	11,908,336	2,094,958	12,208	9,801,170
GROUP				
Due to banks	11,124,574	2,003,272	12,208	9,109,094
Other borrowed funds	2,514,058	(407,589)	-	2,921,647
Less : Unfavorable balances with banks	(1,173,285)	(731,278)	-	(442,007)
Interest payable	(304,677)	(100,760)	-	(203,917)
Total	12,160,670	763,645	12,208	11,384,817

For the year ended 31 December 2018	31 December 2018 Rs.'000	Cash change Cash flow Rs.'000	Non cash change Foreign exchange movement Rs.'000	1 January 2018 Rs.'000
BANK				
Due to banks	8,941,756	(8,388,448)	121,563	17,208,641
Other borrowed funds	1,234,220	9,408	-	1,224,812
Less : Unfavorable balances with banks	(274,669)	(84,462)	-	(190,207)
Interest payable	(34,480)	109,982	-	(144,462)
Total	9,866,827	(8,353,520)	121,563	18,098,784
GROUP				
Due to banks	9,109,094	(8,311,196)	121,563	17,298,727
Other borrowed funds	2,921,647	(46,586)	-	2,968,233
Less : Unfavorable balances with banks	(442,007)	(255,939)	-	(186,068)
Interest payable	(203,917)	(19,697)	-	(184,220)
Total	11,384,817	(8,633,418)	121,563	19,896,672

NOTES TO THE FINANCIAL STATEMENTS

1. Corporate Information

1.1 Reporting Entity {GRI 102-5}

Union Bank of Colombo PLC ("Bank") is a Public Limited Liability Company listed on the Colombo Stock Exchange, incorporated on 02 February 1995 and domiciled in Sri Lanka. It is a Licensed Commercial Bank regulated under the Banking Act No. 30 of 1988 and amendments thereto. The Bank was re-registered under the Companies Act No. 7 of 2007. The registered office of the Bank is located at No. 64, Galle Road, Colombo 03. The ordinary shares of the Bank have a primary listing on the Colombo Stock Exchange.

The staff strength of the Bank as at 31 December 2019 was 1,344 (2018: 1266)

1.1.1 Consolidated Financial Statements

The Consolidated Financial Statements for the year ended 31 December 2019 comprise of the Bank (parent company), the two subsidiaries, National Asset Management Limited and UB Finance Company Limited, and the Special Purpose Entity, Serandib Capital (Pvt) Ltd, (together referred to as the "Group").

National Asset Management Limited was incorporated on 28 September 1990 as a Limited Liability Company under the Companies Act No. 17 of 1982. The Company re-registered under the Companies Act No. 07 of 2007.

UB Finance Company Limited is an unquoted public limited Company, incorporated and domiciled in Sri Lanka. The Company was incorporated on 12 July 1961 under the Companies Ordinance No. 38 of 1938 and was re-registered as required under the provision of the Companies Act No. 7 of 2007. The Company has registered with the Central Bank of Sri Lanka as a Finance Company under the Finance Companies' Act No. 78 of 1988.

Serandib Capital (Pvt) Limited is a private investment Company formed in 2003. The Bank considers this as a Special Purpose Entity and due to the combination of activities and arrangements mentioned in Note 3.11, management determined that, in substance, the Bank controls this entity. Consequently, Serandib Capital (Pvt) Limited is included in the Bank's consolidated financial statements.

1.1.2 Parent Entity and Ultimate Controlling Parties

The Bank's immediate parent is Culture Financial Holding Limited and the ultimate holding company is TPG Asia GenPar VI, L.P. Both companies are registered in the Cayman Islands.

1.2 Principal Activities and Nature of Operations

1.2.1 Bank

The Bank provides a comprehensive range of financial services encompassing accepting deposits, personal banking, retail banking, credit and debit cards, trade financing, off shore banking, resident and non-resident foreign currency operations, corporate and retail credit, pawning, project financing, lease financing, rural credit, margin trading , internet banking, money remittance facilities, dealing in Government Securities and treasury related products etc.

1.2.2 Subsidiaries

1.2.2.1 National Asset Management Limited

The principal activities of the company are launching, operating and administrating unit trusts.

1.2.2.2 UB Finance Company Limited

The principal activities of the company are accepting deposits, providing lease, hire purchase and loan facilities and working capital activities such as factoring. The Company also deals in real estate and other investment activities.

1.2.2.3 Special Purpose Entity (SPE)

Serandib Capital (Pvt) Limited is a private investment company.

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 of Financial Statements

2.1 Statement of Compliance

The Consolidated Financial Statements of the Group and the separate financial statements of the Bank, which comprises the Statement of Profit or Loss, Statement of Comprehensive Income, Statement of Financial Position, Statements of Changes in Equity and Statement of Cash Flows and notes to the financial statements have been prepared 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. 07 of 2007. The presentation of the Financial Statements is also in compliance with the requirements of the Banking Act No. 30 of 1988 and Finance Business Act No. 42 of 2011 and amendments thereto.

2.2 Responsibility for the Financial Statements

The Board of Directors is responsible for the preparation and presentation of the financial statements of the Group as per the provisions of the Companies Act No. 07 of 2007 and SLFRSs.

The Board of Directors acknowledge their responsibility as set out in the 'Annual Report of the Board of Directors', 'Statement of Directors' Responsibilities on Financial Reporting' and the certification given on the 'Statement of Financial Position' on pages 134 and 162 respectively.

These financial statements include;

- The Statement of Profit or Loss and the Statement of Other Comprehensive Income providing information on the performance of the Group for the year under review (Refer Pages 160 and 161).
- Statement of Financial Position providing the information on the financial position of the Group as at the year-end (Refer Page 162).

- Statement of Changes in Equity providing the changes in the shareholders' funds during the year ended under review for the Group (Refer Page 163).
- Statement of Cash Flow providing the information to the users, on the ability of the Group to generate cash and cash equivalents and the utilisation those cash flows (Refer Page 164)
- Notes to the Financial Statements, which comprise of the significant accounting policies and other explanatory notes and information (Refer Pages 166 to 276).

2.3 Approval of Financial Statements by the Board of Directors
The Financial Statements of the Group and the Bank for the year ended 31 December 2019 were authorised for issue by the Board of Directors in accordance with the resolution of the Directors on February, 26, 2020.

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 27)
- Financial investments at fair value through other comprehensive income (FVOCI) are measured at fair value (Note 31)
- Financial investments at fair value through profit and loss (FVPL) are measured at fair value (Note 28)
- Liabilities for defined benefit obligations are recognised at the present value of the defined benefit obligation (Note 43.2)

2.5 Functional and Presentation Currency
The Financial Statements of the Group are presented in Sri Lankan Rupees which is the currency of the primary economic environment in which the Group 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 Note 54 to the financial statement.

2.7 Materiality and Aggregation
In compliance with Sri Lanka Accounting Standard: LKAS 01 (Presentation of Financial Statements), each material class of similar items is presented separately in the Financial Statements. Items of dissimilar nature or functions too are presented separately, if they are material.

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 liabilities simultaneously.

Income and expenses are not offset in the Statement of Profit or Loss unless required or permitted by an Accounting Standards.

2.8 Comparative Information
The comparative information is reclassified wherever necessary to conform to the current year's presentation.

However, the Group has not restated comparative information for 2018 for financial instruments within the scope of SLFRS 16. Therefore, the comparative information for 2018 is reported under LKAS 17, and is not comparable to the information presented for 2018. Differences arising from adoption of SLFRS 16 have been disclosed in Note 7.

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 of 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 for the purpose of cash flow statement comprise of cash in hand and at banks, placements with banks, reverse repurchased agreements matured within three months and unfavourable balances with local & foreign banks that are subject to an insignificant risk of change in their value.

3. Significant Accounting Judgments, Estimates and Assumptions
The preparation of Financial Statements of the Group in conformity with Sri Lanka Accounting Standards requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income, expenses, the accompanying disclosures as well as the disclosure of contingent liabilities. 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 on and in any future periods affected.

The most significant areas of estimation, uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the Financial Statements of the Group are as follows;

NOTES TO THE FINANCIAL STATEMENTS

3.1 Going Concern

The Board of 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 of Directors is not aware of any material uncertainties that 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, these Financial Statements continue to be prepared on the going concern basis.

3.2 Fair Value of Financial Instruments

The fair values of financial assets and financial liabilities recorded in the Statement of Financial Position which cannot be derived from active market, are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but if this is not available, judgment is required to established fair values. The valuation of financial instruments is described in more detail in Note 53 to the financial statements.

The Group measure 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 53.

3.3 Classification of financial assets and liabilities

The Group's accounting policies provide scope for assets and liabilities to be classified at inception in to different accounting categories. The classification of financial instruments is given in Note 22, "Analysis of Financial Instruments by Measurement Basis"

3.4 Impairment Losses on Loans and Advances

The measurement of impairment losses under SLFRS 9 across all categories of financial assets requires judgement. These estimates are driven by a number of factors and the changes of these factors can result in different levels of adjustments.

3.4.1 Individual Impairment Assessment

The Group review their individually significant loans and advances 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. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the impairment allowance made.

3.4.2 Collective Impairment Assessment

Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, by categorizing them in to groups of assets with similar risk characteristics, to determine the expected credit loss on such loans and advances.

The Group's expected credit loss (ECL) calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Group's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a LTECL basis and the qualitative assessment
- The segmentation of financial assets when their ECL is assessed on a collective basis
- Development of ECL models, including the various formulas and the choice of inputs
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models

It has been the Group's policy to regularly review its models in the context of actual loss experience and adjust when necessary.

3.5 Impairment of other financial assets

The Group reviews its debt securities classified as FVOCI/ amortised cost at each reporting date to access 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 payment etc.

3.6 Impairment of other financial assets

The Group assesses whether there are any indicator of impairment for an asset or a cash generating unit (CGU) at each reporting date or more frequently, if events or changes in circumstances necessitate to do so. This requires the value in use of such individual assets or the CGUs. Estimating value in use requires the management to make an estimate of the expected future cash flows from the assets or the CGU and also to select a suitable discount rate in order to calculate the present value of the future cash flows. This valuation requires the Group to make estimates about expected future cash flows and discount rates and hence, they are subject to uncertainty.

The details on assessment of goodwill impairment is given in Note 35.

3.7 Useful lives of Property, Plant and Equipment and Intangible Assets

The Group review the residual values, useful lives and methods of depreciation of Property, Plant and Equipment and intangible assets at each reporting date. Judgment of the management is exercised in the estimation of these values, rates, methods and hence those are subject to uncertainty.

3.8 Deferred tax assets

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that future taxable profit will be available against which such tax losses can be utilised and loan impairment allowances which will be recovered in the foreseeable future. Judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax planning strategies.

Details of the deferred tax assets are disclosed in Note 37 to the financial statement.

3.9 Taxation

The Group is subject to income tax and judgement 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 applicability of tax laws, at the time of preparation of these financial statements.

Uncertainties also exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Given the wide range of business relationships and the long term nature and complexity of existing contractual agreements, differences arising between actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense amounts that were initially recorded, and deferred tax amounts in the period in which the determination is made.

3.10 Defined Benefit Obligation

The costs of the defined benefit plans and the present value of its obligations are determined using an actuarial valuation. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and possible future gratuity 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. Future salary increases are based on expected future inflation rates and expected future salary increase rate of the Group. The mortality rate is based on publicly available mortality tables.

Details of the key assumption used in the estimates are disclosed in Note 43.2 to the financial statement.

3.11 Consolidation of Special Purpose Entities (SPEs)

The Group consolidates those SPEs it controls. In assessing and determining if the Group controls SPEs, judgments are exercised to determine whether the activities of the SPE are being conducted on behalf of the Group. The Group's involvement with consolidated SPEs is detailed in Note 50.4.3.

3.12 Share Based Payments

The Bank measures the cost of equity settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share based payment transactions requires determination of the most appropriate valuation model, which is dependent on the terms and conditions of the grant.

This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share option, volatility and making assumptions about them. The assumptions and models used for estimating fair value for share based payment transactions are disclosed in Note 46.1.

3.13 Commitment 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 the Commitment and Contingencies are disclosed in Note 48 to the financial statement.

3.14 Determination of the lease term for lease contracts with renewal and termination options (Bank as a lessee)

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has several lease contracts that include extension and termination options. The Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control that affects its ability to exercise or not to exercise the option to renew or to terminate.

3.15 Estimating the incremental borrowing rate

The Bank cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate ('IBR') to measure lease liabilities. The IBR is the rate of interest that the Bank would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The Bank estimates the IBR using observable inputs such as market interest rates adjusted for a premium to reflect the terms and conditions of the lease.

NOTES TO THE FINANCIAL STATEMENTS

4. Changes in accounting policies and disclosures

4.1 New and amended standards and interpretations

In these financial statements, the Group has applied SLFRS 16, "Leases", effective for annual periods beginning on or after 1 January 2019, 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.

4.1.1 SLFRS 16 – Leases

SLFRS 16 supersedes LKAS 17 Leases. The Standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the Statement of Financial Position.

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

The Group adopted SLFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Group elected to use the transition practical expedient to not reassess whether a contract is or contains a lease at 1 January 2019. Instead, the Group applied the standard only to contracts that were previously identified as leases applying LKAS 17 and IFRIC 4 at the date of initial application.

4.1.1.1 Policy applicable after 1 January 2019

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

4.1.1.1.1 Bank as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

4.1.1.1.1 (a) Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the lease term.

The right-of-use assets are presented within Note 36 Property, equipment and right-of-use assets and are subject to impairment in line with the Group's policy as described in Note 3.6 Impairment of non-financial assets.

4.1.1.1.1 (b) Lease Liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term.

4.1.1.1.2 Bank as a lessor

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

4.1.1.2 Policy applicable before 1 January 2019

The determination of whether an arrangement is a lease, or contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or whether the arrangement conveys a right to use the asset.

4.1.1.2.1 Bank as a lessee

Leases that do not transfer to the Group substantially all of the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term. Contingent rental payable is recognised as an expense in the period in which it is incurred.

4.1.1.2.2 Bank as a lessor

Leases where the Group does not transfer substantially all of the risk and benefits of ownership of the asset are classified as operating leases. Rental income is recorded as earned based on the contractual terms of the lease in other operating income. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

4.2 IFRIC 23 – Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of LKAS 12 Income Taxes. It does not apply to taxes or levies outside the scope of LKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

The Group determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and uses the approach that better predicts the resolution of the uncertainty.

The Group applies significant judgement in identifying uncertainties over income tax treatments. Since the Group operates in a complex multinational environment, it assessed whether the Interpretation had an impact on its consolidated financial statements. The Group determined, based on its tax compliance and transfer pricing study that it is probable that its tax will be accepted by the taxation authorities. The Interpretation did not have an impact on the consolidated financial statements of the Group.

5. General Accounting Policies

Following are the general accounting policies adopted in the presentation of Financial Statements. The specific accounting policies and the basis of measurement adopted by the Group for each item in the Statement of Profit or Loss and each class of assets and liabilities in the Statement of Financial Position are presented along with the notes to the Financial Statements.

The accounting policies set out below have been applied consistently to all periods presented in these Financial Statements of the Group, unless otherwise indicated.

5.1 Basis of Consolidation

The Consolidated Financial Statements comprise the Financial Statements of the Bank and its Subsidiaries for the year ended 31 December 2019 in terms of the Sri Lanka Accounting Standard - SLFRS 10 (Consolidated Financial Statements). The Financial Statements of the Bank's Subsidiaries for the purpose of consolidation (including special purpose entity that the Bank consolidates) are prepared for the same reporting year as Union Bank of Colombo PLC using consistent accounting policies.

The Bank's separate Financial Statements comprise of the amalgamation of the Financial Statements of the Domestic Banking Unit and the Foreign Currency Banking Unit.

5.2 Business Combination and Goodwill

Business combinations are accounted for using the acquisition method as per the requirement of Sri Lanka Accounting Standards: SLFRS 03 (Business Combinations). The consideration transferred in the acquisition and identifiable net assets acquired are measured at fair value. Goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised immediately in Statement of Profit or Loss. Transaction costs are expensed as incurred, except if they are related to issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlements or pre-existing relationships. Such amounts are generally recognised in profit or loss.

5.2.1 Subsidiaries

Details of the Bank's subsidiaries, how they are accounted in the Financial Statements of the Bank are set out in Notes 34.

5.2.2 Loss of Control

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiaries, any non-controlling interest 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 Profit or Loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that 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 the influence retained.

The Group did not acquire or dispose any Subsidiaries during the year ended 31 December 2019.

5.2.3 Special purpose entities

Special purpose entities (SPEs) are entities that are created to accomplish narrow and well-defined objectives such as the securitisation of particular assets, or the execution of a specific borrowing or lending transaction. SPE is consolidated if, based on an evaluation of the substance of its relationship with the Group and the SPE's risks and rewards, the Group concludes that it controls the SPE"

5.2.4 Transactions eliminated on Consolidation

Intra-group transactions and balances and any unrealised income and expenses arising from intra-group transactions are eliminated in preparing the Consolidated Financial Statement. Unrealised losses are eliminated in the same way as unrealised gains; except that they are eliminated to the extent that there is no evidence of impairment.

5.2.5 Non-Controlling Interest (NCI)

Details of NCI are given in Note 47.

5.3 Foreign Currency Transaction and Balances

All foreign currency transactions are translated in to the functional currency, which is Sri Lankan Rupees, using the exchange rates prevailing at the dates of the transactions. In this regard, the Bank's practice is to use the middle rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the middle exchange rate of the functional currency prevailed at that date and all differences arising from these activities are taken to "Other operating income" in the Statement of Profit or Loss.

Non-monetary assets and liabilities denominated in a foreign currency that are measured in terms of historical cost are translated using exchange rate as at the dates of the initial transactions. Non-monetary items that are measured in terms of fair value in a foreign currency are translated using the spot exchange rate 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 within the Statement of Profit or Loss.

Forward exchange contracts are valued at the forward market rates ruling on the reporting date. Resulting net unrealised gains or losses are dealt with the Statement of Profit or Loss.

5.4 Financial Instruments – Initial Recognition, Classification and Subsequent Measurement

5.4.1 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 on which the Group becomes a party to the contractual provisions of the instrument. This includes regular way trades, i.e., 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.

5.4.2 Initial Measurement of Financial Instruments

The classification of financial instruments at initial recognition depends on their cash flow characteristics and the business model for managing the instruments. Refer Note 3.3 for further details on classification of financial instruments.

Financial instruments are initially measured at their fair value plus or minus transaction costs that are directly attributable to its acquisition or issue, except in the case of financial assets and financial liabilities recorded at FVPL and Trade Receivables.

Transaction cost in relation to financial assets and financial liabilities at FVPL are dealt through the Statement of Profit or Loss.

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.

5.4.2.1 "Day 1" Profit or Loss

When the transaction price of the instrument differs from the fair value at origination and fair value is based on a valuation technique using only inputs observable in market transactions, the Group recognises the difference between the transaction price and the fair value in the Statement of Profit or Loss over the tenor of the financial instrument using the effective interest rate method. In those cases, where the fair value is based on models for which some inputs are not observable, the difference between the transaction price and the fair value is only recognised in the Statement of Profit or Loss when the inputs become observable, or when the instrument is derecognised.

5.4.2.2 Measurement categories of financial assets and liabilities

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
- FVOCI
- FVPL

The Group classifies and measures its derivative and trading portfolio at FVPL, as explained in Note 5.4

Financial liabilities, 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 5.4

5.4.3 Determination of fair value

In order to show how fair values have been derived, financial instruments are classified based on a hierarchy of valuation techniques, as summarised below:

- Level 1 financial instruments – Those where the inputs used in the valuation are unadjusted quoted prices from active markets for identical assets or liabilities that the Group has access to at the measurement date. The Group considers markets as active only if there are sufficient trading activities with regards to the volume and liquidity.
- Level 2 financial instruments – Those where the inputs that are used for valuation and are significant, are derived from directly or indirectly observable market data available over the entire period of the instrument's life. Such inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical instruments in inactive markets and observable inputs other than quoted prices such as interest rates and yield curves, implied volatilities, and credit spreads. In addition, adjustments may be required for the condition or location of the asset or the extent to which it relates to items that are comparable to the valued instrument. However, if such adjustments are based on unobservable inputs which are significant to the entire measurement, the Group will classify the instruments as Level 3.
- Level 3 financial instruments – Those that include one or more unobservable input that is significant to the measurement as whole.

The Group periodically reviews its valuation techniques including the adopted methodologies and model calibrations.

Details of this are further explained in Note 53 Fair value measurement.

The Group evaluates the levelling at each reporting period on an instrument-by-instrument basis and reclassifies instruments when necessary, based on the facts at the end of the reporting period.

5.5 Financial assets and liabilities

5.5.1 Due from banks, Loans and advances to customers, Financial investments at amortised cost

The Group measures Due from banks, Loans and advances to customers and other financial investments at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

The details of these conditions are outlined below.

5.5.1.(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 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.

5.5.1.(b) The SPPI test

As a second step of its classification process the Group assesses the contractual terms of financial 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 an example, if there are repayments of principal or amortization of the premium/discount.

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the 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.

5.5.2 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;

- The 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 non-financial variable, it is not specific to a party to the contract.
- It requires no initial net investment or an initial net investment that is smaller than that would be required for other types of contracts expected to have a smaller response to changes in market factors.
- It is settled at a future date.

The Group enters into derivative transactions with various counter-parties. These include interest rate 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. Changes in the fair value of derivatives are included in "Other income under Foreign exchange gains/losses".

5.5.3 Financial assets at fair value through other comprehensive income

The Group classifies financial assets under this category, when both of the following conditions are met;

- The instrument is held within a business model, the objective of which achieved by both collecting contractual cash flows and selling financial assets
- The contractual terms of the financial asset meet the SPPI test

FVOCI debt instruments are subsequently measured at fair value with gains 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 as explained in Note 9. The ECL calculation for Debt instruments at FVOCI is explained in Note 5.5.3. 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.

5.5.4 Financial assets or financial liabilities recorded at fair value through profit or loss

As per SLFRS 9, all financial assets and financial liabilities other than those classified as amortised cost or FVOCI are classified and measured at FVPL. Financial assets and financial liabilities at FVPL includes financial assets that are held for trading or managed on a fair value basis as they are neither held to collect contractual cash flows nor to sell financial assets.

Financial assets and financial liabilities at FVPL are recorded in the statement of financial position at fair value. Changes in fair value are recorded in profit and loss.

5.6 De-recognition of Financial Assets and Financial Liabilities

(i) 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.

(ii) 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 related as a de-recognition 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.

5.7 Impairment of Financial Assets

As per SLFRS 9, the Group records an allowance for expected credit losses (ECL) for loans and advances to other customers, debt and other financial instruments measured at amortised cost, debt instruments measured at FVOCI, together with loan commitments and financial guarantee contracts.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL). The Group's policies for determining if there has been a significant increase in credit risk are set out in Note 5.7.2.

The 12 months ECL 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 Group's policy for grouping financial assets measured on a collective basis is explained in Note 5.7.3.2.

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 5.7.2.

Based on the above process, the Bank groups its loans into Stage 1, Stage 2, Stage 3 and 'Purchased or originated credit impaired (POCI)', as described below:

- Stage 1: When loans are first recognised, the Group recognises an allowance based on 12mECLs. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.
- Stage 2: When a loan has shown a significant increase in credit risk since origination, the Group records an allowance for the LTECLs. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.
- Stage 3: Loans considered credit-impaired (as outlined in Note 5.7).The Group records an allowance for the LTECLs.
- POCI: POCI assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit-adjusted EIR. 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.

5.7.1 Definition of Default

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 qualitative assessment of whether an individually significant customer is in default, the Group also considers a variety of instances that may indicate doubt in the recovery. 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.

5.7.2 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 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.

5.7.3 The calculation of ECL

The Group calculates ECLs based on a three probability-weighted scenarios to measure the expected cash shortfalls (the base case, best case and the worst case), discounted at an approximation to the EIR. Each of these associated with different loss rates. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

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
- 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 draw downs on committed facilities, and accrued interest from missed payments. The EAD is further explained in Note 5.7.3.3.
- 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 5.7.3.4.

The mechanics of the ECL method are summarised below:

- Stage 1: The 12mECL is calculated as the portion of LTECL that represent the ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Group calculates the 12mECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation to the original EIR.
- Stage 2: When a loan has shown a significant increase in credit risk since origination, the Group records an allowance for the LTECL. The mechanics are similar to those explained above, including the use of multiple scenarios, but PDs and LGDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR.
- Stage 3: For loans considered credit-impaired (as defined in Note 5.7), the Group recognises the lifetime expected credit losses for these loans. The method is similar to that for Stage 2 assets, with the PD set at 100%.

5.7.3.1 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, then it is assessed under collectively for impairment.

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 on monthly basis. 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.

5.7.3.2 Grouping financial assets measured on a collective basis

The Group calculates ECL either on a collective or an individual basis. Asset classes where the Group calculates ECL on an individual basis include;

- All the customers whose exposure is more than or equal to the internal threshold for classifying them as individually significant. However, if the customer is not impaired, 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)

For all other asset classes, the Group calculates ECL on a collective basis. The Group categorises these exposures in to sub categories based on a combination of interenal characteristics of the loans such as; Product type, Type of collateral.

5.7.3.3 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 repayments too.

To calculate the EAD for a stage 1 loan, the Group assesses the possible default events within 12 months. 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 point in time, corresponding the multiple scenarios. The SLFRS 9 PDs are then assigned to each economic scenario based on the outcome of Group's models.

5.7.3.4 Loss given default

LGD values are computed on monthly basis. 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 as well as borrower characteristics. Further, recent data and forward looking economic scenarios are used in order to determine the LGD for each collective impairment pool 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.

5.7.3.5 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 rate
- Exchange rate
- Inflation rate

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. The Group obtains such inputs from external sources such as Central Bank, World Bank etc.

5.8 Fair Value Determination and Measurement

5.8.1 Determination of fair value

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

5.8.2 Measurement of fair value

'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 no 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 counter party 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.

Details of fair value of assets and liabilities and their inputs based on fair value hierarchy is given in Note 53 to the financial statement.

NOTES TO THE FINANCIAL STATEMENTS

6. Standards issued but not yet effective

The new and amended standards and interpretations that are issued,but not yet effective to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

6.1 SLFRS 17 - Insurance Contracts

SLFRS 17 Insurance Contracts, is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosures. Once effective, SLFRS 17 replaces existing SLFRS 4 Insurance contracts. The overall objective of SLFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers.

SLFRS 17 is effective for reporting periods beginning on or after 1 January 2021. Early application permitted, if the entity is applying SLFRS 16 and SLFRS 15 on or before the date in which it first apply SLFRS 17 ."

6.2 LKAS 1 and LKAS 8: Definition of Material

Amendments to LKAS 1 Presentation of Financial Statements and IAS 8 Accounting policies, Changes in accounting Estimates and Errors are made to align the definition of material across the standard and to clarify certain aspects of the definition. The new definition states that, information is material if omitting or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

The amendments are applied prospectively for the annual periods beginning on or after 1 January 2020 with early application permitted.

6.3 SLFRS 3: Definition of a Business

Amendments to the definition of a business in SLFRS 3 Business Combinations are made to help the entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definition of a business and of outputs, and introduce an optional fair value concentration test.

The amendments are applied prospectively to all business combinations and asset acquisitions for which the acquisition date is on or after the first annual reporting period beginning on or after 1 January 2020, with early application permitted.

6.4 Amendments to references to the conceptual framework in SLFRS standards

Revisions to the Conceptual Framework were made because some important issues were not covered and some guidance was unclear or out of date. The revised Conceptual Framework includes: a new chapter on measurement, guidance on reporting financial performance, improved definitions of an asset and a liability, and guidance supporting these definitions; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.
The amendments are effective for annual periods beginning on or after 1 January 2020, with early application is permitted."

6.5 SLFRS 10 and LKAS 28

Limited scope amendments to SLFRS 10 consolidated financial statements and LKAS 28 investments in associates and joint ventures were made. The amendments clarify the accounting treatment for sale or contribution of assets between investor and it's associate or joint ventures.

The amendments are applied prospectively. The effective date of the amendment is yet to be set by the CASL. However early application is permitted.

None of these new standards and amendments are expected to have a material impact on the consolidated financial statements of the group.

NOTES TO THE FINANCIAL STATEMENTS

7. TRANSITION DISCLOSURES

The following disclosure set out the impact of adopting SLFRS 16 on the statement of financial position and retained earnings;

BANK

As at 1 January 2019	Note	Page	Ref.	LKAS 17 Amount Rs.'000	Re-classification Rs.'000	Re-measurement Rs.'000	SLFRS 16 Amount Rs.'000
Assets							
Property, plant and equipment and Right of use assets	36	223		789,158	191,487	743,019	1,723,664
Investments in subsidiaries	34	217		835,373	-	(26,663)	808,710
Net deferred tax assets	37	226		115,597	-	11,883	127,480
Other assets	38	228	A	870,457	(191,487)	-	678,970
Liabilities							
Other liabilities	43	231	B	1,801,642	-	785,460	2,587,102
Equity							
Retained earnings				345,374	-	(46,215)	299,159
- Bank				*-*	*-*	*(19,552)*	
- Subsidiaries				*-*	*-*	*(26,663)*	

GROUP

As at 1 January 2019	Note	Page	Ref.	LKAS 17 Amount Rs.'000	Re-classification Rs.'000	Re-measurement Rs.'000	SLFRS 16 Amount Rs.'000
Assets							
Property, plant and equipment and Right of use assets	36	223		1,013,541	196,818	822,024	2,032,384
Net deferred tax assets	37	226		515,938	-	11,988	527,925
Other assets	38	228	A	1,005,213	(196,818)	-	808,395
Liabilities							
Other liabilities	43	231	B	2,058,270	-	913,521	2,971,791
Equity							
Retained earnings				(43,734)	-	(46,216)	(89,950)
Non-controlling interests	47	236		212,301	-	(10,464)	201,837

A : Prepayments recognised under other assets have been reclassified to Right of use assets.
B : Lease liability has been recognised under other liabilities.

When measuring lease liabilities for leases that were classified as operating leases, the Bank discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted average rate of incremental borrowing applied for the computation is in the range of 11% - 12%.

The Bank has entered into leasing agreements for business operations (Head office and Branch network), ATM premises and vehicle hiring. These leases have an average life of five years.

8. GROSS INCOME

ACCOUNTING POLICY

Gross income 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. The specific recognition criteria, for each type of gross income, are given under the respective income notes.

For the year ended 31 December	Note	Page	BANK 2019 Rs.'000	BANK 2018 Rs.'000	GROUP 2019 Rs.'000	GROUP 2018 Rs.'000
Interest income	9.1	180	**12,956,243**	12,142,268	**14,875,016**	14,120,894
Fee and commission income	10.1	181	**1,069,370**	968,008	**1,182,771**	1,120,153
Net fair value gains/ (losses) from financial instruments at fair value through profit or loss	11	181	**350,771**	309,519	**354,893**	309,519
Net gains/ (losses) from financial investments	12	182	**323,660**	173,026	**324,186**	174,559
Other operating income	13	182	**12,025**	317,604	**44,852**	350,828
Total			**14,712,069**	13,910,425	**16,781,718**	16,075,953

9. NET INTEREST INCOME

ACCOUNTING POLICY

Interest income and interest expense is recorded using the effective interest rate (EIR) method for all financial instruments measured at amortised cost. Interest income on interest earning financial assets measured at FVOCI and FVPL are also recorded by using the EIR method. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset.

The EIR (and therefore, the amortised cost of the asset) is calculated by taking into account any discount or premium on acquisition, fees and costs that are an integral part of the EIR. The Bank recognises interest income and interest expense using a rate of return that represents the best estimate of a constant rate of return over the expected life of the loan. Hence, it recognises the effect of potentially different interest rates charged at various stages, and other characteristics of the product life cycle (including prepayments, penalty interest and charges).

If expectations of fixed rate financial assets' or liabilities' cash flows are revised for reasons other than credit risk, then changes to future contractual cash flows are discounted at the original EIR with a consequential adjustment to the carrying amount. The difference from the previous carrying amount is booked as a positive or negative adjustment to the carrying amount of the financial asset or liability on the balance sheet with a corresponding increase or decrease in Interest revenue/expense calculated using the effective interest method.

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

The Bank calculates interest income by applying the EIR to the gross carrying amount of financial assets other than credit-impaired assets. When a financial asset becomes credit-impaired (refer Note 29.1.1) and is, therefore, regarded as 'Stage 3', the Bank calculates interest income by applying the effective interest rate to the net amortised cost of the financial asset for individually impaired Financial assets. For the stage 3 collectively impaired financial assets, bank suspends the accrued interest. If the financial assets cures and is no longer credit-impaired, the Bank reverts to calculate interest income on a gross basis.

For the year ended 31 December	Note	Page	BANK 2019 Rs.'000	BANK 2018 Rs.'000	GROUP 2019 Rs.'000	GROUP 2018 Rs.'000
Interest income	9.1	180	**12,956,243**	12,142,268	**14,875,016**	14,120,894
Less: Interest expense	9.2	180	**8,477,329**	8,490,006	**9,641,012**	9,655,390
Net interest income			**4,478,914**	3,652,262	**5,234,004**	4,465,504

9. NET INTEREST INCOME (Contd.)

9.1. Interest income

For the year ended 31 December	BANK 2019 Rs.'000	BANK 2018 Rs.'000	GROUP 2019 Rs.'000	GROUP 2018 Rs.'000
Reverse repurchase agreements	**70,588**	23,655	**119,494**	57,334
Placements with banks	**10,827**	21,289	**244,182**	233,409
Financial investments at fair value through profit or loss	**193,507**	139,081	**193,507**	139,081
Financial assets at amortised cost - loans and advances to customers	**9,420,417**	9,113,901	**11,191,658**	10,928,765
Interest income accrued on impaired financial assets	**584,807**	207,652	**611,509**	234,354
Financial assets at amortised cost - debt and other instruments	**1,089,581**	1,023,079	**928,150**	909,549
Financial investments at fair value through other comprehensive income	**1,586,516**	1,613,611	**1,586,516**	1,618,402
Total	**12,956,243**	12,142,268	**14,875,016**	14,120,894

9.2. Interest expenses

For the year ended 31 December	BANK 2019 Rs.'000	BANK 2018 Rs.'000	GROUP 2019 Rs.'000	GROUP 2018 Rs.'000
Due to banks	**931,245**	974,962	**972,285**	1,047,048
Repurchased agreements	**985,822**	938,351	**985,822**	938,351
Due to customers	**6,322,802**	6,419,259	**7,215,126**	7,391,398
Other borrowed funds	**237,460**	157,434	**467,779**	278,593
Total	**8,477,329**	8,490,006	**9,641,012**	9,655,390

9.2.1 Interest expense on other borrowed funds in 2019 includes interest expense relevant to lease liability recognised under SLFRS 16.

10. NET FEE AND COMMISSION INCOME

ACCOUNTING POLICY

The Group earns fee and commission income from a diverse range of services it provides to its customers.

Fee and Commission Income

(i) 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 trade service fees, commission income and asset management fees etc.

(ii) Fee and Commission Income from Providing Transaction Services

Fees arising from negotiating or participating in a negotiation of a transaction for a third party, such as the arrangement of the 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.

Fee and Commission Expenses

All the fee and commission expenses are expensed as the services are received. Fee and commission expenses are recognised on an accrual basis.

For the year ended 31 December	Note	Page	BANK 2019 Rs.'000	BANK 2018 Rs.'000	GROUP 2019 Rs.'000	GROUP 2018 Rs.'000
Fee and commission income	10.1	181	**1,069,370**	968,008	**1,182,771**	1,120,153
Less: Fee and commission expenses	10.2	181	**214,146**	135,158	**224,552**	162,578
Net fee and commission income			**855,224**	832,850	**958,219**	957,575

NOTES TO THE FINANCIAL STATEMENTS

10. NET FEE AND COMMISSION INCOME (Contd.)

10.1. *Fee and commission income*

For the year ended 31 December	BANK 2019 Rs.'000	BANK 2018 Rs.'000	GROUP 2019 Rs.'000	GROUP 2018 Rs.'000
Loans	141,600	133,533	154,412	156,594
Trade and remittances	187,383	201,702	187,383	201,702
Credit and debit cards	214,837	82,909	214,837	82,909
Bancassurance	56,328	27,755	79,825	27,755
Factoring	7,025	7,511	15,656	30,263
Fund management	-	-	63,658	77,100
Deposits related fee	355,845	435,188	355,845	435,188
Guarantees	92,644	76,112	92,644	76,112
Others	13,708	3,298	18,511	32,530
Total	1,069,370	968,008	1,182,771	1,120,153

10.2. *Fee and commission expenses*

For the year ended 31 December	BANK 2019 Rs.'000	BANK 2018 Rs.'000	GROUP 2019 Rs.'000	GROUP 2018 Rs.'000
Financial services	64,371	67,263	74,124	94,683
Credit and debit cards	87,123	42,510	87,123	42,510
Brokerage	62,652	25,385	63,305	25,385
Total	214,146	135,158	224,552	162,578

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

ACCOUNTING POLICY

Income arising from trading activities include all realised and unrealised gains and losses arising due to changes in fair value and dividend income from “financial investments at fair value through profit or loss”. Dividend income is recognised when the Group’s right to receive the payment is established.

For the year ended 31 December	BANK 2019 Rs.'000	BANK 2018 Rs.'000	GROUP 2019 Rs.'000	GROUP 2018 Rs.'000
Government Securities				
Net marked to market gain/(loss)	2,901	(7,246)	2,901	(7,246)
Net capital gain	120,594	70,612	120,594	70,612
Subtotal	123,495	63,366	123,495	63,366
Unit Investments				
Net marked to market gain/(loss)	657	182	4,779	182
Net capital gain	226,619	245,971	226,619	245,971
Subtotal	227,276	246,153	231,398	246,153
Total	350,771	309,519	354,893	309,519

NOTES TO THE FINANCIAL STATEMENTS

12. NET GAINS/ (LOSSES) FROM FINANCIAL INVESTMENTS

ACCOUNTING POLICY

Net gains/(losses) from financial investments include capital gains/(losses) and dividend income on financial investments at fair value through other comprehensive income.

Dividend income is recognised when the Group's right to receive the payment is established.

For the year ended 31 December	BANK 2019 Rs.'000	BANK 2018 Rs.'000	GROUP 2019 Rs.'000	GROUP 2018 Rs.'000
Dividend income	935	770	1,461	2,303
Gain on Government securities	322,725	172,256	322,725	172,256
Total	323,660	173,026	324,186	174,559

13. OTHER OPERATING INCOME

ACCOUNTING POLICY

Income earned on other sources, which are not directly related to the normal operations of the Group are recognised as other operating income on accrual basis, such as gains on disposal of property, plant and equipment, gain from investments in real estate and foreign exchange gains/ (losses).

Gains/(losses) arising from disposal of property, plant and equipment are recorded after deducting from the proceeds on disposal, the carrying amount of such assets and the related selling expenses.

Foreign exchange gain includes income arising from customer transactions and revaluation of foreign currency assets/ liabilities.

Revenue from the real estate sale is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer.

For the year ended 31 December	Note	Page	BANK 2019 Rs.'000	BANK 2018 Rs.'000	GROUP 2019 Rs.'000	GROUP 2018 Rs.'000
Net gain/(loss) on sale of property, plant and equipment			(2,453)	2,600	5,120	3,451
Foreign exchange gain	13.1	182	3,703	310,486	3,703	310,486
Income from real estate			-	-	4,237	8,979
Others			10,775	4,518	31,792	27,912
Total			12,025	317,604	44,852	350,828

13.1 Foreign exchange gain

For the year ended 31 December	BANK 2019 Rs.'000	BANK 2018 Rs.'000	GROUP 2019 Rs.'000	GROUP 2018 Rs.'000
Income from customer transactions and revaluation gain	139,380	321,222	139,380	321,222
SWAP transactions	(135,677)	(10,736)	(135,677)	(10,736)
Total	3,703	310,486	3,703	310,486

NOTES TO THE FINANCIAL STATEMENTS

14. IMPAIRMENT FOR LOANS AND OTHER LOSSES

ACCOUNTING POLICY

The Group recognise the changes in the impairment allowance for loans and receivables and other financial assets, which are assessed as per the SLFRS 9 - Financial Instruments.

The methodology adopted by the Group is explained in Note 29.5 to these Financial Statements.

Further, the Group recognises an impairment loss when the carrying amount of a non-financial asset exceeds the estimated recoverable amount from that asset.

For the year ended 31 December	Note	Page	BANK 2019 Rs.'000	BANK 2018 Rs.'000	GROUP 2019 Rs.'000	GROUP 2018 Rs.'000
Financial assets at amortised cost - loans and advances to customers	14.1	183	393,698	305,407	546,996	543,403
Financial assets at amortised cost - debt and other instruments	14.2	184	(4,382)	2,423	(3,411)	3,753
Placements with banks	14.3	184	(749)	727	(749)	727
Commitments and contingencies	14.4	184	1,304	32,994	35,529	51,919
Investments in real estate	33.1	216	-	-	1,500	(24,194)
Investments in subsidiaries	34.1	218	423	731	-	-
Goodwill and intangible assets			-	-	423	731
Total			390,294	342,282	580,288	576,339

14.1 Financial assets at amortised cost - loans and advances to customers

BANK

For the year ended 31 December	2019 Stage 1 Rs.'000	2019 Stage 2 Rs.'000	2019 Stage 3 Rs.'000	2019 Total Rs.'000	2018 Stage 1 Rs.'000	2018 Stage 2 Rs.'000	2018 Stage 3 Rs.'000	2018 Total Rs.'000
Charge								
Term loans	(213,076)	(2,748)	315,241	99,417	(56,735)	9,800	196,703	149,768
Overdrafts	(1,880)	(14,297)	236,564	220,387	(6,744)	21,090	65,745	80,091
Trade finance	6,677	(1,131)	(5,503)	43	(181)	(866)	(38,940)	(39,987)
Lease and hire purchase	(3,172)	(16,841)	13,168	(6,845)	(1,732)	17,501	12,777	28,546
Factoring	2,589	-	66,468	69,057	3,932	-	77,915	81,847
Credit cards	1,295	6,409	6,193	13,897	7,876	-	-	7,876
Pawning	305	(1,360)	(1,203)	(2,258)	128	1,360	(4,222)	(2,734)
Impairment charge/ (reversal)	(207,262)	(29,968)	630,928	393,698	(53,456)	48,885	309,978	305,407

GROUP

For the year ended 31 December Charge	2019 Stage 1 Rs.'000	2019 Stage 2 Rs.'000	2019 Stage 3 Rs.'000	2019 Total Rs.'000	2018 Stage 1 Rs.'000	2018 Stage 2 Rs.'000	2018 Stage 3 Rs.'000	2018 Total Rs.'000
Charge								
Term loans	(215,131)	(3,238)	332,903	114,534	(52,520)	12,593	308,808	268,881
Overdrafts	(2,067)	(14,297)	236,564	220,200	(6,900)	21,090	65,745	79,935
Trade finance	6,677	(1,131)	(5,503)	43	(181)	(866)	(38,940)	(39,987)
Lease and hire purchase	(11,009)	(41,062)	170,927	118,856	(1,537)	31,084	61,291	90,838
Factoring	17,416	7,611	53,600	78,627	3,932	-	134,290	138,222
Credit cards	1,392	6,410	6,193	13,995	7,876	-	-	7,876
Pawning	305	(1,360)	(1,204)	(2,259)	128	1,360	(4,222)	(2,734)
Others	-	-	3,000	3,000	-	-	372	372
Impairment charge/ (reversal)	(202,417)	(47,067)	796,480	546,996	(49,202)	65,261	527,344	543,403

NOTES TO THE FINANCIAL STATEMENTS

14. IMPAIRMENT FOR LOANS AND OTHER LOSSES (Contd.)

14.2 Financial assets at amortised cost - debt and other instruments

BANK

For the year ended 31 December	2019				2018			
	Stage 1 Rs.'000	Stage 2 Rs.'000	Stage 3 Rs.'000	Total Rs.'000	Stage 1 Rs.'000	Stage 2 Rs.'000	Stage 3 Rs.'000	Total Rs.'000
Lease backed trust certificates	(2,830)	-	-	(2,830)	(3,969)	-	-	(3,969)
Other financial assets at amortised cost	(292)	(1,260)	-	(1,552)	7,722	(1,330)	-	6,392
Impairment charge/ (reversal)	(3,122)	(1,260)	-	(4,382)	3,753	(1,330)	-	2,423

GROUP

For the year ended 31 December	2019				2018			
	Stage 1 Rs.'000	Stage 2 Rs.'000	Stage 3 Rs.'000	Total Rs.'000	Stage 1 Rs.'000	Stage 2 Rs.'000	Stage 3 Rs.'000	Total Rs.'000
Lease backed trust certificates	(2,830)	-	-	(2,830)	(3,969)	-	-	(3,969)
Other financial assets at amortised cost	(581)	-	-	(581)	7,722	-	-	7,722
Impairment charge/ (reversal)	(3,411)	-	-	(3,411)	3,753	-	-	3,753

14.3 Placements with banks

BANK & GROUP

For the year ended 31 December	2019				2018			
	Stage 1 Rs.'000	Stage 2 Rs.'000	Stage 3 Rs.'000	Total Rs.'000	Stage 1 Rs.'000	Stage 2 Rs.'000	Stage 3 Rs.'000	Total Rs.'000
Money market placements	(749)	-	-	(749)	727	-	-	727
Impairment charge/ (reversal)	(749)	-	-	(749)	727	-	-	727

14.4 Commitments and contingencies

BANK

For the year ended 31 December	2019				2018			
	Stage 1 Rs.'000	Stage 2 Rs.'000	Stage 3 Rs.'000	Total Rs.'000	Stage 1 Rs.'000	Stage 2 Rs.'000	Stage 3 Rs.'000	Total Rs.'000
Undrawn loan commitments	24,519	1,230	(30,663)	(4,914)	19,577	2,530	10,231	32,338
Other commitments	6,218	-	-	6,218	656	-	-	656
Impairment charge/ (reversal)	30,737	1,230	(30,663)	1,304	20,233	2,530	10,231	32,994

GROUP

For the year ended 31 December	2019				2018			
	Stage 1 Rs.'000	Stage 2 Rs.'000	Stage 3 Rs.'000	Total Rs.'000	Stage 1 Rs.'000	Stage 2 Rs.'000	Stage 3 Rs.'000	Total Rs.'000
Undrawn loan commitments	23,479	803	5,029	29,311	20,617	2,957	27,689	51,263
Other commitments	6,218	-	-	6,218	656	-	-	656
Impairment charge/ (reversal)	29,697	803	5,029	35,529	21,273	2,957	27,689	51,919

15. 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. The provisions for bonus is recognised if the Group has a present legal or constructive obligation to pay this amount, as a result of past services provided by the employee and the obligation can be estimated reliably.

Employees' provident fund and Employees' trust fund

Employees are eligible for Employees' Provident Fund contribution and Employees' Trust Fund contribution in accordance with the respective statutes and regulations. The Group contributes 12% and 3% of gross salaries of employees to the Employees' Provident Fund and the Employees' Trust Fund respectively.

Defined benefit plans

Contributions to defined benefit plans are recognised in the Statement of Profit or Loss based on an actuarial valuation carried out for the gratuity liability of the Group in accordance with LKAS 19 - 'Employee Benefits' which is more fully described in Note 43.2 to these Financial Statements.

Share based payments

Share based payments represent the Bank's cost on the Employee Share Option Plan, which is more fully described in Note 46 to these Financial Statements.

For the year ended 31 December	Note	Page	BANK 2019 Rs.'000	BANK 2018 Rs.'000	GROUP 2019 Rs.'000	GROUP 2018 Rs.'000
Salary and bonus			**1,253,738**	1,212,175	**1,443,346**	1,401,840
Contributions to defined contribution plans			**169,640**	159,699	**195,997**	184,623
Contributions to defined benefit plans	15.1	185	**50,708**	36,253	**57,010**	42,103
Share based expenses	46.3.1	236	**24,273**	30,984	**24,273**	30,984
Others	15.2	185	**384,967**	382,671	**407,498**	399,373
Total			**1,883,326**	1,821,782	**2,128,124**	2,058,923

15.1 Contributions to defined benefit plans have been made based on the actuarial valuation carried out as at 31 December 2019. Refer Note 43.2 for detailed disclosure and assumptions on the retirement benefit obligation.

15.2 Others include conveyance expenses, staff insurance, training related expenses and amortisation of pre-paid staff cost.

NOTES TO THE FINANCIAL STATEMENTS

16. DEPRECIATION AND AMORTISATION

ACCOUNTING POLICY

Depreciation and amortisation are the systematic allocation of a depreciable amount of the property, plant and equipment and intangible assets over its useful life.

The Group provides depreciation from the date the assets are available for use up to the date of disposal, 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 asset ceases at the earlier of the date that the asset is classified as held for sale or 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.

Useful lives and residual values are assessed at the each reporting date and adjusted if appropriate. During the year ended 31 December 2019, the Group did not change any estimates.

SLFRS 16 - Leases effective from 1 January 2019. Accordingly, amortisation on Right of use assets have been recognised in 2019.

			BANK		GROUP	
For the year ended 31 December			**2019**	**2018**	**2019**	**2018**
	Note	**Page**	**Rs.'000**	**Rs.'000**	**Rs.'000**	**Rs.'000**
Amortisation of intangible assets	35	220	**160,385**	150,825	**162,412**	152,600
Depreciation of property, plant and equipment	36	223	**221,215**	231,748	**261,176**	263,295
Depreciation of right of use assets	36	223	**255,279**	-	**275,676**	-
Total			**636,879**	382,573	**699,264**	415,895

17. OTHER EXPENSES

ACCOUNTING POLICY

Other expenses are recognised in the Statement of Profit or Loss on the basis of a direct association between the cost incurred and the earning of specific items of income. Provisions in respect of other expenses are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

			BANK		GROUP	
For the year ended 31 December			**2019**	**2018**	**2019**	**2018**
	Note	**Page**	**Rs.'000**	**Rs.'000**	**Rs.'000**	**Rs.'000**
Auditors' remunerations	17.1	187	**10,306**	10,769	**12,425**	12,999
Directors' fees	17.2	187	**12,982**	9,583	**16,650**	14,779
Professional and legal expenses			**62,348**	46,084	**69,159**	54,680
Advertising and marketing expenses			**148,356**	107,803	**182,847**	146,607
Office administration and establishment expenses			**935,357**	1,139,821	**1,039,041**	1,283,533
Deposit insurance expenses			**63,364**	61,301	**72,387**	70,872
Others	17.3	187	**77,077**	149,759	**133,091**	208,178
Total			**1,309,790**	1,525,120	**1,525,600**	1,791,648

NOTES TO THE FINANCIAL STATEMENTS

17. OTHER EXPENSES (Contd.)

17.1 Auditors' remunerations

For the year ended 31 December	BANK 2019 Rs.'000	BANK 2018 Rs.'000	GROUP 2019 Rs.'000	GROUP 2018 Rs.'000
Audit fees	**5,944**	6,558	**8,063**	8,788
Audit related fees and expenses	**699**	615	**699**	615
Non-audit expenses	**3,663**	3,596	**3,663**	3,596
Total	**10,306**	10,769	**12,425**	12,999

17.2 Directors' fees include fees paid to Non Executive Directors. Remuneration paid to Executive Director is included under salary and bonus in Note 15.

17.3 Others include transportation related expenses and other overhead expenses incurred on day to day operations of the Group.

18. VALUE ADDED TAX (VAT), NATION BUILDING TAX (NBT) AND DEBT REPAYMENT LEVY (DRL) ON FINANCIAL SERVICES

ACCOUNTING POLICY

Value Added Tax (VAT)

VAT on Financial Services is calculated in accordance with the 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 and provision related to terminal benefits. The VAT rate applied in 2019 is 15% (2018 - 15%).

Nation Building Tax (NBT)

NBT on Financial Services is calculated in accordance with the Nation Building Tax (NBT) Act No. 09 of 2009 and subsequent amendments thereto. NBT on financial services is calculated based on the value addition used for the purpose of VAT on financial services. The NBT rate applied up to 30th November 2019 is 2% and it was abolished with effect from December 2019 (2018 - 2%).

Debt Repayment Levy (DRL)

DRL on financial services is calculated based on the total value addition used for the purpose of VAT on financial services in accordance with the Finance Act No. 35 of 2018. The DRL rate applied in 2019 is 7% (2018 – 7%).

For the year ended 31 December	BANK 2019 Rs.'000	BANK 2018 Rs.'000	GROUP 2019 Rs.'000	GROUP 2018 Rs.'000
Value added tax on financial services	**416,772**	368,851	**458,300**	411,658
Nation building tax on financial services	**51,193**	49,180	**56,265**	54,850
Debt repayment levy on financial services	**244,562**	52,693	**267,058**	55,267
Total	**712,527**	470,724	**781,623**	521,775

NOTES TO THE FINANCIAL STATEMENTS

19. TAX EXPENSE

ACCOUNTING POLICY

As per the Sri Lanka Accounting Standard - LKAS 12 - 'Income Taxes', the tax expense charge/ (reversal) is the aggregate amount included in determination of profits or loss for the year in respect of income tax and deferred tax. The tax expense charge/ (reversal) is recorded in the Statement of Profit or Loss except to the extent it relates to items recognised directly in Equity or Statement of Comprehensive Income, in which case it is recognised in Other Comprehensive Income.

Provision for the taxation is based on the profit for the year adjusted for taxation purpose in accordance with the provisions of the Inland Revenue Act No. 10 of 2006 and the amendments thereto.

For the year ended 31 December	Note	Page	BANK 2019 Rs.'000	BANK 2018 Rs.'000	GROUP 2019 Rs.'000	GROUP 2018 Rs.'000
Current tax expense	19.1	188	426,005	158,763	437,385	181,132
Under provision in respect of prior years			-	-	1,125	-
Deferred tax charge/ (reversal)	19.1	188	55,249	146,083	(41,473)	177,623
Total			481,254	304,846	397,037	358,755
Effective tax rate			44.2%	41.1%	33.1%	40.2%

19.1 Reconciliation of accounting profit to income tax expense

For the year ended 31 December	BANK 2019 %	BANK 2019 Rs.'000	BANK 2018 %	BANK 2018 Rs.'000	GROUP 2019 %	GROUP 2019 Rs.'000	GROUP 2018 %	GROUP 2018 Rs.'000
Profit before tax		1,191,601		777,394		1,201,255		893,405
Share of profit of equity accounted investees, net of tax		(103,823)		(34,614)		-		-
Adjusted profit before taxes		1,087,778		742,780		1,201,255		893,405
Tax using the corporate tax rate	28.0%	304,578	28.0%	207,978	28.0%	336,351	28.0%	250,153
Add: disallowable expenses	48.0%	522,464	49.3%	366,509	70.2%	843,660	81.3%	726,192
Less: Tax deductible expenses	(37.3%)	(405,299)	(23.2%)	(172,418)	(64.4%)	(773,897)	(56.8%)	(507,771)
Less: Tax exempt income	0.0%	(262)	(8.8%)	(65,125)	(0.1%)	(1,264)	(8.9%)	(79,256)
Adjustment for leasing	0.4%	4,524	0.6%	4,085	0.4%	4,524	0.5%	4,085
	39.2%	426,005	45.9%	341,029	34.1%	409,374	44.0%	393,403
Tax losses utilised	-	-	(24.5%)	(182,266)	2.3%	28,011	(23.8%)	(212,272)
Taxable profit	39.2%	426,005	21.4%	158,763	36.4%	437,385	20.3%	181,132
Under provision in respect of previous year		-		-	0.1%	1,125		-
Deferred tax charge/(credit)	5.1%	55,249	19.7%	146,083	(3.5%)	(41,473)	19.9%	177,623
Tax expense	44.2%	481,254	41.1%	304,846	33.1%	397,037	40.2%	358,755

19.1.1 Applicable rates of tax

For the year ended 31 December	2019	2018
Income tax on Union Bank of Colombo PLC	28%	28%
Income tax on UB Finance Company Limited	28%	28%
Income tax on National Asset Management Limited (NAMAL)		
Profits from Unit trust business	10%	10%
Others	28%	28%
Income tax on Serandib Capital (Pvt) Limited	28%	28%

19. TAX EXPENSE (Contd.)

19.2 The deferred tax charge/ (reversal) in the Statement of Profit or Loss and Statement of Comprehensive Income

BANK

For the year ended 31 December	2019				
	Deferred Tax Assets Rs.'000	Deferred Tax Liabilities Rs.'000	Statement of Profit or Loss Rs.'000	Other Comprehensive Income Rs.'000	Retained Earnings Rs.'000
Depreciation allowances for tax purpose	-	420,849	(10,626)	-	-
Impairment allowance	249,283	-	106,205	-	-
Revaluation of financial investments at fair value through other comprehensive income	(14,098)	-	-	138,266	-
Retirement benefit obligation	41,569	-	(9,411)	-	-
Actuarial gains/ (losses) on defined benefit plan liability	11,234	-	-	(3,708)	-
Other temporary differences	70,562	-	(30,920)	-	(11,883)
Total	358,550	420,849	55,249	134,558	(11,883)

For the year ended 31 December	2018				
	Deferred Tax Assets Rs.'000	Deferred Tax Liabilities Rs.'000	Statement of Profit or Loss Rs.'000	Other Comprehensive Income Rs.'000	Retained Earnings Rs.'000
Depreciation allowances for tax purpose	-	431,475	(11,741)	-	-
Impairment allowance	355,488	-	(18,913)	-	(224,599)
Carry forward losses	-	-	190,288	-	-
Revaluation of financial investments at fair value through other comprehensive income	124,167	-	-	(179,497)	-
Retirement benefit obligation	32,158	-	(4,876)	-	-
Actuarial gains/ (losses) on defined benefit plan liability	7,499	-	-	(2,534)	-
Other temporary differences	27,760	-	(8,675)	-	-
Total	547,072	431,475	146,083	(182,031)	(224,599)

GROUP

For the year ended 31 December	2019				
	Deferred Tax Assets Rs.'000	Deferred Tax Liabilities Rs.'000	Statement of Profit or Loss Rs.'000	Other Comprehensive Income Rs.'000	Retained Earnings Rs.'000
Depreciation allowances for tax purpose	-	471,416	(88,833)	-	-
Impairment allowance	314,980	-	58,696	-	-
Carry forward losses	475,101	-	32,289	-	-
Re-measurement of financial investments - at fair value through other comprehensive income	-	14,098	-	138,266	-
Retirement benefit obligation	50,077	-	(12,642)	-	-
Actuarial gains/ (losses) on defined benefit plan liability	9,084	-	-	(3,297)	-
Other temporary differences	70,830	-	(30,983)	-	(12,088)
Total	920,072	485,515	(41,473)	134,969	(12,088)

For the year ended 31 December	2018				
	Deferred Tax Assets Rs.'000	Deferred Tax Liabilities Rs.'000	Statement of Profit or Loss Rs.'000	Other Comprehensive Income Rs.'000	Retained Earnings Rs.'000
Depreciation allowances for tax purpose	-	560,249	114,580	-	-
Impairment allowance	373,676	-	(34,847)	-	(224,599)
Carry forward losses	507,390	-	109,872	-	-
Re-measurement of financial investments - at fair value through other comprehensive income	124,167	-	-	(179,497)	-
Retirement benefit obligation	37,435	-	(3,306)	-	-
Actuarial gains/ (losses) on defined benefit plan liability	5,760	-	-	(1,041)	-
Other temporary differences	27,759	-	(8,676)	-	-
Total	1,076,187	560,249	177,623	(180,538)	(224,599)

NOTES TO THE FINANCIAL STATEMENTS

20. EARNINGS PER SHARE (EPS)

ACCOUNTING POLICY

The Bank presents basic and diluted earnings per share data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share warrants issued and employee share ownership plans as required by the Sri Lanka Accounting Standard No. 33 (LKAS 33) - Earnings Per Share.

20.1 Earnings per share - Basic

For the year ended 31 December	Note	Page	BANK 2019	BANK 2018	GROUP 2019	GROUP 2018
Net profit attributable to ordinary shareholders (Rs.'000)			710,347	472,548	765,133	517,750
Weighted average number of ordinary shares ('000)	20.1.1	190	1,088,790	1,091,406	1,088,790	1,091,406
Basic earnings per ordinary share (Rs.)			0.65	0.43	0.70	0.47

20.1.1 Weighted Average Number of Ordinary shares for Basic EPS

BANK & GROUP

For the year ended 31 December	2019 Outstanding '000	2019 Weighted Average '000	2018 Outstanding '000	2018 Weighted Average '000
Number of shares held as at 1 January	1,091,406	1,091,406	1,091,406	1,091,406
Add: Number of shares issued	-	-	-	-
Less: Number of shares repurchased	(7,848)	(2,616)	-	-
Number of shares held as at 31 December	1,083,558	1,088,790	1,091,406	1,091,406

20.2 Earnings per share - Diluted

For the year ended 31 December	Note	Page	BANK 2019	BANK 2018	GROUP 2019	GROUP 2018
Net profit attributable to ordinary shareholders (Rs.'000)			710,347	472,548	765,133	517,750
Weighted average number of ordinary shares ('000)	20.2.1	190	1,089,149	1,091,729	1,089,149	1,091,729
Diluted earnings per ordinary share (Rs.)			0.65	0.43	0.70	0.47

20.2.1 Weighted Average Number of Ordinary shares for Diluted EPS

BANK & GROUP

For the year ended 31 December	Note	Page	2019 '000	2018 '000
Number of ordinary shares used as denominator for Basic EPS			1,088,790	1,091,406
Effect of dilution :				
Add: Weighted average number of potential ordinary shares outstanding under warrant	44.1	234	218,281	218,281
Add: Weighted average number of potential ordinary shares outstanding under ESOP	46.2	236	12,124	12,124
Less: Weighted average number of potential ordinary shares that would have been issued at average market price			(230,046)	(230,082)
Number of shares held as at 31 December			1,089,149	1,091,729

NOTES TO THE FINANCIAL STATEMENTS

21. DIVIDEND PAID AND PROPOSED

ACCOUNTING POLICY
Interim and final dividend are recognised and accrued at the time the dividend is declared and approved by the Board of Directors and is in accordance with the Companies Act No. 7 of 2007.

21.1 Shares repurchased during the year 2019

During the year, the Bank repurchased 7,847,911 ordinary shares at a consideration of Rs.15/- per share and the said shares so repurchased were cancelled with effect from 5th September 2019. Consequently, the number of shares representing the Stated Capital of the Bank was reduced from 1,091,406,249 to 1,083,558,338 with effect from 5th September 2019.

21.2 Dividend paid for the financial year 2018

	Gross Dividend	Dividend Tax	Net Dividend
Out of dividend received - free of tax (Rs.'000)	12,221	-	12,221
Out of normal profit (Rs.'000)	96,920	9,692	87,228
Dividend paid (Rs.'000)	109,141	9,692	99,449
Dividend per ordinary share (Rs.)	0.10		0.09

21.3 The Board of Directors of the Bank has recommended the payment of a final dividend of Rs. 0.14 per share for the year ended 31 December 2019, a distribution of approximately Rs. 151.6Mn.

21.4 In accordence 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 52 to the Financial Statements, "Events after the reporting period" as required by the said standard.

22. MEASUREMENT OF FINANCIAL INSTRUMENTS

Financial instruments in the Statement of Financial Position are measured on an ongoing basis either at fair value or at amortised cost. The summary of significant accounting policies describes how each category of financial instruments 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 Standards - SLFRS 9 Financial Instruments under headings of the Statement of Financial Position.

BANK

As at 31 December			2019			
	Note	Page	Fair Value Through P&L Rs.'000	Fair Value Through OCI Rs.'000	Amortised Cost Rs.'000	Total Rs.'000
Assets						
Cash and cash equivalents	23	194	-	-	2,718,860	2,718,860
Balances with Central Bank of Sri Lanka	24	195	-	-	2,314,197	2,314,197
Placements with banks	25	195	-	-	94,257	94,257
Reverse repurchased agreements	26	196	-	-	426,823	426,823
Derivative financial instruments	27	196	6,230	-	-	6,230
Financial investments at fair value through profit or loss	28	197	3,228,565	-	-	3,228,565
Financial assets at amortised cost - loans and advances to customers	29	199	-	-	77,358,301	77,358,301
Financial assets at amortised cost - debt and other instruments	30	208	-	-	13,441,040	13,441,040
Financial investments at fair value through other comprehensive income	31	213	-	17,503,245	-	17,503,245
Other financial assets	38	228	-	-	217,561	217,561
Total financial assets			3,234,795	17,503,245	96,571,039	117,309,079

	Note	Page	Fair Value Through P&L Rs.'000	Amortised Cost Rs.'000	Total Rs.'000
Liabilities					
Due to banks	39	229	-	11,475,176	11,475,176
Derivative financial instruments	27	196	4,515	-	4,515
Repurchased agreements	40	229	-	12,116,040	12,116,040
Due to customers	41	230	-	76,532,012	76,532,012
Other borrowed funds	42	231	-	1,242,450	1,242,450
Other financial liabilities	43	231	-	1,907,756	1,907,756
Total financial liabilities			4,515	103,273,434	103,277,949

As at 31 December			2018			
	Note	Page	Fair Value Through P&L Rs.'000	Fair Value Through OCI Rs.'000	Amortised Cost Rs.'000	Total Rs.'000
Assets						
Cash and cash equivalents	23	194	-	-	2,917,866	2,917,866
Balances with Central Bank of Sri Lanka	24	195	-	-	4,219,932	4,219,932
Placements with banks	25	195	-	-	3,265,425	3,265,425
Reverse repurchased agreements	26	196	-	-	417,146	417,146
Derivative financial instruments	27	196	34,274	-	-	34,274
Financial investments at fair value through profit or loss	28	197	2,863,121	-	-	2,863,121
Financial assets at amortised cost - loans and advances to customers	29	199	-	-	73,749,208	73,749,208
Financial assets at amortised cost - debt and other instruments	30	208	-	-	16,567,940	16,567,940
Financial investments at fair value through other comprehensive income	31	213	-	17,735,959	-	17,735,959
Other financial assets	38	228	-	-	153,865	153,865
Total financial assets			2,897,395	17,735,959	101,291,382	121,924,735

22. MEASUREMENT OF FINANCIAL INSTRUMENTS (Contd.)

	Note	Page	Fair Value Through P&L Rs.'000	Amortised Cost Rs.'000	Total Rs.'000
Liabilities					
Due to banks	39	229	-	9,348,209	9,348,209
Derivative financial instruments	27	196	71,750	-	71,750
Repurchased agreements	40	229	-	17,585,912	17,585,912
Due to customers	41	230	-	79,251,073	79,251,073
Other borrowed funds	42	231	-	1,234,220	1,234,220
Other financial liabilities	43	231	-	972,330	972,330
Total financial liabilities			71,750	108,391,744	108,463,494

GROUP
As at 31 December

			2019			
	Note	Page	Fair Value Through P&L Rs.'000	Fair Value Through OCI Rs.'000	Amortised Cost Rs.'000	Total Rs.'000
Assets						
Cash and cash equivalents	23	194	-	-	3,104,542	3,104,542
Balances with Central Bank of Sri Lanka	24	195	-	-	2,314,197	2,314,197
Placements with banks	25	195	-	-	94,257	94,257
Reverse repurchased agreements	26	196	-	-	1,009,581	1,009,581
Derivative financial instruments	27	196	6,230	-	-	6,230
Financial investments at fair value through profit or loss	28	197	3,270,208	-	-	3,270,208
Financial assets at amortised cost - loans and advances to customers	29	199	-	-	84,780,138	84,780,138
Financial assets at amortised cost - debt and other instruments	30	208	-	-	12,670,558	12,670,558
Financial investments at fair value through other comprehensive income	31	213	-	17,516,485	-	17,516,485
Other financial assets	38	228	-	-	245,956	245,956
Total financial assets			3,276,438	17,516,485	104,219,229	125,012,152

	Note	Page	Fair Value Through P&L Rs.'000	Amortised Cost Rs.'000	Total Rs.'000
Liabilities					
Due to banks	39	229	-	11,601,966	11,601,966
Derivative financial instruments	27	196	4,515	-	4,515
Repurchased agreements	40	229	-	12,116,040	12,116,040
Due to customers	41	230	-	82,751,668	82,751,668
Other borrowed funds	42	231	-	2,514,058	2,514,058
Other financial liabilities	43	231	-	2,085,401	2,085,401
Total financial liabilities			4,515	111,069,133	111,073,648

22. MEASUREMENT OF FINANCIAL INSTRUMENTS (Contd.)

As at 31 December	Note	Page	2018 Fair Value Through P&L Rs.'000	2018 Fair Value Through OCI Rs.'000	2018 Amortised Cost Rs.'000	2018 Total Rs.'000
Assets						
Cash and cash equivalents	23	194	-	-	3,306,393	3,306,393
Balances with Central Bank of Sri Lanka	24	195	-	-	4,219,932	4,219,932
Placements with banks	25	195	-	-	3,265,425	3,265,425
Reverse repurchased agreements	26	196	-	-	950,998	950,998
Derivative financial instruments	27	196	34,274	-	-	34,274
Financial investments at fair value through profit or loss	28	197	2,863,121	-	-	2,863,121
Financial assets at amortised cost - loans and advances to customers	29	199	-	-	82,120,068	82,120,068
Financial assets at amortised cost - debt and other instruments	30	208	-	-	15,942,404	15,942,404
Financial investments at fair value through other comprehensive income	31	213	-	17,787,621	-	17,787,621
Other financial assets	38	228	-	-	235,267	235,267
Total financial assets			2,897,395	17,787,621	110,040,487	130,725,503

	Note	Page	Fair Value Through P&L Rs.'000	Amortised Cost Rs.'000	Total Rs.'000
Liabilities					
Due to banks	39	229	-	9,515,547	9,515,547
Derivative financial instruments	27	196	71,750	-	71,750
Repurchased agreements	40	229	-	17,535,900	17,535,900
Due to customers	41	230	-	86,266,123	86,266,123
Other borrowed funds	42	231	-	2,921,647	2,921,647
Other financial liabilities	43	231	-	1,046,167	1,046,167
Total financial liabilities			71,750	117,285,384	117,357,134

23. CASH AND CASH EQUIVALENTS

ACCOUNTING POLICY

Cash and cash equivalents comprise of cash in hand and balances with banks 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 defined above, placements with banks and reverse repurchase transactions (less than 3 months), net of unfavorable balances with local and foreign banks.

As at 31 December	BANK 2019 Rs.'000	BANK 2018 Rs.'000	GROUP 2019 Rs.'000	GROUP 2018 Rs.'000
Local currency in hand	1,962,920	2,065,971	2,136,818	2,240,313
Foreign currency in hand	313,321	81,409	313,321	81,409
Balances with local banks	29,669	-	241,453	214,185
Balances with foreign banks	412,950	770,486	412,950	770,486
Total	2,718,860	2,917,866	3,104,542	3,306,393

NOTES TO THE FINANCIAL STATEMENTS

24. BALANCES WITH CENTRAL BANK OF SRI LANKA

ACCOUNTING POLICY

Balances with Central Bank of Sri Lanka include the cash balance that is required as per the provisions of section 93 of the Monetary Law Act. The minimum cash reserve requirement on rupee deposit liabilities was 5% (2018: 6%). There is no reserve requirement for the 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.

As at 31 December	BANK		GROUP	
	2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Statutory balances with Central Bank of Sri Lanka	2,314,197	4,219,932	2,314,197	4,219,932

25. PLACEMENTS WITH BANKS

ACCOUNTING POLICY

Placements with Banks net of impairment allowance includes money at call and short term investments that are subject to an insignificant risk of changes in the fair value, and are used by the Group in the management of its short term commitments.

As at 31 December	BANK		GROUP	
	2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Placements within Sri Lanka	-	429,936	-	429,936
Placements outside Sri Lanka	94,257	2,836,238	94,257	2,836,238
Total	94,257	3,266,174	94,257	3,266,174
Less: Impairment	-	(749)	-	(749)
Net Carrying Value	94,257	3,265,425	94,257	3,265,425

25.1 The below table shows the stage wise classification of placements and the impairment allowance;

BANK & GROUP

As at 31 December	2019			
	Stage 1 Rs.'000	Stage 2 Rs.'000	Stage 3 Rs.'000	Total Rs.'000
Placements	94,257	-	-	94,257
Less: Impairment allowance for placements				
Opening balance as at 1 January	749	-	-	749
Charge to statement of profit or loss	(749)	-	-	(749)
Net write off during the year	-	-	-	-
Closing balance as at 31 December	-	-	-	-
Net Carrying Value	94,257	-	-	94,257

As at 31 December	2018			
	Stage 1 Rs.'000	Stage 2 Rs.'000	Stage 3 Rs.'000	Total Rs.'000
Placements	3,266,174	-	-	3,266,174
Less: Impairment allowance for placements				
Opening balance as at 1 January	22	-	-	22
Charge to statement of profit or loss	727	-	-	727
Net write off during the year	-	-	-	-
Closing balance as at 31 December	749	-	-	749
Net Carrying Value	3,265,425	-	-	3,265,425

NOTES TO THE FINANCIAL STATEMENTS

26. REVERSE REPURCHASED AGREEMENTS

ACCOUNTING POLICY

Securities purchased under agreements to resell at a specified future date are not recognised in the Statement of Financial Position. The consideration paid, including accrued interest, is recorded in the Statement of Financial Position net of impairment allowance, within "reverse repurchase agreements", reflecting the transaction's economic substance as a loan by the Group. The difference between the purchase and resale prices is recorded in net interest income and is accrued over the life of the agreement using the Effective Interest Rate (EIR).

	BANK		GROUP	
As at 31 December	2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Due from banks	-	-	582,758	533,852
Due from customers	426,823	417,146	426,823	417,146
Total	426,823	417,146	1,009,581	950,998

26.1 The below table shows the stage wise classification of reverse repurchased agreements;

BANK

As at 31 December	2019				2018			
	Stage 1 Rs.'000	Stage 2 Rs.'000	Stage 3 Rs.'000	Total Rs.'000	Stage 1 Rs.'000	Stage 2 Rs.'000	Stage 3 Rs.'000	Total Rs.'000
Reverse repurchased agreements on Government securities	426,823	-	-	426,823	417,146	-	-	417,146
Total	426,823	-	-	426,823	417,146	-	-	417,146

GROUP

As at 31 December	2019				2018			
	Stage 1 Rs.'000	Stage 2 Rs.'000	Stage 3 Rs.'000	Total Rs.'000	Stage 1 Rs.'000	Stage 2 Rs.'000	Stage 3 Rs.'000	Total Rs.'000
Reverse repurchased agreements on Government securities	1,009,581	-	-	1,009,581	950,998	-	-	950,998
Total	1,009,581	-	-	1,009,581	950,998	-	-	950,998

27. DERIVATIVE FINANCIAL INSTRUMENTS

ACCOUNTING POLICY

Derivatives are financial instruments that derive their fair value in response to changes in interest rates, financial instrument prices, commodity prices, foreign exchange rates, credit risk and indices. The Bank uses derivatives such as forward foreign exchange contracts and currency swaps.

Bank has not designated any derivatives as hedging instruments and has not followed hedge accounting as at the reporting date. All derivatives are initially recognised and subsequently measured at fair value, with all revaluation gains or losses recognised in the Statement of Profit or Loss under "Other operating income" (Note 13).

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. Fair value is determined using the forward market rates ruling on the reporting date.

NOTES TO THE FINANCIAL STATEMENTS

27. DERIVATIVE FINANCIAL INSTRUMENTS (Contd.)

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities.

BANK & GROUP

As at 31 December	2019		2018	
	Assets Rs.'000	Liabilities Rs.'000	Assets Rs.'000	Liabilities Rs.'000
Forward foreign exchange contracts				
- Sales	1,327	1,664	416	47,884
- Purchases	33	1,009	7,107	466
Currency SWAPs				
- Sales	-	-	-	23,400
- Purchases	4,870	1,842	26,751	-
Total	6,230	4,515	34,274	71,750

28. FINANCIAL INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

ACCOUNTING POLICY

This includes financial assets that are held for trading purposes. The financial assets are classified as held for trading if:

- They are acquired principally for the purpose of selling or repurchasing in the near term; or
- They hold as part of portfolio that is managed together for short-term profit or position taking; or
- They form part of derivative financial instruments entered into by the Group that are not financial guaranteed contracts or designated as hedging instruments in effective hedging relationships.

Held-for-trading assets and liabilities are recorded and measured in the statement of financial position at fair value. Changes in fair value are recognised in "Net fair value gains/(losses) from financial instruments at fair value through profit or loss".

Interest and dividend income are recorded in "Interest income" and "Net fair value gains/(losses) from financial instruments at fair value through profit or loss" in the Statement of Profit or Loss, according to the terms of the contract, or when the right to receive the payment has been established.

Included in this classification are government securities and investment in units that have been acquired principally for the purpose of selling or repurchasing in the near term.

Further as per SLFRS 9, financial assets recognised through profit or loss includes all financial assets other than those classified under FVOCI and amortised cost.

			BANK		GROUP	
As at 31 December	Note	Page	2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Sri Lanka Government securities	28.1	198	1,827,477	1,858,458	1,827,477	1,858,458
Investment in units	28.2	198	1,401,088	1,004,663	1,442,731	1,004,663
Total			3,228,565	2,863,121	3,270,208	2,863,121

NOTES TO THE FINANCIAL STATEMENTS

28. FINANCIAL INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS (Contd.)

28.1 Sri Lanka Government securities

BANK & GROUP

Year of Maturity	2019 Cost of Investment Rs.'000	2019 Fair Value Rs.'000	2018 Cost of Investment Rs.'000	2018 Fair Value Rs.'000
2019	-	-	363,646	364,780
2020	21,239	21,258	-	-
2021	52,957	53,012	925,196	925,827
2022	52,803	52,495	-	-
2023	643,291	643,126	102,817	101,950
2024	1,052,967	1,057,586	-	-
2026	-	-	465,480	465,901
Total	1,823,257	1,827,477	1,857,139	1,858,458

28.2 Investment in Units

BANK

As at 31 December	2019 No of units '000	2019 Cost Rs.'000	2019 Market Value Rs.'000	2018 No of units '000	2018 Cost Rs.'000	2018 Market Value Rs.'000
NAMAL High Yield Fund	62,202	1,400,248	1,401,088	-	-	-
Capital Alliance Investment Grade Fund	-	-	-	25,534	401,754	401,885
Capital Alliance High Yield Fund	-	-	-	10,040	200,738	200,790
Capital Alliance Income Fund	-	-	-	24,960	401,846	401,988
Total		1,400,248	1,401,088		1,004,338	1,004,663

GROUP

As at 31 December	2019 No of units '000	2019 Cost Rs.'000	2019 Market Value Rs.'000	2018 No of units '000	2018 Cost Rs.'000	2018 Market Value Rs.'000
NAMAL High Yield Fund	64,050	1,437,881	1,442,731	-	-	-
Capital Alliance Investment Grade Fund	-	-	-	25,534	401,754	401,885
Capital Alliance High Yield Fund	-	-	-	10,040	200,738	200,790
Capital Alliance Income Fund	-	-	-	24,960	401,846	401,988
Total		1,437,881	1,442,731		1,004,338	1,004,663

29. FINANCIAL ASSETS AT AMORTISED COST - LOANS AND ADVANCES TO CUSTOMERS

ACCOUNTING POLICY

The Bank only measures the loans and advances to customers and other financial investments at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

After initial measurement, the loans and advances are subsequently measured at amortised cost using the effective interest rate (EIR), less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortisation is included in 'Interest income' and the losses arising from impairment are recognised in 'Impairment for loans and other losses' in the Statement of Profit or Loss.

Write offs

Financial assets are written off either partially or in their entirety only when the Bank has no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense.

Rescheduled Loan Facilities

This 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 and the loan is no longer considered past due.

Collateral Valuation

To mitigate its credit risks on financial assets, the Bank seeks to use collateral, where possible. The collateral comes in various forms, such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. Collateral is not recorded on the Bank's statement of financial position.

Cash flows expected from credit enhancements which are not required to be recognised separately by SLFRS standards and which are considered integral to the contractual terms of a debt instrument which is subject to ECL, are included in the measurement of those ECL. On this basis, the fair value of collateral affects the calculation of ECL. To the extent possible, the Bank uses active market data for valuing financial assets held as collateral.

			BANK		GROUP	
As at 31 December			2019	2018	2019	2018
	Note	Page	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Gross loans and receivables	29.1	200	**79,316,043**	75,787,035	**87,397,947**	85,452,541
Less: Impairment	29.5	204	**(1,957,742)**	(2,037,827)	**(2,617,809)**	(3,332,473)
Net loans and receivables			**77,358,301**	73,749,208	**84,780,138**	82,120,068

NOTES TO THE FINANCIAL STATEMENTS

29. FINANCIAL ASSETS AT AMORTISED COST - LOANS AND ADVANCES TO CUSTOMERS (Contd.)

29.1 Loans and receivables to customers - By Product

As at 31 December	BANK 2019 Rs.'000	BANK 2018 Rs.'000	GROUP 2019 Rs.'000	GROUP 2018 Rs.'000
Term loans	51,295,505	47,016,716	53,090,076	48,712,251
Overdrafts	11,234,125	12,038,457	11,141,255	11,985,176
Trade finance	13,151,744	13,256,959	13,151,744	13,256,959
Lease and hire purchase	708,997	1,192,136	5,340,896	7,199,578
Factoring	477,161	725,547	1,920,315	2,543,911
Pawning	369,592	459,792	369,593	508,288
Credit cards	1,176,806	243,428	1,176,806	243,428
Staff loans	902,113	854,000	902,113	854,000
Others	-	-	305,149	148,950
Gross loans and receivables	79,316,043	75,787,035	87,397,947	85,452,541

29.1.1 Stage-wise classification of gross loans and receivables - By product

BANK

As at 31 December	2019 Stage 1 Rs.'000	2019 Stage 2 Rs.'000	2019 Stage 3 Rs.'000	2019 Total Rs.'000	2018 Stage 1 Rs.'000	2018 Stage 2 Rs.'000	2018 Stage 3 Rs.'000	2018 Total Rs.'000
Term loans	44,675,687	647,890	5,971,928	51,295,505	43,968,693	593,368	2,454,655	47,016,716
Overdrafts	9,311,863	576,719	1,345,543	11,234,125	9,277,048	1,569,795	1,191,614	12,038,457
Trade finance	12,485,924	105,434	560,386	13,151,744	7,407,034	5,385,586	464,339	13,256,959
Lease and hire purchase	334,952	122,740	251,305	708,997	734,807	345,378	111,951	1,192,136
Factoring	365,526	-	111,635	477,161	558,677	-	166,870	725,547
Pawning	349,737	16,415	3,440	369,592	398,916	42,140	18,736	459,792
Credit cards	1,107,855	49,408	19,543	1,176,806	243,428	-	-	243,428
Staff loans	902,113	-	-	902,113	854,000	-	-	854,000
Total	69,533,657	1,518,606	8,263,780	79,316,043	63,442,603	7,936,267	4,408,165	75,787,035

GROUP

As at 31 December	2019 Stage 1 Rs.'000	2019 Stage 2 Rs.'000	2019 Stage 3 Rs.'000	2019 Total Rs.'000	2018 Stage 1 Rs.'000	2018 Stage 2 Rs.'000	2018 Stage 3 Rs.'000	2018 Total Rs.'000
Term loans	45,666,433	1,075,513	6,348,130	53,090,076	44,310,148	953,632	3,448,471	48,712,251
Overdrafts	9,218,992	576,719	1,345,544	11,141,255	9,223,767	1,569,795	1,191,614	11,985,176
Trade finance	12,485,924	105,434	560,386	13,151,744	7,407,034	5,385,586	464,339	13,256,959
Lease and hire purchase	2,078,434	1,707,750	1,554,712	5,340,896	3,392,345	2,204,816	1,602,417	7,199,578
Factoring	1,399,261	19,406	501,648	1,920,315	1,975,279	17,198	551,434	2,543,911
Pawning	349,737	16,415	3,441	369,593	447,412	42,140	18,736	508,288
Credit cards	1,107,855	49,408	19,543	1,176,806	243,428	-	-	243,428
Staff loans	902,113	-	-	902,113	854,000	-	-	854,000
Others	248,872	34,332	21,945	305,149	-	-	148,950	148,950
Total	73,457,621	3,584,977	10,355,349	87,397,947	67,853,413	10,173,167	7,425,961	85,452,541

29. FINANCIAL ASSETS AT AMORTISED COST - LOANS AND ADVANCES TO CUSTOMERS (Contd.)

29.1.2 Changes in the gross carrying amount of Loans and receivables

BANK

As at 31 December	2019				2018			
	Stage 1 Rs.'000	Stage 2 Rs.'000	Stage 3 Rs.'000	Total Rs.'000	Stage 1 Rs.'000	Stage 2 Rs.'000	Stage 3 Rs.'000	Total Rs.'000
Gross carrying amount 1 January	63,442,603	7,936,267	4,408,165	75,787,035	61,997,966	6,134,899	3,360,420	71,493,285
New assets originated or purchased	45,557,532	880,386	3,263,177	49,701,095	39,364,300	6,256,210	1,544,308	47,164,818
Assets de-recognised or repaid	(37,886,966)	(6,342,218)	(1,469,120)	(45,698,304)	(37,968,875)	(4,285,741)	(567,450)	(42,822,066)
Transfers to Stage 1	1,163,921	(1,150,952)	(12,969)	-	195,186	(115,398)	(79,788)	-
Transfers to Stage 2	(626,148)	626,148	-	-	(85,024)	86,394	(1,370)	-
Transfers to Stage 3	(2,117,015)	(429,716)	2,546,731	-	(60,828)	(140,097)	200,925	-
Amounts written off	(270)	(1,309)	(472,204)	(473,783)	(122)	-	(48,880)	(49,002)
Gross carrying amount 31 December	69,533,657	1,518,606	8,263,780	79,316,043	63,442,603	7,936,267	4,408,165	75,787,035

GROUP

As at 31 December	2019				2018			
	Stage 1 Rs.'000	Stage 2 Rs.'000	Stage 3 Rs.'000	Total Rs.'000	Stage 1 Rs.'000	Stage 2 Rs.'000	Stage 3 Rs.'000	Total Rs.'000
Gross carrying amount 1 January	67,853,413	10,173,167	7,425,961	85,452,541	67,021,525	8,450,355	5,173,690	80,645,569
New assets originated or purchased	50,402,389	1,254,769	3,413,713	55,070,871	45,143,446	6,256,210	1,693,258	53,092,914
Assets de-recognised or repaid	(42,185,743)	(7,102,351)	(2,575,711)	(51,863,805)	(42,198,945)	(5,508,901)	(529,097)	(48,236,943)
Transfers to Stage 1	1,590,855	(1,534,944)	(55,911)	-	520,782	(401,212)	(119,570)	-
Transfers to Stage 2	(1,618,026)	1,720,995	(102,969)	-	(1,900,952)	1,928,139	(27,188)	-
Transfers to Stage 3	(2,584,997)	(925,350)	3,510,347	-	(732,322)	(551,424)	1,283,746	-
Amounts written off	(270)	(1,309)	(1,260,081)	(1,261,660)	(122)	-	(48,878)	(49,000)
Gross carrying amount 31 December	73,457,621	3,584,977	10,355,349	87,397,947	67,853,413	10,173,167	7,425,961	85,452,541

29.2 Loans and advances to customers - By Currency

As at 31 December	BANK 2019 Rs.'000	BANK 2018 Rs.'000	GROUP 2019 Rs.'000	GROUP 2018 Rs.'000
Sri Lanka Rupee	65,468,988	62,206,290	73,550,892	71,871,796
United States Dollar	13,814,120	13,495,254	13,814,120	13,495,254
Euro	30,402	81,231	30,402	81,231
Others	2,533	4,260	2,533	4,260
Gross loans and receivables	79,316,043	75,787,035	87,397,947	85,452,541

29. FINANCIAL ASSETS AT AMORTISED COST - LOANS AND ADVANCES TO CUSTOMERS (Contd.)

29.3 Loans and advances to customers - By Industry

BANK

As at 31 December	2019		2018	
	%	Rs.'000	%	Rs.'000
Agriculture * and fishing	9%	7,357,127	11%	8,134,775
Manufacturing	14%	11,279,345	13%	10,205,176
Tourism	6%	4,858,761	3%	2,593,363
Transport	1%	455,022	0%	49,381
Construction	6%	4,844,214	5%	4,051,299
Wholesale and retail trade	22%	17,671,761	23%	17,578,284
Information technology and communication services	0%	295,356	0%	146,570
Financial and business services	11%	8,830,143	12%	9,396,402
Infrastructure	1%	1,038,094	1%	774,853
Other services	5%	3,840,223	8%	6,331,773
Other customers including pawning	25%	18,845,997	22%	16,525,158
Gross loans and receivables	100%	79,316,043	100%	75,787,035

* As per the circulars issued by the Central Bank of Sri Lanka, on Mandatory Lending to Agriculture Sector, the agriculture percentage is 10.86% (Minimum requirement - 10%).

GROUP

As at 31 December	2019		2018	
	%	Rs.'000	%	Rs.'000
Agriculture and fishing	9%	7,890,496	10%	8,764,031
Manufacturing	14%	11,949,812	13%	10,934,601
Tourism	6%	5,218,952	4%	2,991,738
Transport	1%	955,765	1%	653,985
Construction	6%	5,160,417	5%	4,662,292
Wholesale and retail trade	23%	20,007,338	24%	20,573,844
Information technology and communication services	0%	385,827	0%	253,395
Financial and business services	11%	9,355,692	11%	9,270,588
Infrastructure	1%	1,073,532	1%	800,634
Other services	5%	4,030,904	8%	6,428,031
Other customers including pawning	25%	21,369,212	24%	20,119,401
Gross loans and receivables	100%	87,397,947	100%	85,452,541

29.4 Lease and Hire Purchase Receivables

Assets leased to customers which transfer substantially all the risk and rewards associated with ownership other than legal title, are classified as finance leases. Amounts receivables under finance leases are classified as lease and hire purchase receivables and presented within loans and receivables to customers in the statement of financial positions, after deducting of unearned lease income and impairment.

Impairment on lease and hire purchase receivables are given in Note 29.5 to the financial statements.

29. FINANCIAL ASSETS AT AMORTISED COST - LOANS AND ADVANCES TO CUSTOMERS (Contd.)

29.4 Lease and Hire Purchase Receivables (Contd.)

As at 31 December	Note	Page	BANK 2019 Rs.'000	BANK 2018 Rs.'000	GROUP 2019 Rs.'000	GROUP 2018 Rs.'000
29.4.1 Lease receivable						
Total lease rentals receivable			818,013	1,407,783	6,945,585	9,909,734
Unearned lease income			(127,943)	(238,723)	(1,649,710)	(2,776,576)
Gross lease receivable			690,070	1,169,060	5,295,875	7,143,158
Less: Impairment allowance for lease receivable			(67,386)	(69,912)	(422,770)	(527,173)
Net lease receivables			622,684	1,099,148	4,873,105	6,615,984
Gross lease receivable within one year	29.4.1.1	203	394,359	82,008	2,302,737	1,750,048
Gross lease receivable after one year	29.4.1.2	203	295,711	1,087,052	2,993,138	5,393,110
Total gross lease receivable			690,070	1,169,060	5,295,875	7,143,158
29.4.1.1 Gross lease receivable within one year						
Total lease receivable within one year			476,430	103,684	3,076,838	3,008,469
Unearned lease income			(82,071)	(21,676)	(774,101)	(1,258,421)
Gross lease receivable			394,359	82,008	2,302,737	1,750,048
Less: Impairment allowance for lease receivable			(39,194)	(5,017)	(186,445)	(129,156)
Net lease receivables			355,165	76,991	2,116,292	1,620,892
29.4.1.2 Gross lease receivable after one year						
Total lease receivable after one year			341,583	1,304,099	3,868,747	6,901,265
Unearned lease income			(45,872)	(217,047)	(875,609)	(1,508,155)
Gross lease receivable			295,711	1,087,052	2,993,138	5,393,110
Less: Impairment allowance for lease receivable			(28,192)	(64,895)	(236,325)	(398,018)
Net lease receivables			267,519	1,022,157	2,756,813	4,995,092

As at 31 December	Note	Page	BANK 2019 Rs.'000	BANK 2018 Rs.'000	GROUP 2019 Rs.'000	GROUP 2018 Rs.'000
29.4.2 Hire purchase receivables						
Total hire purchase receivable			22,314	27,168	48,408	60,714
Unearned hire purchase income			(3,387)	(4,092)	(3,387)	(4,294)
Gross hire purchase receivable			18,927	23,076	45,021	56,420
Less: Impairment allowance for hire purchase receivable			(3,346)	(10,518)	(7,343)	(13,656)
Net hire purchase receivables			15,581	12,558	37,679	42,764
Gross hire purchase receivable within one year	29.4.2.1	204	18,927	21,315	45,021	54,659
Gross hire purchase receivable after one year	29.4.2.2	204	-	1,761	-	1,761
Total gross hire purchase receivable			18,927	23,076	45,021	56,420

29. FINANCIAL ASSETS AT AMORTISED COST - LOANS AND ADVANCES TO CUSTOMERS (Contd.)

29.4 Lease and Hire Purchase Receivables (Contd.)

As at 31 December	BANK 2019 Rs.'000	BANK 2018 Rs.'000	GROUP 2019 Rs.'000	GROUP 2018 Rs.'000
29.4.2.1 Gross hire purchase receivable within one year				
Total hire purchase receivable within one year	**22,314**	25,338	**48,408**	58,884
Unearned hire purchase income	**(3,387)**	(4,023)	**(3,387)**	(4,225)
Gross hire purchase receivable	**18,927**	21,315	**45,021**	54,659
Less: Impairment allowance for hire purchase receivable	**(3,346)**	(9,686)	**(7,343)**	(12,824)
Net hire purchase receivables	**15,581**	11,629	**37,679**	41,835
29.4.2.2 Gross hire purchase receivable after one year				
Total hire purchase receivable after one year	-	1,830	-	1,830
Unearned hire purchase income	-	(69)	-	(69)
Gross hire purchase receivable	-	1,761	-	1,761
Less: Impairment allowance for hire purchase receivable	-	(832)	-	(832)
Net hire purchase receivables	-	929	-	929

29.5 Allowance for Impairment Charges for Loans and Receivables

ACCOUNTING POLICY

Individual impairment

The Group considers objective evidence of impairment for loans and advances to customers at both individual asset and collective level. All individually significant loans and advances to customers and held to maturity investments are first assessed for Individual impairment. All individually significant loans and advances to customers found not to be individually impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are individually assessed for impairment and for which an impairment loss is recognised are not included in a collective assessment of impairment. Loans and advances to customers that are not individually significant are collectively assessed for impairment by grouping together loans and advances to customers with similar risk characteristics. If there is an objective evidence that an impairment loss has been incurred, impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at original effective interest rate of the asset. If the loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. If the Group has reclassified trading assets to loans and advances, the discount rate for measuring any impairment loss is the new effective interest rate which is determined at the date of reclassification. The impairment allowances 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 allowances are only released when there is a 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.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from the foreclosure less costs of obtaining and selling the collateral, whether or not foreclosure is probable. The methodology and the assumptions used for estimating future cash flows are reviewed regularly to reduce any difference between loss estimates and actual loss experience.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows, for the purpose of measuring the impairment loss and recorded as part of 'interest income'.

Collective Impairment

For the purpose of collective evaluation of impairment, financial assets are grouped on a basis, which takes into consideration credit risk characteristics such as asset type, past due status and other relevant factors. The Bank has been recording the allowance for expected credit losses (ECL) for all loans and receivables. The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL). The Bank's policies for determining if there has been a significant increase in credit risk are set out in Note 5.7.2.

Details of impairment losses on financial assets carried at amortised cost are given in Note 5.7 to the financial statements. Bank ceases the recognition of interest income on assets which are collectively impaired, when the overdue position is more than 90 days or 3 months.

29. FINANCIAL ASSETS AT AMORTISED COST - LOANS AND ADVANCES TO CUSTOMERS (Contd.)

29.5.1 Stage movements in allowance for impairment

BANK

As at 31 December	2019				2018			
	Stage 1 Rs.'000	Stage 2 Rs.'000	Stage 3 Rs.'000	Total Rs.'000	Stage 1 Rs.'000	Stage 2 Rs.'000	Stage 3 Rs.'000	Total Rs.'000
Opening balance as at 1 January	605,502	89,109	1,343,216	2,037,827	659,080	40,224	1,082,118	1,781,422
Charge/(reversal) to statement of profit or loss	(207,262)	(29,968)	630,928	393,698	(53,456)	48,885	309,978	305,407
Write offs during the year	(270)	(1,309)	(472,204)	(473,783)	(122)	-	(48,880)	(49,002)
Closing balance as at 31 December	397,970	57,832	1,501,940	1,957,742	605,502	89,109	1,343,216	2,037,827

GROUP

As at 31 December	2019				2018			
	Stage 1 Rs.'000	Stage 2 Rs.'000	Stage 3 Rs.'000	Total Rs.'000	Stage 1 Rs.'000	Stage 2 Rs.'000	Stage 3 Rs.'000	Total Rs.'000
Opening balance as at 1 January	666,168	187,695	2,478,610	3,332,473	715,492	122,434	2,000,144	2,838,070
Charge/(reversal) to statement of profit or loss	(202,417)	(47,067)	796,480	546,996	(49,202)	65,261	527,344	543,403
Write offs during the year	(270)	(1,309)	(1,260,081)	(1,261,660)	(122)	-	(48,878)	(49,000)
Closing balance as at 31 December	463,481	139,319	2,015,009	2,617,809	666,168	187,695	2,478,610	3,332,473

NOTES TO THE FINANCIAL STATEMENTS

29. FINANCIAL ASSETS AT AMORTISED COST - LOANS AND ADVANCES TO CUSTOMERS (Contd.)

29.5.2 Movements in allowance for impairment charges - By Product

BANK

As at 31 December	2019						
	Term Loans Rs.'000	Overdrafts Rs.'000	Trade Finance Rs.'000	Lease & Hire Purchases Rs.'000	Factoring Rs.'000	Others Rs.'000	Total Rs.'000
Stage 1							
Opening balance as at 1 January	510,730	70,187	228	6,192	9,098	9,067	605,502
Charge/(reversal) to statement of profit or loss	(213,076)	(1,880)	6,677	(3,172)	2,589	1,600	(207,262)
Net write off during the year	(3)	(267)	-	-	-	-	(270)
Closing balance as at 31 December	297,651	68,040	6,905	3,020	11,687	10,667	397,970
Stage 2							
Opening balance as at 1 January	22,745	41,666	1,417	21,921	-	1,360	89,109
Charge/(reversal) to statement of profit or loss	(2,748)	(14,297)	(1,131)	(16,841)	-	5,049	(29,968)
Net write off during the year	(1,309)	-	-	-	-	-	(1,309)
Closing balance as at 31 December	18,688	27,369	286	5,080	-	6,409	57,832
Stage 3							
Opening balance as at 1 January	745,465	395,189	63,383	52,317	85,448	1,414	1,343,216
Charge/(reversal) to statement of profit or loss	315,241	236,564	(5,503)	13,168	66,468	4,990	630,928
Net write off during the year	(196,085)	(142,943)	(16,961)	(2,854)	(113,361)	-	(472,204)
Closing balance as at 31 December	864,621	488,810	40,919	62,631	38,555	6,404	1,501,940
Total							
Opening balance as at 1 January	1,278,940	507,042	65,028	80,430	94,546	11,841	2,037,827
Charge/(reversal) to statement of profit or loss	99,417	220,387	43	(6,845)	69,057	11,639	393,698
Net write off during the year	(197,397)	(143,210)	(16,961)	(2,854)	(113,361)	-	(473,783)
Closing balance as at 31 December	1,180,960	584,219	48,110	70,731	50,242	23,480	1,957,742

As at 31 December	2018						
	Term Loans Rs.'000	Overdrafts Rs.'000	Trade finance Rs.'000	Lease & Hire Purchases Rs.'000	Factoring Rs.'000	Others Rs.'000	Total Rs.'000
Stage 1							
Opening balance as at 1 January	567,587	76,931	409	7,924	5,166	1,063	659,080
Charge/(reversal) to statement of profit or loss	(56,735)	(6,744)	(181)	(1,732)	3,932	8,004	(53,456)
Net write off during the year	(122)	-	-	-	-	-	(122)
Closing balance as at 31 December	510,730	70,187	228	6,192	9,098	9,067	605,502
Stage 2							
Opening balance as at 1 January	12,945	20,576	2,283	4,420	-	-	40,224
Charge/(reversal) to statement of profit or loss	9,800	21,090	(866)	17,501	-	1,360	48,885
Net write off during the year	-	-	-	-	-	-	-
Closing balance as at 31 December	22,745	41,666	1,417	21,921	-	1,360	89,109
Stage 3							
Opening balance as at 1 January	551,969	367,317	103,159	46,433	7,533	5,707	1,082,118
Charge/(reversal) to statement of profit or loss	196,703	65,745	(38,940)	12,777	77,915	(4,222)	309,978
Net write off during the year	(3,207)	(37,873)	(836)	(6,893)	-	(71)	(48,880)
Closing balance as at 31 December	745,465	395,189	63,383	52,317	85,448	1,414	1,343,216
Total							
Opening balance as at 1 January	1,132,501	464,824	105,851	58,777	12,699	6,770	1,781,422
Charge/(reversal) to statement of profit or loss	149,768	80,091	(39,987)	28,546	81,847	5,142	305,407
Net write off during the year	(3,329)	(37,873)	(836)	(6,893)	-	(71)	(49,002)
Closing balance as at 31 December	1,278,940	507,042	65,028	80,430	94,546	11,841	2,037,827

29. FINANCIAL ASSETS AT AMORTISED COST - LOANS AND ADVANCES TO CUSTOMERS (contd.)

GROUP

As at 31 December	2019						
	Term Loans Rs.'000	Overdrafts Rs.'000	Trade Finance Rs.'000	Lease & Hire Purchases Rs.'000	Factoring Rs.'000	Others Rs.'000	Total Rs.'000
Stage 1							
Opening balance as at 1 January	526,545	70,016	228	51,214	9,098	9,067	666,168
Charge/(reversal) to statement of profit or loss	(215,131)	(2,067)	6,677	(11,009)	17,416	1,697	(202,417)
Net write off during the year	(3)	(267)	-	-	-	-	(270)
Closing balance as at 31 December	311,411	67,682	6,905	40,205	26,514	10,764	463,481
Stage 2							
Opening balance as at 1 January	39,061	41,666	1,417	104,191	-	1,360	187,695
Charge/(reversal) to statement of profit or loss	(3,238)	(14,297)	(1,131)	(41,062)	7,611	5,050	(47,067)
Net write off during the year	(1,309)	-	-	-	-	-	(1,309)
Closing balance as at 31 December	34,514	27,369	286	63,129	7,611	6,410	139,319
Stage 3							
Opening balance as at 1 January	1,161,136	395,189	63,383	385,424	327,834	145,644	2,478,610
Charge/(reversal) to statement of profit or loss	332,903	236,564	(5,503)	170,927	53,600	7,989	796,480
Net write off during the year	(708,505)	(142,943)	(16,961)	(229,572)	(162,100)	-	(1,260,081)
Closing balance as at 31 December	785,534	488,810	40,919	326,779	219,334	153,633	2,015,009
Total							
Opening balance as at 1 January	1,726,742	506,871	65,028	540,829	336,932	156,071	3,332,473
Charge/(reversal) to statement of profit or loss	114,534	220,200	43	118,856	78,627	14,736	546,996
Net write off during the year	(709,817)	(143,210)	(16,961)	(229,572)	(162,100)	-	(1,261,660)
Closing balance as at 31 December	1,131,459	583,861	48,110	430,113	253,459	170,807	2,617,809

As at 31 December	2018						
	Term Loans Rs.'000	Overdrafts Rs.'000	Trade finance Rs.'000	Lease & Hire Purchases Rs.'000	Factoring Rs.'000	Others Rs.'000	Total Rs.'000
Stage 1							
Opening balance as at 1 January	579,187	76,916	409	52,751	5,166	1,063	715,492
Charge/(reversal) to statement of profit or loss	(52,520)	(6,900)	(181)	(1,537)	3,932	8,004	(49,202)
Net write off during the year	(122)	-	-	-	-	-	(122)
Closing balance as at 31 December	526,545	70,016	228	51,214	9,098	9,067	666,168
Stage 2							
Opening balance as at 1 January	26,468	20,576	2,283	73,107	-	-	122,434
Charge/(reversal) to statement of profit or loss	12,593	21,090	(866)	31,084	-	1,360	65,261
Net write off during the year	-	-	-	-	-	-	-
Closing balance as at 31 December	39,061	41,666	1,417	104,191	-	1,360	187,695
Stage 3							
Opening balance as at 1 January	855,532	367,317	103,159	331,027	193,544	149,565	2,000,144
Charge/(reversal) to statement of profit or loss	308,808	65,745	(38,940)	61,291	134,290	(3,850)	527,344
Net write off during the year	(3,204)	(37,873)	(836)	(6,894)	-	(71)	(48,878)
Closing balance as at 31 December	1,161,136	395,189	63,383	385,424	327,834	145,644	2,478,610
Total							
Opening balance as at 1 January	1,461,187	464,809	105,851	456,885	198,710	150,628	2,838,070
Charge/(reversal) to statement of profit or loss	268,881	79,935	(39,987)	90,838	138,222	5,514	543,403
Net write off during the year	(3,326)	(37,873)	(836)	(6,894)	-	(71)	(49,000)
Closing balance as at 31 December	1,726,742	506,871	65,028	540,829	336,932	156,071	3,332,473

NOTES TO THE FINANCIAL STATEMENTS

30. FINANCIAL ASSETS AT AMORTISED COST - DEBT AND OTHER INSTRUMENTS

ACCOUNTING POLICY

As per SLFRS 9, Financial investments are measured at amortised cost if it meets both of the following conditions and is not designated at FVTPL:

- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest.

After initial measurement, these are subsequently measured at amortised cost using the effective interest rate (EIR), less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortisation is included in "Interest income" while the losses arising from impairment are recognised in "impairment charges for loans and other losses" in the Statement of Profit or Loss."

As at 31 December	Note	Page	BANK 2019 Rs.'000	BANK 2018 Rs.'000	GROUP 2019 Rs.'000	GROUP 2018 Rs.'000
Investment in deep discounted bond	30.1	208	3,005,570	2,889,971	-	-
Fixed deposits			-	-	2,544,023	2,572,399
Sri Lanka development bond			3,219,460	3,364,089	3,219,460	3,364,089
Investment in debentures	30.2	209	1,655,690	2,517,279	1,343,437	2,205,026
Lease backed trust certificates	30.3	209	7,092	94,258	7,092	94,258
Sri Lanka Government securities	30.4	210	5,589,983	7,743,480	5,589,983	7,743,480
Total			13,477,795	16,609,077	12,703,995	15,979,252
Less: Impairment	30.6	211	(36,755)	(41,137)	(33,437)	(36,848)
Net carrying value			13,441,040	16,567,940	12,670,558	15,942,404

30.1 Investment in deep discounted bond

As at 31 December	BANK 2019 Rs.'000	BANK 2018 Rs.'000	GROUP 2019 Rs.'000	GROUP 2018 Rs.'000
Serandib Capital Private Limited	3,005,570	2,889,971	-	-

The Bank invested in a deep discounted bond issued by Serandib Capital Private Limited and guaranteed by a local commercial bank on 1 August 2003. The investment was Rs. 1,578Mn settled by transferring a part of the Bank's portfolio at its book value of Rs. 978Mn and balance in cash. The face value of the bond amounts to Rs. 3,458Mn and will mature on 1 August 2023. It is recorded at cost plus a proportion of the discount over the period to maturity based on its implicit rate of return of 4%.

NOTES TO THE FINANCIAL STATEMENTS

30. FINANCIAL ASSETS AT AMORTISED COST - DEBT AND OTHER INSTRUMENTS (Contd.)

30.2 Investment in debentures

BANK

As at 31 December	2019 No. of Debentures 000	2019 Carrying Value Rs.'000	2018 No. of Debentures 000	2018 Carrying Value Rs.'000
Senior debentures				
Commercial Leasing & Finance PLC	5,000	548,884	5,000	548,884
DFCC Bank PLC	5,163	542,719	8,663	922,164
Pan Asia Banking Corporation PLC	-	-	3,715	381,096
Hayleys PLC	-	-	1,000	101,048
LB Finance PLC	2,500	251,834	2,500	251,834
Total senior debentures		1,343,437		2,205,026
Subordinated debenture				
UB Finance Company Limited	3,000	312,253	3,000	312,253
Total subordinated debenture		312,253		312,253
Total		1,655,690		2,517,279

GROUP

As at 31 December	2019 No. of Debentures 000	2019 Carrying Value Rs.'000	2018 No. of Debentures 000	2018 Carrying Value Rs.'000
Senior debentures				
Commercial Leasing & Finance PLC	5,000	548,884	5,000	548,884
DFCC Bank PLC	5,163	542,719	8,663	922,164
Pan Asia Banking Corporation PLC	-	-	3,715	381,096
Hayleys PLC	-	-	1,000	101,048
LB Finance PLC	2,500	251,834	2,500	251,834
Total		1,343,437		2,205,026

30.3 Lease backed trust certificates

As at 31 December	BANK 2019 Rs.'000	BANK 2018 Rs.'000	GROUP 2019 Rs.'000	GROUP 2018 Rs.'000
Peoples Leasing & Company PLC	7,092	58,003	7,092	58,003
Commercial Credit & Finance PLC	-	36,255	-	36,255
Total	7,092	94,258	7,092	94,258

30. FINANCIAL ASSETS AT AMORTISED COST - DEBT AND OTHER INSTRUMENTS (Contd.)

30.4 Sri Lanka Government securities

BANK & GROUP

As at 31 December	2019		2018	
Year of Maturity	Amortised Cost Rs.000	Fair value Rs.000	Amortised Cost Rs.000	Fair value Rs.000
2019	-	-	7,032,763	6,928,332
2020	4,177,628	4,184,702	710,717	683,645
2021	1,412,355	1,417,640	-	-
Total	5,589,983	5,602,342	7,743,480	7,611,977

30.5 Stage-wise classification - debt and other instruments

BANK

As at 31 December	2019					
	Deep discounted bond Rs.'000	Sri Lanka development bond Rs.'000	Investment in debentures Rs.'000	Lease backed trust certificates Rs.'000	Sri Lanka Government Securities Rs.'000	Total Rs.'000
Stage 1	3,005,570	3,219,460	1,343,437	7,092	5,589,983	13,165,542
Stage 2	-	-	312,253	-	-	312,253
Stage 3	-	-	-	-	-	-
Total	3,005,570	3,219,460	1,655,690	7,092	5,589,983	13,477,795

As at 31 December	2018					
	Deep discounted bond Rs.'000	Sri Lanka development bond Rs.'000	Investment in debentures Rs.'000	Lease backed trust certificates Rs.'000	Sri Lanka Government Securities Rs.'000	Total Rs.'000
Stage 1	2,889,971	3,364,089	2,205,026	94,258	7,743,480	16,296,824
Stage 2	-	-	312,253	-	-	312,253
Stage 3	-	-	-	-	-	-
Total	2,889,971	3,364,089	2,517,279	94,258	7,743,480	16,609,077

GROUP

As at 31 December	2019					
	Fixed Deposits Rs.'000	Sri Lanka development bond Rs.'000	Investment in debentures Rs.'000	Lease backed trust certificates Rs.'000	Sri Lanka Government Securities Rs.'000	Total Rs.'000
Stage 1	2,544,023	3,219,460	1,343,437	7,092	5,589,983	12,703,995
Stage 2	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-
Total	2,544,023	3,219,460	1,343,437	7,092	5,589,983	12,703,995

30. FINANCIAL ASSETS AT AMORTISED COST - DEBT AND OTHER INSTRUMENTS (Contd.)

GROUP

As at 31 December	2018					
	Fixed Deposits Rs.'000	Sri Lanka development bond Rs.'000	Investment in debentures Rs.'000	Lease backed trust certificates Rs.'000	Sri Lanka Government Securities Rs.'000	Total Rs.'000
Stage 1	2,572,399	3,364,089	2,205,026	94,258	7,743,480	15,979,252
Stage 2	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-
Total	2,572,399	3,364,089	2,205,026	94,258	7,743,480	15,979,252

30.6 Impairment allowance on financial assets at amortised cost - debt and other instruments

BANK

As at 31 December	2019				
	Deep discounted bond Rs.'000	Sri Lanka development bond Rs.'000	Investment in debentures Rs.'000	Lease backed trust certificates Rs.'000	Total Rs.'000
Stage 1					
Opening balance as at 1 January	255	31,275	2,476	2,842	36,849
Charge/(reversal) to statement of profit or loss	34	1,957	(2,283)	(2,830)	(3,122)
Net write off during the year	-	-	-	-	-
Closing balance as at 31 December	289	33,232	193	12	33,727
Stage 2					
Opening balance as at 1 January	-	-	4,289	-	4,289
Charge/(reversal) to statement of profit or loss	-	-	(1,260)	-	(1,260)
Net write off during the year	-	-	-	-	-
Closing balance as at 31 December	-	-	3,029	-	3,029
Stage 3	-	-	-	-	-
Total					
Opening balance as at 1 January	255	31,275	6,765	2,842	41,137
Charge/(reversal) to statement of profit or loss	34	1,957	(3,543)	(2,830)	(4,382)
Net write off during the year	-	-	-	-	-
Closing balance as at 31 December	289	33,232	3,222	12	36,755

30. FINANCIAL ASSETS AT AMORTISED COST - DEBT AND OTHER INSTRUMENTS (Contd.)

BANK

As at 31 December	2018				
	Deep discounted bond Rs.'000	Sri Lanka development bond Rs.'000	Investment in debentures Rs.'000	Lease backed trust certificates Rs.'000	Total Rs.'000
Stage 1					
Opening balance as at 1 January	265	23,461	2,558	6,811	33,095
Charge/(reversal) to statement of profit or loss	(10)	7,814	(82)	(3,969)	3,753
Net write off during the year	-	-	-	-	-
Closing balance as at 31 December	255	31,275	2,476	2,842	36,848
Stage 2					
Opening balance as at 1 January	-	-	5,619	-	5,619
Charge/(reversal) to statement of profit or loss	-	-	(1,330)	-	(1,330)
Net write off during the year	-	-	-	-	-
Closing balance as at 31 December	-	-	4,289	-	4,289
Stage 3	-	-	-	-	-
Total					
Opening balance as at 1 January	265	23,461	8,177	6,811	38,714
Charge/(reversal) to statement of profit or loss	(10)	7,814	(1,412)	(3,969)	2,423
Net write off during the year	-	-	-	-	-
Closing balance as at 31 December	255	31,275	6,765	2,842	41,137

GROUP

As at 31 December	2019				
	Fixed Deposits Rs.'000	Sri Lanka development Rs.'000	investment in debentures Rs.'000	Lease backed trust Rs.'000	Total Rs.'000
Stage 1					
Opening balance as at 1 January	255	31,275	2,476	2,842	36,848
Charge/(reversal) to statement of profit or loss	(255)	1,957	(2,283)	(2,830)	(3,411)
Net write off during the year	-	-	-	-	-
Closing balance as at 31 December	-	33,232	193	12	33,437
Stage2	-	-	-	-	-
Stage 3	-	-	-	-	-
Total					
Opening balance as at 1 January	255	31,275	2,476	2,842	36,848
Charge/(reversal) to statement of profit or loss	(255)	1,957	(2,283)	(2,830)	(3,411)
Net write off during the year	-	-	-	-	-
Closing balance as at 31 December	-	33,232	193	12	33,437

30. FINANCIAL ASSETS AT AMORTISED COST - DEBT AND OTHER INSTRUMENTS (Contd.)

GROUP

As at 31 December	2018				
	Fixed Deposits Rs.'000	Sri Lanka development Rs.'000	investment in debentures Rs.'000	Lease backed trust Rs.'000	Total Rs.'000
Stage 1					
Opening balance as at 1 January	265	23,461	2,558	6,811	33,095
Charge/(reversal) to statement of profit or loss	(10)	7,814	(82)	(3,969)	3,753
Net write off during the year	-	-	-	-	-
Closing balance as at 31 December	255	31,275	2,476	2,842	36,848
Stage 2	-	-	-	-	-
Stage 3	-	-	-	-	-
Total					
Opening balance as at 1 January	265	23,461	2,558	6,811	33,095
Charge/(reversal) to statement of profit or loss	(10)	7,814	(82)	(3,969)	3,753
Net write off during the year	-	-	-	-	-
Closing balance as at 31 December	255	31,275	2,476	2,842	36,848

31. FINANCIAL INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

ACCOUNTING POLICY

Debt instruments at FVOCI

The Bank applies the new category under SLFRS 9 of debt instruments measured at FVOCI when both of the following conditions are met:

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

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 is 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 5.5.3. Where the Bank holds more than one investment in the same security, they are deemed to be disposed of on a first–in first–out basis. On de-recognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to profit or loss.

Equity instruments at FVOCI

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value OCI. This election is made on an investment by investment basis.

Gains and losses on these equity instruments are never recycled to profit or loss, instead directly transferred to retained earnings at the time of derecognition. Dividends are recognised in profit or loss as other operating income when the right of the payment has been established. Equity instruments at FVOCI are not subject to an impairment assessment.

31. FINANCIAL INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (Contd.)

As at 31 December	Note	Page	BANK 2019 Rs.'000	BANK 2018 Rs.'000	GROUP 2019 Rs.'000	GROUP 2018 Rs.'000
Sri Lanka Government securities	31.1	214	**17,500,715**	17,734,429	**17,500,715**	17,734,429
Equity securities						
- Quoted	31.2	214	**-**	-	**13,039**	28,203
- Unquoted	31.3	215	**2,530**	1,530	**2,731**	1,731
Investment in unit trusts	31.4	215	**-**	-	**-**	23,258
Total			**17,503,245**	17,735,959	**17,516,485**	17,787,621
Less: Impairment			**-**	-	**-**	-
Net Carrying Value			**17,503,245**	17,735,959	**17,516,485**	17,787,621

31.1 Sri Lanka Government securities

BANK & GROUP

As at 31 December Year of Maturity	2019 Cost of Investment Rs.'000	2019 Fair Value Rs.'000	2018 Cost of Investment Rs.'000	2018 Fair Value Rs.'000
2019	**-**	**-**	5,905,989	5,869,874
2020	**4,664,098**	**4,679,695**	1,217,719	1,190,668
2021	**7,705,219**	**7,722,899**	6,847,082	6,651,638
2022	**-**	**-**	604,244	586,962
2023	**699,119**	**701,043**	1,817,955	1,752,498
2024	**2,059,982**	**2,055,634**	1,045,115	988,551
2025	**532,086**	**536,590**	409,435	390,013
2026	**-**	**-**	224,118	207,067
2027	**1,531,935**	**1,539,662**	-	-
2028	**-**	**-**	106,228	97,158
2034	**257,923**	**265,192**	-	-
Total	**17,450,363**	**17,500,715**	18,177,885	17,734,429

31.2 Equity securities - quoted investments

GROUP

As at 31 December	2019 No. of Shares 000	2019 Cost of Investment Rs.'000	2019 Market Value Rs.'000	2018 No. of Shares 000	2018 Cost of Investment Rs.'000	2018 Market Value Rs.'000
Seylan Bank PLC	**-**	**-**	**-**	37	3,991	2,856
Seylan Bank PLC - Non Voting	**-**	**-**	**-**	48	3,050	2,157
Dialog Axiata PLC	**702**	**9,479**	**8,637**	702	9,479	7,091
Commercial Bank of Ceylon PLC - Non Voting	**-**	**-**	**-**	28	3,269	2,699
Tokyo Cement PLC - Non Voting	**-**	**-**	**-**	150	10,602	3,780
Hatton National Bank PLC	**26**	**5,576**	**4,402**	25	5,576	5,390
Access Engineering PLC	**-**	**-**	**-**	300	7,644	4,230
Total		**15,054**	**13,039**		43,611	28,203
Less : Mark to market adjustment		**(2,016)**			(15,408)	
Net carrying value		**13,039**			28,203	

31. FINANCIAL INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (Contd.)

31.3 Equity securities - Unquoted investments

BANK

As at 31 December	2019 No. of Shares '000	2019 Cost of Investment Rs.'000	2019 Market Value Rs.'000	2018 No. of Shares '000	2018 Cost of Investment Rs.'000	2018 Market Value Rs.'000
Lanka Financial Service Bureau Limited	200	2,000	2000	100	1,000	1,000
Lanka Clear Private Limited	50	500	500	50	500	500
Credit Information Bureau	0.3	30	30	0.3	30	30
Total		2,530	2,530		1,530	1,530
Less : Mark to market adjustment		-			-	
Net carrying value		2,530			1,530	

GROUP

As at 31 December	2019 No. of Shares '000	2019 Cost of Investment Rs.'000	2019 Market Value Rs.'000	2018 No. of Shares '000	2018 Cost of Investment Rs.'000	2018 Market Value Rs.'000
Lanka Financial Service Bureau Limited	200	2,000	2,000	100	1,000	1,000
Lanka Clear Private Limited	50	500	500	50	500	500
Credit Information Bureau	0.3	31	31	0.3	31	31
Finance House Consortium Private Limited	20	200	200	20	200	200
Total		2,731	2,731		1,731	1,731
Less : Mark to market adjustment		-			-	
Total		2,731			1,731	

Unquoted equity securities categories under financial investments at fair value through other comprehensive income are recorded at cost since it is the most reasonable value available to represent the market value of these investments as at the reporting date.

31.4 Investment in units

GROUP

As at 31 December	2019 No. of Shares '000	2019 Cost of Investment Rs.'000	2019 Market Value Rs.'000	2018 No. of Shares '000	2018 Cost of Investment Rs.'000	2018 Market Value Rs.'000
NAMAL High Yield Fund	-	-	-	1,166	22,922	23,258
Total	-	-	-		22,922	23,258

32. CURRENT TAX ASSET/ LIABILITY

ACCOUNTING POLICY

Current tax assets and liabilities consist of amounts expected to be recovered from or paid to the taxation authorities in respect of the current year and any adjustments to tax payable in respect of prior years. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted by the reporting date.

	BANK		GROUP	
As at 31 December	2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Current tax asset	1,148	336,167	1,148	336,167
Current tax liability	-	-	197,957	188,001

33. INVESTMENTS IN REAL ESTATE

ACCOUNTING POLICY

Property acquired or being constructed for sale in the ordinary course of business, rather than to be held for rental or capital appreciation, is held as a real estate property and is measured at the lower of cost and net realisable value.

Cost includes;

- Freehold rights for land
- Amounts paid to constructors for developments
- Borrowing costs, planning and design costs, costs of site preparation, professional fees for legal services, property transfer taxes, construction overheads and other related costs.

Non-refundable commissions paid to sales or marketing agents on the sale of real estate units are expensed when paid. Net realisable value is the estimated selling price in the ordinary course of the business, based on market prices at the reporting date and discounted for the time value of money if material, less costs to completion and the estimated costs of sale. The cost of real estate property recognised in profit or loss on disposal is determined with reference to the specific costs incurred on the property sold and an allocation of any non-specific costs based on the relative size of the property sold.

GROUP

As at 31 December	Note	Page	2019 Rs.'000	2018 Rs.'000
Land			44,059	47,549
Housing projects			13,521	14,601
Other projects			177,838	177,838
Total			235,418	239,988
Less: Impairment	33.1	216	(122,855)	(121,355)
Net carrying value			112,563	118,633

33.1 Impairment on investments in real estate

GROUP

As at 31 December	2019 Rs.'000	2018 Rs.'000
Opening balance as at 1 January	121,355	352,501
Charge/ (Write back) to statement of profit or loss	1,500	(24,194)
Net write off/ disposals during the year	-	(206,952)
Closing balance as at 31 December	122,855	121,355

NOTES TO THE FINANCIAL STATEMENTS

34. INVESTMENTS IN SUBSIDIARIES

ACCOUNTING POLICY

Subsidiaries are investees controlled by the Bank. The Bank "controls" an investee if it is exposed to, 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 Group reassesses whether it controls the investee, if there are changes to one or more of the elements of control.

The Financial Statements of subsidiaries are included in the Consolidated Financial Statements from the date on which control commences until the date when control ceases.

The cost of an acquisition is measured at fair value of the consideration, including contingent consideration. The acquired identifiable assets, liabilities and contingent liabilities are measured at their fair values at the date of acquisition. Subsequent to the initial measurement, investment in subsidiaries are recognised using the equity method in separate financial statements of the Bank.

The Financial Statements of all subsidiaries in the Group have a common financial year which ends on December 31, except for the UB Finance Ltd., whose financial year ends on March 31. The Financial Statements of the Bank's subsidiaries are prepared using consistent accounting policies.

All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions, income and expenses are eliminated in full.

There are no significant restrictions on the ability of subsidiaries to transfer funds to the Parent (the Bank) in the form of cash dividend or repayment of loans and advances.

The Group did not acquire / dispose any subsidiaries during the year ended 31 December 2019.

All subsidiaries of the Bank have been incorporated in Sri Lanka.

BANK

As at 31 December			2019			2018		
Name of the subsidiary	Note	Page	Percentage Holding %	Equity Basis Rs.'000	Cost Rs.'000	Percentage Holding %	Equity Basis Rs.'000	Cost Rs.'000
National Asset Management Limited	34.1	218	51	270,267	331,500	51	270,363	331,500
UB Finance Company Limited	34.1	218	73.31	642,001	841,297	73.31	565,010	841,297
Total				912,268	1,172,797		835,373	1,172,797

NOTES TO THE FINANCIAL STATEMENTS

34. INVESTMENTS IN SUBSIDIARIES (Contd.)

34.1 Movement of equity accounted investee

BANK

As at 31 December

	2019		
	UB Finance Company Limited Rs.'000	National Asset Management Limited Rs.'000	Total Rs.'000
Percentage of ownership interest	**73.31%**	**51.00%**	**-**
Balance brought forward	**(276,287)**	**(61,137)**	**(337,424)**
Transitional adjustment on the implementation of SLFRS 16	**(25,396)**	**(1,267)**	**(26,663)**
Restated opening balance	**(301,683)**	**(62,404)**	**(364,087)**
Current year share of profit (net of tax)	**101,668**	**2,155**	**103,823**
Other comprehensive income (net of tax)			
- To be reclassified to profit or loss	**-**	**-**	**-**
- Not to be reclassified to profit or loss	**719**	**(561)**	**159**
Less: Dividends received	**-**	**-**	**-**
Less: Impairment on Brand value	**-**	**(423)**	**(423)**
Total share of equity accounted investees retained profits	**(199,296)**	**(61,233)**	**(260,528)**
Total share of equity accounted investees retained profits	**(199,296)**	**(61,233)**	**(260,528)**
Cost of equity accounted investees	**841,297**	**331,500**	**1,172,797**
Total carrying amount of investments in equity accounted investees	**642,001**	**270,267**	**912,268**

As at 31 December

	2018		
	UB Finance Company Limited Rs.'000	National Asset Management Limited Rs.'000	Total Rs.'000
Percentage of ownership interest	73.31%	51.00%	
Balance brought forward	88,751	1,064	89,815
Transitional adjustment on the implementation of SLFRS 9	(403,355)	-	(403,355)
Restated opening balance	(314,604)	1,064	(313,540)
Current year share of profit (net of tax)	35,523	(909)	34,614
Other comprehensive income (net of tax)			
- To be reclassified to profit or loss	-	-	-
- Not to be reclassified to profit or loss	2,794	(14,599)	(11,805)
Less: Dividends received	-	(45,962)	(45,962)
Less: Impairment on Brand value	-	(731)	(731)
Total share of equity accounted investees retained profits	(276,287)	(61,137)	(337,424)
Total share of equity accounted investees retained profits	(276,287)	(61,137)	(337,424)
Cost of equity accounted investees	841,297	331,500	1,172,797
Total carrying amount of investments in equity accounted investees	565,010	270,363	835,373

NOTES TO THE FINANCIAL STATEMENTS

34. INVESTMENTS IN SUBSIDIARIES (Contd.)

34.2 Summarised financial information of subsidiaries

As at 31 December	2019		2018	
	UB Finance Company Limited Rs.'000	National Asset Management Limited Rs.'000	UB Finance Company Limited Rs.'000	National Asset Management Limited Rs.'000
For the year ended 31 December				
Net operating income	536,386	74,528	570,516	85,323
Less: Operating expenses	454,031	68,964	456,533	75,396
Profit before taxes	82,355	5,564	113,983	9,927
Less: Tax expense (including VAT , NBT and DRL on financial services)	(56,327)	1,338	65,527	1,830
Profit after tax	138,682	4,226	48,456	8,097
Total comprehensive income	139,666	3,124	52,266	(20,528)
As at 31 December				
Financial assets at amortised cost - loans and advances to customers	7,967,994	-	9,066,604	-
Financial investments at fair value through other comprehensive income	201	13,039	201	51,461
Financial assets at amortised cost - debt and other instruments	-	17,257	-	-
Property, plant and equipments and intangible assets	243,216	26,298	212,500	21,400
Other assets	80,959	24,683	112,555	21,567
Total assets	9,741,404	124,169	10,820,583	112,689
Due to customers	6,443,075	-	7,092,629	-
Other borrowed funds	1,271,608	-	2,644,120	-
Other liabilities	322,025	18,863	250,026	6,602
Total liabilities	9,031,107	19,922	10,215,310	8,290
Total equity	710,297	104,247	605,273	103,639

34.3 Capital requirement of UB Finance Company Limited

UB Finance Company Limited is yet to comply with the minimum core capital and capital adequacy requirements set out in the Direction No.02 of 2017, Direction No. 03 of 2018 issued under the Finance Business Act and the Finance Companies (Capital Funds) Direction No. 01 of 2003.

As a result, the Central Bank of Sri Lanka had issued a letter dated 23 January 2019 imposing temporary cap on balance sheet growth of UB Finance Co. Limited until the required capital and capital adequacy ratios are met. By a subsequent letter dated 03 February 2020 issued to UB Finance Co. Limited, the Central Bank of Sri Lanka has extended the deadline to meet the minimum core capital and capital adequacy requirements till 31 March 2020 taking into consideration the options being evaluated by the company to enhance the capital within the said timeline.

However, Group capital adequacy ratios are currently above the required threshold.

35. GOODWILL AND INTANGIBLE ASSETS

ACCOUNTING POLICY

An intangible asset is recognised if it is probable that the future economic benefits that are attributable to the asset will flow to the Group and the cost of the asset can be measured reliably in accordance with the Sri Lanka Accounting Standard – LKAS 38 on "Intangible Assets". An intangible asset is initially measured at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. Following initial recognition, these assets are stated in the Statement of Financial Position at cost, less accumulated amortisation and accumulated impairment losses, if any.

(i) Goodwill

Goodwill that arises upon the acquisition of subsidiaries is included in intangible assets. Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed.

Subsequent to initial recognition, goodwill is measured at cost less accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

(ii) Computer Software

Software acquired by the Group is measured at cost less accumulated amortisation and accumulated impairment losses. Expenditure on internally developed software is recognised as an asset when the Group is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits and can reliably measure the costs to complete the development. The capitalised costs of internally developed software include all costs directly attributable to developing the software and capitalised borrowing costs, and are amortised over its useful life. Internally developed software is stated at capitalised cost less accumulated amortisation and impairment. Subsequent expenditure on software assets are capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful life of the software, from the date that it is available for use since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

Computer software is amortised over 10 Years of estimated useful lives on a straight line basis.

(iii) Other Intangible Assets

Other intangible assets consist of brand value, asset management and advisory intangible, licenses and related infrastructure. Other intangible assets are initially recognised when they are separable or arise from contractual or other legal rights, the cost can be measured reliably and, in the case of intangible assets not acquired in a business combination, where it is probable that future economic benefits attributable to the assets will flow from their use. The value of intangible assets which are acquired in a business combination is generally determined using income approach methodologies such as the discounted cash flow method.

De-recognition of Intangible Assets

The carrying amount of an item of intangible asset is de-recognised 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 de-recognised.

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.

NOTES TO THE FINANCIAL STATEMENTS

35. GOODWILL AND INTANGIBLE ASSETS (contd.)

BANK

As at 31 December	2019 Computer Software Rs.'000	2019 Software under Development Rs.'000	2019 Total Rs.'000	2018 Computer Software Rs.'000	2018 Software under Development Rs.'000	2018 Total Rs.'000
Cost						
Opening balance as at 1 January	1,824,435	21,680	1,846,115	1,642,212	71,545	1,713,757
Additions	308,264	3,079	311,343	129,613	2,745	132,358
Transfers	-	-	-	52,610	(52,610)	-
Adjustment	(4,537)	(23,699)	(28,236)			
Closing balance as at 31 December	2,128,162	1,060	2,129,222	1,824,435	21,680	1,846,115
Less: Amortisation						
Opening balance as at 1 January	643,583	-	643,583	492,758	-	492,758
Charge for the year	160,385	-	160,385	150,825	-	150,825
Adjustment	(4,537)	-	(4,537)			
Closing balance as at 31 December	799,431	-	799,431	643,583	-	643,583
Net book value as at 31 December	1,328,731	1,060	1,329,791	1,180,852	21,680	1,202,532

GROUP

As at 31 December (2019)	Goodwill Rs.'000	Computer Software Rs.'000	Software under Development Rs.'000	Brand Value Rs.'000	Asset Mgt. & Advisory Intangible Rs.'000	Licenses and related Infrastructure Rs.'000	Total Rs.'000
Cost							
Opening balance as at 1 January	113,031	1,865,974	21,680	10,169	118,947	136,001	2,265,802
Additions	-	311,579	3,079	-	-	-	314,658
Transfers	-	-	-	-	-	-	-
Adjustment	-	(4,537)	(23,699)	-	-	-	(28,236)
Closing balance as at 31 December	113,031	2,173,016	1,060	10,169	118,947	136,001	2,552,224
Less: Amortisation							
Opening balance as at 1 January	-	675,601	-	1,441	22,468	14,738	714,248
Charge for the year	-	162,412	-	-	-	-	162,412
Adjustment	-	(4,537)	-	-	-	-	(4,537)
Closing balance as at 31 December	-	833,476	-	1,441	22,468	14,738	872,123
Less: Impairment charge	-	-	-	279	1,154	-	1,433
Net book value as at 31 December	113,031	1,339,540	1,060	8,449	95,325	121,263	1,678,668

35. GOODWILL AND INTANGIBLE ASSETS (contd.)

As at 31 December	2018						
	Goodwill Rs.'000	Computer Software Rs.'000	Software under Development Rs.'000	Brand Value Rs.'000	Asset Mgt. & Advisory Intangible Rs.'000	Licenses and related Infrastructure Rs.'000	Total Rs.'000
Cost							
Opening balance as at 1 January	113,031	1,680,632	71,545	10,169	118,947	136,001	2,130,325
Additions	-	132,732	2,745	-	-	-	135,477
Transfers	-	52,610	(52,610)	-	-	-	-
Closing balance as at 31 December	113,031	1,865,974	21,680	10,169	118,947	136,001	2,265,802
Less: Amortisation							
Opening balance as at 1 January	-	523,001	-	1,441	22,468	14,738	561,648
Charge for the year	-	152,600	-	-	-	-	152,600
Closing balance as at 31 December	-	675,601	-	1,441	22,468	14,738	714,248
Less: Impairment charge	-	-	-	279	731	-	1,010
Net book value as at 31 December	113,031	1,190,373	21,680	8,449	95,748	121,263	1,550,544

Impairment testing
Methods used to assess the recoverability of intangible assets;

Intangible Asset	Method Used
Goodwill	Free Cash Flow to Equity (FCFE)
Brand value	Free Cash Flow to Equity (FCFE)
Asset management and advisory intangibles	Customer list
Licensing and other infrastructure	Income approach

Assumptions used by the Bank;

2019	Goodwill	Brand Value	License and related Infrastructure
Discount rate	15.0%	15.0%	14.4%
Terminal growth rate	2.5%	2.5%	2.5%

2018	Goodwill	Brand Value	License and related Infrastructure
Discount rate	16.7%	16.7%	16.6%
Terminal growth rate	2.5%	2.5%	2.5%

The calculation of the above are sensitive to discount rates, budgeted income/cash flows, terminal growth rates used to extrapolate cash flows beyond the budgeted period, market rates.

36. PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS

ACCOUNTING POLICY

Property, plant and equipment are tangible items that are held for use in the production or supply of goods or services, for rental to others or for administrative purposes and are expected to be used for more than one period.

Basis of Recognition

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 measured reliably in accordance with LKAS 16 "Property, plant and equipment".

Measurement

Property, plant and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses if any. Initially property, plant and equipment are measured at its cost. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their 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 that computer equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Subsequent costs

The cost of replacing a part 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 measured reliably. The carrying amount of the replaced part is de-recognised. The costs of day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

De-recognition

The carrying amount of an item of property, plant and equipment is de-recognised on disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from the de-recognition of an item of property, plant and equipment which is calculated as the difference between the carrying amount and the net disposal proceeds is included in "Other operating income" in the Statement of Profit or Loss in the year the asset is de-recognised. 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 de-recognised. Major inspection costs are capitalised at each such capitalisation, the remaining carrying amount of the previous cost of inspections is de-recognised.

Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Land is not depreciated. The depreciation charges are determined separately for each significant part of an item of Property, plant and equipment and commence to depreciate when it is available for use. 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 de-recognised. Depreciation doesn't cease when the asset becomes idle or is retired from active use unless the asset is fully depreciated.

Assets Category	Estimated Useful Lives
Building	40 Years
Leasehold improvements	5 – 10 Years
Computer, equipment & generators	6 – 15 Years
Furniture and fittings	5 – 8 Years
Motor vehicles	4 – 10 Years

The asset's residual value, useful life and method of depreciation are reviewed at each reporting date and adjusted prospectively, as changes in accounting estimates. There were no changes to the estimates during the year 2019.

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.

Right-of-use assets

Right-of-use assets are presented together with property, plant and equipment in the statement of financial position (refer the accounting policy in Note 4.1.1.1.1). Right to use assets are depreciated on a straight line basis over the lease term.

NOTES TO THE FINANCIAL STATEMENTS

36. PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS (Contd.)

BANK

	2019									
	Property, plant and equipment						Right of use assets			
	Leasehold Improvements Rs.'000	Computer & Equipment Rs.'000	Furniture & Fittings Rs.'000	Motor Vehicles Rs.'000	Work in Progress Rs.'000	Subtotal Rs.'000	Building Rs.'000	Motor Vehicles Rs.'000	Subtotal Rs.'000	Total Rs.'000
Cost										
Opening balance as at 1 January	615,836	1,338,949	378,738	39,692	11,923	2,385,138	-	-	-	2,385,138
Additions	23,700	121,405	11,646	25,000	-	181,751	-	-	-	181,751
Disposals	(83)	(3,640)	(4,454)	(27,445)	(2,981)	(38,603)	-	-	-	(38,603)
Transfers	-	-	-	-	-	-	-	-	-	-
Adjustment/ transfer	-	-	-	-	(8,942)	(8,942)	-	-	-	(8,942)
Closing balance as at 31 December	639,453	1,456,714	385,930	37,247	-	2,519,344	-	-	-	2,519,344
Effect of adoption of SLFRS 16 as at 1 January 2019	-	-	-	-	-	-	867,747	66,758	934,506	934,506
Additions	-	-	-	-	-	-	79,558	-	79,558	79,558
Disposals	-	-	-	-	-	-	-	-	-	-
Adjustment/transfer	-	-	-	-	-	-	-	-	-	-
At 31 December	-	-	-	-	-	-	947,305	66,758	1,014,064	1,014,064
Less: Accumulated depreciation										
Opening balance as at 1 January	513,849	863,014	198,877	20,239	-	1,595,978	-	-	-	1,595,978
Charge for the year	45,548	131,940	39,991	3,736	-	221,215	240,621	14,658	255,279	476,494
Disposals	(72)	(3,377)	(3,966)	(14,016)	-	(21,430)	-	-	-	(21,430)
Closing balance as at 31 December	559,325	991,577	234,902	9,959	-	1,795,763	240,621	14,658	255,279	2,051,042
Net book value as at 31 December	80,128	465,137	151,028	27,288	-	723,581	706,685	52,100	758,785	1,482,366

	2018					
	Leasehold Improvements Rs.'000	Computer & Equipment Rs.'000	Furniture & Fittings Rs.'000	Motor Vehicles Rs.'000	Work in Progress Rs.'000	Total Rs.'000
Cost						
Opening balance as at 1 January	621,411	1,242,083	364,087	48,058	11,524	2,287,163
Additions	17,667	95,985	21,745	1,129	6,804	143,330
Disposals	(25,005)	(3,761)	(7,094)	(9,495)	-	(45,355)
Adjustment/transfer	1,763	4,642	-	-	(6,405)	-
Closing balance as at 31 December	615,836	1,338,949	378,738	39,692	11,923	2,385,138
Less: Accumulated depreciation						
Opening balance as at 1 January	478,757	734,661	163,227	22,160	-	1,398,804
Charge for the year	56,523	131,371	39,989	3,865	-	231,748
Disposals	(21,431)	(3,018)	(4,339)	(5,786)	-	(34,574)
Closing balance as at 31 December	513,849	863,014	198,877	20,239	-	1,595,978
Net book value as at 31 December	101,987	475,935	179,861	19,453	11,923	789,158

NOTES TO THE FINANCIAL STATEMENTS

36. PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS (contd.)

GROUP

	2019										
	Property, plant and equipment							Right of use assets			
	Land and Buildings Rs.'000	Leasehold Improvements Rs.'000	Computer & Equipment Rs.'000	Furniture & Fittings Rs.'000	Motor Vehicles Rs.'000	Work in Progress Rs.'000	Subtotal Rs.'000	Building Rs.'000	Motor Vehicles Rs.'000	Subtotal Rs.'000	Total Rs.'000
Cost											
Opening balance as at 1 January	51,923	669,654	1,389,196	490,558	141,950	11,923	2,755,204	-	-	-	2,755,204
Additions	-	20,120	129,503	17,055	27,150	-	193,828	-	-	-	193,828
Disposals	-	4,318	(3,576)	(3,809)	(44,822)	(2,981)	(50,870)	-	-	-	(50,870)
Adjustment/transfer	-	-	-	-	-	(8,942)	(8,942)	-	-	-	(8,942)
Closing balance as at 31 December	51,923	694,092	1,515,123	503,804	124,278	-	2,889,220	-	-	-	2,889,220
Effect of adoption of SLFRS 16											
as at 1 January 2019	-	-	-	-	-	-	-	890,304	66,758	957,063	957,063
Additions	-	-	-	-	-	-	-	148,857	-	148,857	148,857
Disposals	-	-	-	-	-	-	-	-	-	-	-
Adjustment/transfer	-	-	-	-	-	-	-	-	-	-	-
At 31 December	-	-	-	-	-	-	-	1,039,161	66,758	1,105,920	1,105,920
Less: Accumulated depreciation											
Opening balance as at 1 January	7,927	538,926	901,924	253,383	39,504	-	1,741,665	7,519	-	7,519	1,749,184
Charge for the year	666	51,738	140,057	50,938	17,778	-	261,176	261,018	14,658	275,676	536,852
Disposals	-	(72)	(3,377)	(3,966)	(24,556)	-	(31,970)	-	-	-	(31,970)
Closing balance as at 31 December	8,593	590,592	1,038,604	300,355	32,726	-	1,970,871	268,537	14,658	283,195	2,254,066
Net book value as at 31 December	43,330	103,500	476,519	203,449	91,552	-	918,349	770,624	52,100	822,725	1,741,074

	2018						
	Land and Buildings Rs.'000	Leasehold Properties Rs.'000	Computer & Equipment Rs.'000	Furniture & Fittings Rs.'000	Motor Vehicles Rs.'000	Work in Progress Rs.'000	Total Rs.'000
Cost							
Opening balance as at 1 January	51,923	674,574	1,286,911	459,873	94,579	11,524	2,579,385
Additions	-	13,920	101,340	37,134	72,400	6,804	231,598
Disposals	-	(20,603)	(3,697)	(6,449)	(25,029)	-	(55,778)
Adjustment/transfer	-	1,763	4,642	-	-	(6,405)	-
Closing balance as at 31 December	51,923	669,654	1,389,196	490,558	141,950	11,923	2,755,204
Less: Accumulated depreciation							
Opening balance as at 1 January	7,261	497,900	765,411	207,474	43,268	-	1,521,314
Charge for the year	666	62,457	139,552	50,235	10,385	-	263,295
Disposals	-	(21,431)	(3,039)	(4,326)	(14,149)	-	(42,945)
Closing balance as at 31 December	7,927	538,926	901,924	253,383	39,504	-	1,741,665
Net book value as at 31 December	43,996	130,728	487,272	237,175	102,446	11,923	1,013,541

NOTES TO THE FINANCIAL STATEMENTS

36. PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS (contd.)

36.1 Cost of fully depreciated property, plant, equipment and intangible assets

The initial cost of fully depreciated property, plant and equipment as at 31 December 2019, which are as follows:

As at 31 December	BANK 2019 Rs.'000	BANK 2018 Rs.'000	GROUP 2019 Rs.'000	GROUP 2018 Rs.'000
Leasehold improvements	**426,258**	371,589	**426,258**	391,727
Computer and equipment	**559,698**	443,531	**605,751**	461,451
Furniture and fittings	**81,692**	54,189	**89,998**	67,909
Motor vehicles	**1,639**	1,639	**1,934**	2,723
Intangible assets	**3,525**	-	**13,721**	9,249
Total	**1,072,812**	870,948	**1,137,662**	933,059

36.2 Temporarily idle property, plant and equipment - Bank & Group

There were no property, plant and equipment idle from active use as at the reporting date (2018: NIL)

36.3 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 (2018: NIL)

36.4 Title restriction on property, plant and equipment – Group

There were no restriction on the title of property, plant and equipment as at the reporting date (2018: NIL).

36.5 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 (2018: NIL)

36.6 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 (2018: NIL)

37. DEFERRED TAXATION

ACCOUNTING POLICY

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are 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.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be 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. The rates applicable as at reporting date are given in Note 19.1.1 to the financial statements.

Deferred tax relating to items recognised directly in equity are also recognised in equity and not in the Statement of Profit or Loss. Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

NOTES TO THE FINANCIAL STATEMENTS

37. DEFERRED TAXATION (Contd.)

As at 31 December	BANK 2019 Rs.'000	BANK 2018 Rs.'000	GROUP 2019 Rs.'000	GROUP 2018 Rs.'000
Deferred tax asset (Net)	-	115,596	497,620	517,374
Deferred tax liability (Net)	62,299	-	63,062	1,436
Deferred tax assets/ (liabilities) movement				
Balance as at beginning of the year	115,596	(144,922)	515,938	288,450
Transitional adjustment on the implementation of SLFRS 9	-	224,599	-	224,599
Transitional adjustment on the implementation of SLFRS 16	11,883	-	12,088	-
Restated opening balance as at 1 January	127,479	79,677	528,026	513,049
Deferred tax (charged)/reversed to the Statement of Profit or Loss	(55,249)	(146,083)	41,473	(177,623)
Deferred tax (charged)/reversed to the Statement of Other Comprehensive Income	(134,531)	182,003	(134,942)	180,512
Balance as at 31 December	(62,299)	115,596	434,557	515,938

37.1 Deferred tax asset or liability applicable for Statement of Profit or Loss

As at 31 December	BANK 2019 Rs.'000	BANK 2018 Rs.'000	GROUP 2019 Rs.'000	GROUP 2018 Rs.'000
Deferred tax assets				
Carry forward losses	-	-	475,101	507,390
Retirement benefit obligation	41,569	32,158	50,077	37,435
Impairment allowance	249,283	355,488	314,980	373,676
Share based payments	34,556	27,759	34,556	27,759
Operating leases	36,007	-	36,274	
Total	361,415	415,405	910,988	946,260
Deferred tax liability				
Accelerated depreciation allowance for tax purposes (Property, plant and equipment)	(354,330)	(359,612)	(376,413)	(394,540)
Accelerated depreciation allowance for tax purposes (Lease rental receivable)	(66,519)	(71,863)	(95,003)	(165,709)
Total	(420,849)	(431,475)	(471,416)	(560,249)

37.2 Deferred tax asset or liability applicable for Statement of Other Comprehensive Income

As at 31 December	BANK 2019 Rs.'000	BANK 2018 Rs.'000	GROUP 2019 Rs.'000	GROUP 2018 Rs.'000
Deferred tax assets/ (liabilities)				
Actuarial gains/ (losses) on defined benefit plan liability	11,234	7,499	9,084	5,760
Gains / (losses) on re-measuring available for sale financial assets	(14,098)	124,167	(14,098)	124,167
Total	(2,865)	131,666	(5,015)	129,927

38. OTHER ASSETS

ACCOUNTING POLICY

The Group classifies all other assets as 'Other financial assets' and 'Other non-financial assets'. Refundable deposits are carried at the fair value.

Advances and pre-payments are amortised during the period in which they are utilised and are carried at cost less provision for impairment.

Staff loans are granted below market interest rates. 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 recognise 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 EIR method. The Day 1 difference is classified as 'Pre-paid staff cost' and is amortised over the loan period by using the EIR. The staff loans are subsequently measured at amortised cost.

Other financial assets and other non financial assets included under other assets are summarised below:

			BANK		GROUP	
As at 31 December	Note	Page	2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Other financial assets						
Refundable deposits			17,401	17,385	30,683	88,319
Other debtors			200,160	136,480	215,273	146,948
Total other financial assets			217,561	153,865	245,956	235,267
Other non financial assets						
Advances			254,172	81,491	261,871	87,916
Pre-paid expenses			52,663	261,346	52,954	261,346
Pre-paid staff cost	38.1	228	313,637	299,375	316,469	299,375
Pre-paid lease rental			2,958	3,383	2,958	3,383
Others*			101,558	78,253	168,469	125,182
Total other non financial assets			724,988	723,848	802,721	777,202
Less : Provision for other assets			(5,981)	(7,256)	(5,981)	(7,256)
Total			936,568	870,457	1,042,696	1,005,213

*Others consist of stocks such as stationeries, three wheelers, gift stocks and other sundry receivables.

38.1 Pre-paid staff cost

	BANK		GROUP	
	2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Balance as at 1st January	299,375	275,023	299,375	275,023
Add : Adjustments for new grants and settlements	51,345	54,709	55,882	54,709
Less : Charge to personnel expenses	(37,083)	(30,357)	(38,788)	(30,357)
Balance as at 31 December	313,637	299,375	316,469	299,375

39. DUE TO BANKS

ACCOUNTING POLICY

Bank borrowings include refinance borrowings, call money and term borrowings. Subsequent to initial recognition, these are measured at their amortised cost using the effective interest rate method. Amortised cost is calculated by taking in to account any discount or premium on the issue and cost that are an integral part of the EIR. The EIR amortisation is included in 'Interest expenses' in the Statement of Profit or Loss.

	BANK		GROUP	
As at 31 December	2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Local bank borrowings	**7,091,208**	3,595,887	**7,217,998**	3,595,887
Foreign bank borrowings	**3,375,691**	4,855,912	**3,375,691**	4,855,912
Refinance borrowings	**344,071**	215,288	**344,071**	215,288
Unfavourable balances with banks	**186,814**	274,669	**186,814**	442,007
Deposits	**477,392**	406,453	**477,392**	406,453
Total	**11,475,176**	9,348,209	**11,601,966**	9,515,547

40. REPURCHASED AGREEMENTS

ACCOUNTING POLICY

Securities sold under agreements to repurchase at a specified future date are not de-recognised from the Statement of Financial Position as the Group retains substantially all of the risks and rewards of ownership. The corresponding cash received is recognised in the Statement of Financial Position as an asset and a corresponding obligation to return it with accrued interest, as 'securities sold under repurchase agreements', reflecting the transaction's economic substance as a loan to the Group. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of agreement using the effective interest rate.

	BANK		GROUP	
As at 31 December	2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Due to banks				
Treasury products	**7,545,373**	14,640,919	**7,545,373**	14,640,919
Due to customers				
Treasury products	**4,570,667**	2,944,993	**4,570,667**	2,894,981
Total	**12,116,040**	17,585,912	**12,116,040**	17,535,900

41. DUE TO CUSTOMERS

ACCOUNTING POLICY

Due to customers include non-interest bearing deposits, savings deposits, fixed deposits, certificate of deposits and margin deposits. Subsequent to initial recognition, deposits are measured at their amortised cost using the effective interest rate method, which are recognised in the Statement of Profit or Loss under 'Interest expenses'.

As at 31 December	Note	Page	BANK 2019 Rs.'000	BANK 2018 Rs.'000	GROUP 2019 Rs.'000	GROUP 2018 Rs.'000
Total deposits	41.1	230	**76,532,012**	79,251,073	**82,751,668**	86,266,123

41.1 Due to customers - By product

	BANK 2019 Rs.'000	BANK 2018 Rs.'000	GROUP 2019 Rs.'000	GROUP 2018 Rs.'000
Demand deposits	3,863,878	4,043,155	3,863,428	4,043,024
Savings deposits	15,468,600	14,676,341	15,257,449	14,614,739
Fixed deposits	54,765,954	58,048,059	61,197,211	65,124,842
Other deposits	2,433,580	2,483,518	2,433,580	2,483,518
Total deposits	**76,532,012**	79,251,073	**82,751,668**	86,266,123

41.1.1 Due to customers - Local currency deposits

	BANK 2019 Rs.'000	BANK 2018 Rs.'000	GROUP 2019 Rs.'000	GROUP 2018 Rs.'000
Demand deposits	3,452,248	3,634,418	3,451,798	3,634,287
Savings deposits	11,585,257	11,784,873	11,374,106	11,723,271
Fixed deposits	46,368,000	49,275,332	52,799,257	56,352,115
Other deposits	2,433,580	2,483,518	2,433,580	2,483,518
Total local currency deposits	**63,839,085**	67,178,141	**70,058,741**	74,193,191

41.1.2 Due to customers - Foreign currency deposits

	BANK 2019 Rs.'000	BANK 2018 Rs.'000	GROUP 2019 Rs.'000	GROUP 2018 Rs.'000
Demand deposits	411,630	408,737	411,630	408,737
Savings deposits	3,883,343	2,891,468	3,883,343	2,891,468
Fixed deposits	8,397,954	8,772,727	8,397,954	8,772,727
Total foreign currency deposits	**12,692,927**	12,072,932	**12,692,927**	12,072,932
Total deposits	**76,532,012**	79,251,073	**82,751,668**	86,266,123

41.1.2.1 Foreign currency deposits - By currency

As at 31 December	BANK 2019 Rs.'000	BANK 2018 Rs.'000	GROUP 2019 Rs.'000	GROUP 2018 Rs.'000
United States Dollar	11,850,404	11,168,853	11,850,404	11,168,853
Great Britain Pounds	465,805	438,076	465,805	438,076
Euro	183,868	215,816	183,868	215,816
Australian Dollar	189,700	246,558	189,700	246,558
Others	3,150	3,629	3,150	3,629
Total deposits	**12,692,927**	12,072,932	**12,692,927**	12,072,932

41. DUE TO CUSTOMERS (Contd.)

41.2 Due to customers - By province

As at 31 December	BANK 2019 Rs.'000	BANK 2018 Rs.'000	GROUP 2019 Rs.'000	GROUP 2018 Rs.'000
Central	**2,140,629**	2,136,781	**2,205,583**	2,222,765
Eastern	**434,933**	491,209	**441,322**	495,965
North Central	**548,346**	661,279	**550,798**	663,674
North Western	**2,931,500**	3,274,786	**2,956,595**	3,319,070
Northern	**2,028,082**	1,833,435	**2,028,082**	1,833,435
Sabaragamuwa	**1,073,116**	1,213,672	**1,082,454**	1,223,046
Southern	**2,835,213**	3,010,884	**2,932,470**	3,134,237
Uva	**383,873**	489,176	**383,873**	489,176
Western	**64,156,320**	66,139,851	**70,170,491**	72,884,755
Total deposits	**76,532,012**	79,251,073	**82,751,668**	86,266,123

42. OTHER BORROWED FUNDS

ACCOUNTING POLICY
Other borrowed funds include borrowings from non-banking institutions. Subsequent to initial recognition, these are measured at their amortised cost using the EIR method, which are recognised in the Statement of Profit or Loss under 'Interest expenses'.

As at 31 December	BANK 2019 Rs.'000	BANK 2018 Rs.'000	GROUP 2019 Rs.'000	GROUP 2018 Rs.'000
Borrowings from non banking institutions	**1,242,450**	1,234,220	**2,514,058**	2,921,647

43. OTHER LIABILITIES

ACCOUNTING POLICY
Other liabilities include other financial liabilities and other non-financial liabilities. These liabilities are recorded at amounts expected to be payable at the reporting date.

As at 31 December	Note	Page	BANK 2019 Rs.'000	BANK 2018 Rs.'000	GROUP 2019 Rs.'000	GROUP 2018 Rs.'000
Other financial liabilities						
Payable on usance bills			**886,307**	663,057	**886,307**	663,057
Other creditors*			**403,324**	309,273	**475,260**	383,110
Lease liability	43.1	232	**618,125**	-	**723,834**	-
Total other financial liabilities			**1,907,756**	972,330	**2,085,401**	1,046,167
Other non financial liabilities						
Accrued expenses			**146,506**	102,840	**174,577**	140,752
Retirement benefit obligation	43.2.2	233	**188,679**	141,729	**211,386**	160,310
Impairment on commitments and contingencies	48.1.2	239	**81,586**	80,282	**134,736**	99,207
Other payables**			**486,184**	504,461	**545,328**	611,834
Total other non financial liabilities			**902,955**	829,312	**1,066,027**	1,012,103
Total other liabilities			**2,810,711**	1,801,642	**3,151,428**	2,058,270

*Other creditors include amount payable to suppliers and other miscellaneous financial payables.
** Other payables include bonus payable, deferred commission income, deferred bancassurance commissions and other miscellaneous non-financial payables.

NOTES TO THE FINANCIAL STATEMENTS

43. OTHER LIABILITIES (Contd.)

43.1 Lease liability

As at 31 December	BANK 2019 Rs.'000	BANK 2018 Rs.'000	GROUP 2019 Rs.'000	GROUP 2018 Rs.'000
As at 1 January - effect of adoption of SLFRS 16	785,460	-	913,521	-
Additions	8,351	-	8,351	-
Accretion of interest	79,574	-	95,675	-
Payments	(255,260)	-	(293,713)	-
As at 31 December 2019	618,125	-	723,834	-

43.1.1 Maturity analysis of lease liability

	BANK 2019 Rs.'000	BANK 2018 Rs.'000	GROUP 2019 Rs.'000	GROUP 2018 Rs.'000
Lease liability within one year	150,649	-	175,163	-
Lease liability within one to five years	401,181	-	475,549	-
Lease liability more than five years	66,295	-	73,122	-
Total	618,125	-	723,834	-

43.2 Retirement benefit obligation {*GRI 201-3*}

ACCOUNTING POLICY

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan as defined in LKAS 19 (Employee Benefit).
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 to the Group.

An actuarial valuation is carried out annually to ascertain the full liability under the fund, and this is stated under 'Other liabilities' in the Statement of Financial Position. The valuation method used by the actuaries to value the liability is the "Projected Unit Credit Method".

The Bank determines the interest expense on the 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 end of the annual period. 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 and the Group's obligations. The demographic assumptions underlying the valuation are retirement age, early withdrawals from service and retirement on medical grounds etc.

Recognition of actuarial gains and losses

The Bank recognises the total actuarial gains and losses that arise in calculating the Bank's obligation with respect to the plan in Other Comprehensive Income during the period in which it occurs.

Expected return on asset

Expected return on asset is zero as the plan is not pre funded.

Funding arrangement

The gratuity liability is not externally funded.

43.2.1 Actuarial assumptions used in determining retirement benefit obligations

Type of assumption	Criteria	Description
Demographic	Mortality table	GA 1983 Mortality table
	Staff turnover	The staff turnover rate at an age represents the probability of an employee leaving within one year of that age due to reasons other than death, ill health, and normal retirement. The same withdrawal rates which were used in the last valuation (as at December 31, 2018) to determine the liabilities of the active employees in the gratuity, were used in the actuarial valuation carried out as at December 31, 2019.
	Normal retirement age	A participant is eligible for normal retirement after attainment of age 55 and completion of 5 years of service.
Financial	Rate of discount	In the absence of a deep market in long-term bonds in Sri Lanka, a long-term interest rate of 10.23% p.a. (2018 – 12.30% p.a.) has been used to discount future liabilities considering anticipated long term rate of inflation.
	Salary increases	A salary increment of 8.28% p.a. (2018 – 10.40% p.a.) has been used in respect of the active employees.

43. OTHER LIABILITIES (Contd.)

43.2.2 The movement of the retirement benefit obligation

As at 31 December	Note	Page	BANK 2019 Rs.'000	BANK 2018 Rs.'000	GROUP 2019 Rs.'000	GROUP 2018 Rs.'000
As at 1 January			141,729	115,264	160,310	138,176
Profit or Loss	43.2.3	233	50,708	36,253	57,096	42,103
Other Comprehensive Income	43.2.4	233	13,243	9,051	11,775	3,724
Contribution made for retirement benefit obligation			205,680	160,568	229,181	184,003
Payments made during the year			(17,001)	(18,836)	(17,795)	(23,697)
As at 31 December			188,679	141,729	211,386	160,310

43.2.3 Net benefit expense (recognised in profit or loss)

	BANK 2019 Rs.'000	BANK 2018 Rs.'000	GROUP 2019 Rs.'000	GROUP 2018 Rs.'000
Current service cost	33,275	24,035	37,559	28,055
Interest cost on benefit obligation	17,433	12,218	19,537	14,048
Total amount recognised for the year	50,708	36,253	57,096	42,103

43.2.4 Due to assumption change (recognised in OCI profit or loss)

As at 31 December	BANK 2019 Rs.'000	BANK 2018 Rs.'000	GROUP 2019 Rs.'000	GROUP 2018 Rs.'000
(Gains)/losses due to assumption change				
Financial assumptions	(1,282)	(635)	(981)	423
Demographic assumptions	-	-	-	-
Experience loss/(gain) arising during the year	14,525	9,686	12,756	3,301
Total amount recognised for the year	13,243	9,051	11,775	3,724

43.2.5 Messers Piyal S. Goonathileke and Associates, a firm of professional actuaries has carried out an independent actuarial valuation of the defined benefit plan and accordingly compatible assumptions have been used in determining the cost of defined benefits.

43.2.6 The following table demonstrates the sensitivity to a reasonably possible change in the key assumptions employed with all other variables held constant in the employment benefit liability measurement.

Increase/ (decrease) in discount rate %	Increase/ (decrease) in salary increment rate %	Sensitivity effect on employment benefit obligation increase/ (decrease) in the liability BANK 2019 Rs.'000	BANK 2018 Rs.'000	GROUP 2019 Rs.'000	GROUP 2018 Rs.'000
1%		(15,510)	(12,743)	(15,996)	(12,325)
(-1%)		17,909	15,555	18,423	15,111
	1%	17,558	15,235	18,099	14,766
	(-1%)	(15,476)	(12,693)	(15,996)	(12,244)

43.2.7 The expected benefit payout in the future years for retirement benefit obligation

As at 31 December	BANK 2019 Rs.'000	BANK 2018 Rs.'000	GROUP 2019 Rs.'000	GROUP 2018 Rs.'000
Within 12 months	10,087	10,274	15,733	15,151
Between 2 and 5 years	104,715	99,834	116,185	108,098
More than 5 years	243,832	292,154	246,485	295,630

NOTES TO THE FINANCIAL STATEMENTS

44. STATED CAPITAL

In accordance with section 58 of Companies Act No 7 of 2007, which became effective from 3 May 2007, share capital and share premium have been classified as stated capital.

	BANK		GROUP	
As at 31 December	2019	2018	2019	2018
Ordinary shares				
Value (Rs.'000)	**16,334,782**	16,334,782	**16,334,782**	16,334,782
Number of shares - '000	**1,083,558**	1,091,406	**1,083,558**	1,091,406

Pursuant to the Share Repurchase Offer made by the Bank to its shareholders in June 2019, the Bank repurchased 7,847,911 ordinary shares at a consideration of Rs.15/- per share and the said shares so repurchased were cancelled with effect from 5th September 2019. Consequently, the number of shares representing the Stated Capital of the Bank was reduced from 1,091,406,249 to 1,083,558,338 with effect from 5th September 2019.

44.1 Share warrants

	BANK		GROUP	
As at 31 December	2019	2018	2019	2018
Share warrants (Rs.'000)	**65,484**	65,484	**65,484**	65,484

During the financial year ended 31 December 2014, the Bank had issued 218,281,250 warrants to be exercised within a period of 6 years at a price of Rs.16 per warrant.

44.2 Minimum Capital Requirement

According to the Direction No 05 of 2017 on "Enhancement of Minimum Capital Requirement of Banks" issued under the Banking Act, locally incorporated Licensed Commercial Banks are required to maintain Rs.20 billion capital commencing from 31 December 2020. Culture Financial Holdings Limited (CFHL), the immediate parent of the Bank confirmed that it will provide any additional capital required by the Bank to meet the said minimum capital requirement by exercising the rights with regard to the unlisted warrants currently held by CFHL or by such other appropriate means.

45. STATUTORY RESERVE FUND

Union Bank

The statutory reserve fund is maintained as per the requirements under section 20 (1) of the Banking Act No. 30 of 1988. Accordingly, the fund is built up by allocating a sum equivalent to not less than 5% of the profit after tax, but before declaring any dividend or any profits that are transferred to elsewhere until the reserve is equal to 50% of the Bank's stated capital and thereafter a further sum equivalent to 2% of such profit until the amount of said reserve fund is equal to the stated capital of the Bank.

The balance in the statutory reserve fund will be used only for the purposes specified in the section 20 (2) of the Banking Act No. 30 of 1988.

UB Finance Company Limited

5% of the profits after tax is transferred to the reserve fund as required by the section 3b (i) of the Central Bank Direction No. 01 of 2003.

	BANK		GROUP	
As at 31 December	2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
As at 1 January	**139,883**	116,256	**157,569**	131,519
Transferred from retained earnings	**35,517**	23,627	**42,451**	26,050
As at 31 December	**175,400**	139,883	**200,020**	157,569

NOTES TO THE FINANCIAL STATEMENTS

46. EMPLOYEE SHARE OPTION PLAN (ESOP)

On 1 December 2015 the Bank established three Share Option Plans that entitles employees to purchase shares of the Bank. The first tranche of employee share grants were issued to employees at the grade of Vice President and above. The ESOP grant provides employees an option to purchase shares of the bank at the given exercise price once these vest as per the rules of the plan. Share options vest in two ways. 50% of the share options vest based on time ratably over a 5 year period. The balance 50% of options vest annually over a 5 year period provided that the Bank achieves the pre-set performance targets. Thereby ensuring that these long term incentives are linked to the Bank's performance. If an employee leaves the Bank, before the service criteria is met they are not entitled to any of share based payments.

Equity settled transactions

The fair value of equity settled share based payment awards granted to employees from the grant date is recognised as an expense under personnel expenses, with a corresponding increase in equity, over the period in which the service and performance conditions are fulfilled.

The cumulative expense recognised for equity settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Bank's best estimate of the number of equity instruments that will ultimately vest. The expense or credit in the statement of profit or loss for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Bank's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non vesting conditions.

No expense is recognised for awards that do not ultimately vest because non market performance and/or service conditions have not been met. Where awards includes a market or non vesting conditions, the transactions are treated as vested irrespective of whether the market or non-vesting conditions are satisfied, provided that all other performance and/or service conditions are satisfied.

When the terms of an equity settled award are modified, the minimum expense recognised is the grant date fair value of the unmodified award, provided the original terms of the award are met. An additional expense measured as at the date of modification is recognised for any modification that increases the total fair value of the share based payment transaction, or is otherwise beneficial to the employee. Where an award is cancelled by the Bank, any remaining element of the fair value of the award is expensed immediately through profit or loss.

Cash settled transactions

A liability is recognised for the fair value of cash settled transactions. The fair value is measured initially and at each reporting date up to and including the settlement date, with changes in fair value recognised in employee benefits expense. The fair value of the liability is expensed over the period until the vesting date with recognition of a corresponding liability. The fair value is determined using a binomial model, further details of which are given in Note 46.3.1 to the financial statements.

The recognition and measurement of the Employee Share Options Plans (ESOP) are in accordance with the SLFRS 2 (Share based payment transactions).

The dilutive effect of outstanding options are reflected as additional share dilution in the computation of diluted earnings per share are given in Note 20.2 to the financial statements.

46.1 Inputs and assumptions used to determine the fair value of share option plan are given below:

	2019	2018
Fair value at measurement date (Rs. '000)	**143,689**	142,379
Share price (Rs.)	**13.3**	11
Exercise price (Rs.)	**21.95**	21.95
Expected volatility	**23.70%**	23.37%
Option life (expected weighted average life)	**5 Years**	5 Years
Risk free interest rate (based on Government bonds)	**8.45%**	11.20%

Total expense arising from employee share option plan transactions are recorded in Note 46.3.1 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

46. EMPLOYEE SHARE OPTION PLAN (ESOP) (Contd.)

46.2 Movement in weighted average exercise prices and share options during the year is given below;

	2019 Number of options '000	2019 Weighted Average Exercise Price Rs.	2018 Number of options '000	2018 Weighted Average Exercise Price Rs.
Outstanding as at 1 January	12,124	21.60	12,124	21.95
Granted during the year	-	-	-	-
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding as at 31 December	12,124	21.6	12,124	21.95

46.3 Movement during the year

	BANK		GROUP	
As at 31 December	2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Balance as at 1 January	99,140	68,156	99,140	68,156
Transfer to stated capital	-	-	-	-
Charge to Profit or Loss	24,273	30,984	24,273	30,984
Balance as at 31 December	123,413	99,140	123,413	99,140

46.3.1 Charge to Profit or Loss

Equity settled charge for the year	(1,390)	16,968	(1,390)	16,968
Liability settled charge for the year	25,663	14,016	25,663	14,016
For the period ended 31 December	24,273	30,984	24,273	30,984

46.3.2 Break-up of the balance :

Equity component	51,426	52,816	51,426	52,816
Liability component	71,987	46,324	71,987	46,324
Balance as at 31 December	123,413	99,140	123,413	99,140

47. NON CONTROLLING INTERESTS (NCI)

ACCOUNTING POLICY

Non controlling interests represent the portion of profit and loss and net assets of subsidiaries not owned directly or indirectly by the Bank. Any losses applicable to the non controlling interests are allocated against the interests of the non controlling interest even if this resulting in a deficit balance. Acquisitions of non controlling interests are accounted for using the parent entity extension method, whereby the difference between the consideration and the fair value of the share of net assets acquired is recognised as equity. Therefore no goodwill is recognised as a result of such transactions.

NOTES TO THE FINANCIAL STATEMENTS

47. NON CONTROLLING INTERESTS (NCI) (Contd.)

	UB Finance Company Limited Rs.'000	National Asset Management Limited Rs.'000	Total Rs.'000
2019			
% of Ownership interest held by NCI	**26.69%**	**49.00%**	
Balance as at 31 December 2018	**161,519**	**50,782**	**212,301**
Transitional adjustment on the implementation of SLFRS 16	**(9,246)**	**(1,218)**	**(10,464)**
Restated opening balance as at 1 January 2019	**152,273**	**49,564**	**201,837**
Profit for the year	**37,014**	**2,071**	**39,085**
Other comprehensive income, net of tax	**263**	**(540)**	**(277)**
Dividends paid	**-**	**-**	**-**
Balance as at 31 December 2019	**189,550**	**51,095**	**240,645**
2018			
% of Ownership interest held by NCI	26.69%	49.00%	
Balance as at 31 December 2017	294,419	109,842	404,262
Transitional adjustment on the implementation of SLFRS 9	(146,850)	-	(146,850)
Restated opening balance as at 1 January 2018	147,569	109,842	257,412
Profit for the year	12,933	3,967	16,900
Other comprehensive income, net of tax	1,017	(14,026)	(13,011)
Dividends paid	-	(49,000)	(49,000)
Balance as at 31 December 2018	161,519	50,782	212,301

48. COMMITMENTS, CONTINGENT LIABILITIES AND LEASING ARRANGEMENTS

ACCOUNTING POLICY

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 in accordance with the Sri Lanka Accounting Standard – LKAS 37 on 'Provision, Contingent Liabilities and Contingent Assets'.

To meet the financial needs of customers, the Bank enters into various irrevocable commitments and contingent liabilities. These consist of guarantees, letters of credit and other undrawn commitments to lend. Letters of credit and acceptances 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. They carry a similar credit risk to loans. Operating lease commitments of the Bank (as a lessor and as a lessee) and pending legal claims against the Bank too form part of commitments of the Bank. Contingent liabilities are not recognised in the Statement of Financial Position but are disclosed unless they are remote. But these contingent liabilities do contain credit risk and are therefore form part of the overall risk of the Group.

In the normal course of business, the Bank entered in to various irrevocable commitments and incurred certain contingent liabilities. These consist of guarantees, letters of credit and other undrawn commitments to lend.

Though these obligations may not be recognised on the Statement of Financial Position, they do contain credit risk and are therefore part of the overall risk of the Bank.

No material losses are anticipated as a result of these transactions.

NOTES TO THE FINANCIAL STATEMENTS

48. COMMITMENTS, CONTINGENT LIABILITIES AND LEASING ARRANGEMENTS (Contd.)

48.1 Commitments and Contingencies

	BANK		GROUP	
As at 31 December	2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Commitments				
Undrawn loan commitments	12,886,945	13,556,190	12,976,882	13,653,381
Contingencies				
Guarantees	9,545,781	8,048,011	9,545,781	8,048,011
Documentary credit	1,681,824	1,961,053	1,681,824	1,961,053
Forward contracts	2,563,677	5,741,729	2,563,677	5,741,729
Cheque pending for realisation	503,543	887,413	503,543	887,413
Spot contracts	1,651,024	540,168	1,651,024	540,168
Acceptances	952,060	758,373	952,060	758,373
Forward Bonds	931,760	-	931,760	-
Other contingent items	1,297,640	2,844,267	1,297,640	2,938,699
Total	19,127,309	20,781,014	19,127,309	20,875,446
Total commitments and contingencies	32,014,254	34,337,204	32,104,191	34,528,827

48.1.1 Stage movements in commitments and contingencies

BANK

As at 31 December	2019				2018			
	Stage 1 Rs.'000	Stage 2 Rs.'000	Stage 3 Rs.'000	Total Rs.'000	Stage 1 Rs.'000	Stage 2 Rs.'000	Stage 3 Rs.'000	Total Rs.'000
Undrawn loan commitments	12,302,438	157,661	426,846	12,886,945	9,574,961	3,522,917	458,312	13,556,190
Other contingencies	13,477,305	-	-	13,477,305	13,611,704	-	-	13,611,704
Total	25,779,743	157,661	426,846	26,364,250	23,186,665	3,522,917	458,312	27,167,894

GROUP

As at 31 December	2019				2018			
	Stage 1 Rs.'000	Stage 2 Rs.'000	Stage 3 Rs.'000	Total Rs.'000	Stage 1 Rs.'000	Stage 2 Rs.'000	Stage 3 Rs.'000	Total Rs.'000
Undrawn loan commitments	12,302,438	157,661	516,783	12,976,882	9,580,300	3,525,108	547,973	13,653,381
Other contingencies	13,477,305	-	-	13,477,305	13,706,136	-	-	13,706,136
Total	25,779,743	157,661	516,783	26,454,187	23,286,436	3,525,108	547,973	27,359,517

48. COMMITMENTS, CONTINGENT LIABILITIES AND LEASING ARRANGEMENTS (Contd.)

48.1.2 Stage movements in allowance for impairment

BANK

As at 31 December	2019				2018			
	Stage 1 Rs.'000	Stage 2 Rs.'000	Stage 3 Rs.'000	Total Rs.'000	Stage 1 Rs.'000	Stage 2 Rs.'000	Stage 3 Rs.'000	Total Rs.'000
Undrawn loan commitments								
Opening balance	40,928	2,873	35,360	79,161	21,351	343	25,129	46,823
Charge to statement of profit or loss	24,519	1,230	(30,663)	(4,914)	19,577	2,530	10,231	32,338
Net write off during the year	-	-	-	-	-	-	-	-
Closing balance	65,447	4,103	4,697	74,247	40,928	2,873	35,360	79,161
Other contingencies								
Opening balance	1,121	-	-	1,121	465	-	-	465
Charge to statement of profit or loss	6,218	-	-	6,218	656	-	-	656
Net write off during the year	-	-	-	-	-	-	-	-
Closing balance	7,339	-	-	7,339	1,121	-	-	1,121
Total								
Opening balance	42,049	2,873	35,360	80,282	21,816	343	25,129	47,288
Charge to statement of profit or loss	30,737	1,230	(30,663)	1,304	20,233	2,530	10,231	32,994
Net write off during the year	-	-	-	-	-	-	-	-
Closing balance	72,786	4,103	4,697	81,586	42,049	2,873	35,360	80,282

GROUP

As at 31 December	2019				2018			
	Stage 1 Rs.'000	Stage 2 Rs.'000	Stage 3 Rs.'000	Total Rs.'000	Stage 1 Rs.'000	Stage 2 Rs.'000	Stage 3 Rs.'000	Total Rs.'000
Undrawn loan commitments								
Opening balance	41,967	3,300	52,819	98,086	21,350	343	25,129	46,823
Charge to statement of profit or loss	23,479	803	5,029	29,311	20,617	2,957	27,690	51,263
Net write off during the year	-	-	-	-	-	-	-	-
Closing balance	65,446	4,103	57,848	127,397	41,967	3,300	52,819	98,086
Other contingencies								
Opening balance	1,121	-	-	1,121	465	-	-	465
Charge to statement of profit or loss	6,218	-	-	6,218	656	-	-	656
Net write off during the year	-	-	-	-	-	-	-	-
Closing balance	7,339	-	-	7,339	1,121	-	-	1,121
Total								
Opening balance	43,088	3,300	52,819	99,207	21,815	343	25,129	47,288
Charge to statement of profit or loss	29,697	803	5,029	35,529	21,273	2,957	27,690	51,919
Net write off during the year	-	-	-	-	-	-	-	-
Closing balance	72,785	4,103	57,848	134,736	43,088	3,300	52,819	99,207

48. COMMITMENTS, CONTINGENT LIABILITIES AND LEASING ARRANGEMENTS (Contd.)

48.2 Capital commitments

	BANK		GROUP	
As at 31 December	2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Approved and contracted for				
Capital commitments for new system implementation and others	342,697	80,245	342,697	80,245
Total	342,697	80,245	342,697	80,245
Approved but not contracted for				
New branches/ relocations and refurbishments of branches	-	43,034	-	43,034
Capital commitments for new system implementation and others	210,974	639,677	210,974	639,677
Total	210,974	682,711	210,974	682,711
Total capital commitments	553,670	762,956	553,670	762,956

48.3 Lease arrangements

Operating lease commitments - Bank as lessee

The Bank & Group have entered into operating leases for premises. These leases generally have a fixed term with no renewal option. There are no restrictions placed upon the lessee by entering in to these leases.

Future minimum lease payments under non cancellable operating leases as at 31 December are as follows;

	BANK		GROUP	
As at 31 December	2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Within one year	N/A	139,350	N/A	172,458
After one year to five years	N/A	386,850	N/A	516,563
More than five years	N/A	31,317	N/A	50,051
Total	N/A	557,517	N/A	739,071

48.3.1 The Group adopted SLFRS 16 –"Leases" with effect from 1 January 2019. Accordingly, the right-of-use asset and the corresponding Lease liability have been recognised in the Statement of Financial Position.

48.4 Litigations against the Bank and the Group

Litigation is a common occurrence in the banking industry due to the nature of the business undertaken. The bank has established and legal protocol for dealing with such legal claims. Once professional advice has been obtained on the certainty of the outcome and the amount of damages reasonable estimated, the Bank makes adjustments to account for any adverse effect which the claims may have on its financial standing. The Bank is of the opinion that litigation which is currently pending will not have a material impact on the reported financial results or the future operations of the Bank.

48.4.1 BANK

Legal Status	Case No
1. Cases filed against the Bank over the loan facilities granted.	
- District Courts	2632/15 SPL, 30656/M
- Commercial High Courts	0223/2013 MR CHC, 518/2014 MR CHC, 0200/2016 MR
	0496/2016 MR, 0506/2017 MR

48. COMMITMENTS, CONTINGENT LIABILITIES AND LEASING ARRANGEMENTS (Contd.)

Legal Status	Case No
2. Cases filed against the Bank with respect to mortgaged property, court orders, title of property.	
- District Courts	11745/L, 2053/L, 2346/L, 1992/L, 0405/P, 2054/L, 473/P,
	0034/2017 DLM, 28736/L, 162/L, 0098/2018 CO, 0186/L
	543/T, 0174/2019 DMB, 0175/2019 DMB, 04/2019 RA
	NWP/HCCA/KUR/185/2018 F, 2220/L
- Commercial High Courts	0090/2019 CO
- Civil Appeal Court	0037/2018 RA, 0183/2017 F, 0188/2017 F, WP/HCCA/156/2019 LA
- Court of Appeal	0134/2018 CA PHC, 325/2019 CA-Writ
- Supreme Court	0098/2017 SC Appeal, 0013/2016 SC CHC
3. Appeals filed by customers to obtain enjoining orders to stay the auction of property morgaged.	0593/2018 MR, 0268/2018 DSP, 0411/2019 MR, 0453/2019 MR 0592/2019 MR, 0210/2019 DSP, 3713/Spl

48.4.2 UB Finance Company Limited

Legal Status	Case No.
1. Cases filed against the Company over the repossession of vehicles and loan facilities in Distrcit court Colombo	
- District Courts	DSP/222/10, DMR/836/16, DMR/2814/15
2. Actions filed against the Company regarding Joint Venture Projects over the construction matters, advance payments, possession of project properties and unpaid bills.	
- District Courts	DMR/1608/14, DMR/1609/14, DMR/1610/14, DMR/3020/15, 4107/11/M
- Commercial High Courts	HC/Civil/177/10
3. Cases filed against the Company over the Fixed Deposit matters and Unpaid Deposits.	
- Magistrate Courts	B/4004/14, B/4005/14
- District Courts	DTS/279/08
- Commercial High Courts	HC/503/15, CHC/533/15, CHC/535/15, CHC/534/15, CHC/536/15
4. Actions filed against the Company with respect to mortgaged property, court orders, title of property.	
- District Courts	DSP/0266/12, DLM/164/16,
5. Cases Filed Against the Company by the employees	
- Magistrate Courts	76305, 76306, 76308
- Labour Tribunal	2/512/2015, 8/641/12
- High Courts	CA(Writ)/377/13 (Appeal Case), CA(Writ)/413/13
- Labour Arbitration	3540A
- Supreme Court	SC/SPL/LA/26/2014
- Labour Commissioner	CE/D6/04/61/2016

49. ASSETS PLEDGE

As at 31 December		Face value 2019 Rs.'000	2018 Rs.'000
Nature of Assets	**Nature of Liability**		
BANK			
Government treasury Bills and bonds	Repurchased agreements	14,863,906	18,795,468
	Financial investments at fair value through profit or loss	28,000	600,000
	Financial investments at fair value through other comprehensive income	9,854,587	9,789,958
	Financial assets at amortised cost - debt and other instruments	4,981,319	8,405,510
GROUP			
Government treasury Bills and bonds	Repurchased agreements	14,863,906	18,736,968
	Financial investments at fair value through profit or loss	28,000	600,000
	Financial investments at fair value through other comprehensive income	9,854,587	9,731,458
	Financial assets at amortised cost - debt and other instruments	4,981,319	8,405,510
Lease Receivables	Other borrowed funds	2,186,279	1,907,322
Factoring Receivables	Overdraft	468,750	535,723

50. RELATED PARTY DISCLOSURES

The Bank carries out transactions in the ordinary course of business on an arm's length basis at commercial rates with related parties who are defined as LKAS 24 "Related Party Disclosures".

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 and its unrelated customers.

50.1 Parent and Ultimate controlling party

The Bank's immediate parent is Culture Financial Holding Limited and the ultimate holding company during the financial year is TPG Asia GenPar VI, L.P. Both companies are registered in the Cayman Islands.

50.1.1 Transactions with Culture Finance Holding Limited (Immediate parent)

For the year ended 31 December	2019 Rs.'000	2018 Rs.'000
Dividend paid	-	69,614

50.2 Transactions with Key Management Personnel (KMPs)

KMPs are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank. Accordingly, the Bank's KMPs include the Board of Directors of the Bank and key employees of the Bank holding directorships in subsidiary companies of the Bank.

50.2.1 Compensation of Key Management Personnel

For the year ended 31 December	2019 Rs.'000	2018 Rs.'000
Short term employee benefits	74,134	63,713
Post employment benefits	6,365	6,013
Other long term benefits	9,733	7,539
Directors' fees and expenses	12,982	9,583
Total	103,214	86,848

50. RELATED PARTY DISCLOSURES (Contd.)

50.2.2 ESOP granted to KMPs

As at 31 December	2019 Rs.'000	2018 Rs.'000
Number of options exercised during the year	-	-
Number of options remaining as at 31 December	7,644	7,644

In addition to the above, the Bank has also provided non-cash benefits such as vehicles, insurance for Key Management Personnel in line with the approved benefit plan of the Bank.

50.3 Transactions, arrangements and agreements involving KMPs and their Close Family Members (CFMs)

CFMs of a KMPs are those family members who may be expected to influence by, that KMP in their dealing with the entity. They may include KMPs' domestic partner and children, children of KMPs' domestic partner and dependants of the KMP or the KMPs' domestic partner.

50.3.1 Transactions with Key Management Personnel and their Close Family Members of the Bank

The following table provides the aggregate amount of transactions, which have been executed with key management personnel for the financial year.

Items in the Statement of Financial Position

As at 31 December	2019		2018	
	Closing Balance Rs.'000	Average Balance Rs.'000	Closing Balance Rs.'000	Average Balance Rs.'000
Assets				
Financial assets at amortised cost - loans and advances to customers	10,864	11,954	12,646	14,422
Liabilities				
Due to customers	31,623	30,249	22,315	25,937

Items in the Statement of Profit or Loss

For the year ended 31 December	2019 Rs.'000	2018 Rs.'000
Interest income	563	662
Interest expense	3,781	1,696

50.4 Transactions with other related parties

The following table shows the outstanding balance and the corresponding interest during the year.

50.4.1 Transactions with subsidiaries

Items in the Statement of Financial Position

As at 31 December	2019		2018	
	Closing Balance Rs.'000	Average Balance Rs.'000	Closing Balance Rs.'000	Average Balance Rs.'000
Assets				
Financial assets at amortised cost - loans and advances to customers	547,428	433,447	697,721	745,182
Financial assets at amortised cost - debt and other instruments	312,253	312,253	312,253	312,253
Other assets	173	194	-	-
Liabilities				
Due to customers	223,417	234,725	73,875	73,875
Repurchased agreements	-	137	50,012	50,012

NOTES TO THE FINANCIAL STATEMENTS

50. RELATED PARTY DISCLOSURES (Contd.)

50.4.1 Transactions with subsidiaries (Contd.)

Items in the Statement of Profit or Loss

For the year ended 31 December	2019 Rs.'000	2018 Rs.'000
Interest income	114,062	140,396
Interest expense	14,580	28,751
Personnel expenses	2,214	-
Dividend received	-	45,962

Terms and conditions of transactions with related parties

The above-mentioned outstanding balances arose from the ordinary course of business. The interest rates charged to and by related parties are at normal commercial rates.

50.4.2 Transactions with the Bank's Private Provident Fund

The Employees' Private Provident Fund of the Bank is managed by a Committee of Trustees appointed by the members. The Bank has contributed a sum of Rs. 135.9Mn to the Fund for the year ended 31 December 2019 (2018- Rs.127.8Mn). Fund has invested a sum of Rs. 530Mn with the bank as at 31 December 2018 (2018 : 497Mn). During the year, bank has incurred sum of Rs. 77.2Mn (2018 : 64.5Mn) as interest expense.

50.4.3 Transactions with the Serandib Capital Limited

	Balance as at 31-Dec-19 Rs.'000	Income/ Expense during 2019 Rs.'000	Balance as at 31-Dec-18 Rs.'000	Income/ Expense during 2018 Rs.'000
Deep discounted bond	3,005,570	115,599	2,889,971	111,153
Deposits	797	49	3,704	1,374
Agency fee	-	-	-	2,377

NOTES TO THE FINANCIAL STATEMENTS

51. SEGMENT INFORMATION

An operating segment is a component of the Group that engages in business activities to earn revenues and incur expenses including revenue and expenses that relate to transactions with any of the Group's other components. The operating results of the each of the segment is reviewed regularly by the Management to make decisions about the resources allocated to each segment and assess its performance, and for which discrete financial information is available.

For management purposes, the Bank has identified four business segments as Corporate Banking, SME, Retail and Treasury.
Management monitors the operating results of its business units separately for the purpose of making decisions about the resource allocation, performance evaluation etc. Segment performance is evaluated based on operating profits or losses and the customer ROE calculations. Income taxes are not allocated to operating segments. Transfer prices between operating segments are on an arm's length basis similar to transactions with third parties.

The following table summarises the income, expenses, total assets, total liabilities and cash flows of the Group's operating segments.

	Corporate		Treasury		SME		Retail		Other Group Companies		Total	
	2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Interest income	4,394,644	4,101,481	1,492,809	1,262,498	3,581,624	3,531,927	3,259,971	3,061,133	2,144,262	2,163,855	14,873,310	14,120,894
Inter-segment interest income	-	-	1,144,840	1,557,741	-	-	2,569,327	2,665,441	-	-	3,714,167	4,223,182
Total interest income	4,394,644	4,101,481	2,637,649	2,820,239	3,581,624	3,531,927	5,829,298	5,726,574	2,144,262	2,163,855	18,587,477	18,344,076
Interest expense	1,051,856	1,086,651	1,379,196	1,739,355	1,580,768	1,029,809	4,509,888	4,634,936	1,117,598	1,164,641	9,639,306	9,655,390
Inter-segment interest expense	2,544,251	2,437,619	-	-	1,169,916	1,785,563	-	-	-	-	3,714,167	4,223,501
Total interest expense	3,596,107	3,524,270	1,379,196	1,739,355	2,750,684	2,815,371	4,509,888	4,634,936	1,117,598	1,164,641	13,353,473	13,878,572
Net interest income	798,537	577,211	1,258,453	1,080,884	830,940	716,556	1,319,410	1,091,638	1,026,664	999,215	5,234,004	4,465,504
Total other income	222,153	213,754	628,214	757,283	364,831	446,305	338,947	268,814	128,006	106,326	1,682,150	1,792,482
Total net income	1,020,690	790,965	1,886,667	1,838,167	1,195,771	1,162,861	1,658,357	1,360,452	1,154,670	1,105,541	6,916,154	6,257,985
Less :												
Impairment	1,311	41,073	(3,760)	-	297,294	390,439	111,239	10,950	174,204	133,877	580,288	576,339
Depreciation & amortisation	77,134	10,153	75,363	55,955	144,239	91,501	340,144	222,218	62,384	36,069	699,264	415,895
Other expenses	282,660	334,490	268,686	464,622	870,376	926,047	1,776,091	1,676,082	455,911	449,329	3,653,724	3,850,571
Segmental results	659,585	405,248	1,546,379	1,317,589	(116,138)	(245,125)	(569,117)	(548,797)	462,169	486,265	1,982,878	1,415,180
Less: VAT, NBT and DRL on financial services											781,623	521,775
Less: Tax expense											397,037	358,755
Profit after tax											804,218	534,650
Other information												
Segment assets	37,033,000	35,406,353	30,869,747	37,210,326	25,012,776	25,384,702	15,972,000	14,460,465	15,973,870	18,128,094	124,861,393	130,589,940
Unallocated assets											4,978,572	4,441,768
Consolidated total assets											129,839,965	135,031,708
Segment liabilities	13,560,000	13,715,836	24,005,000	27,340,775	10,774,379	11,540,011	50,087,000	52,078,882	10,544,505	11,635,474	108,970,885	116,310,978
Unallocated liabilities											3,429,809	2,247,696
Consolidated total liabilities											112,400,694	118,558,674
Cash flow from operating activities	(3,768,941)	5,201,723	(6,966,602)	12,088,573	(4,415,437)	7,647,478	(6,123,555)	8,946,923	13,391,210	(20,545,046)	(7,883,325)	13,339,651
Cash flow from investing activities	(218,193)	(77,729)	3,001,111	(3,275,162)	(255,621)	(114,276)	(354,508)	(133,693)	1,026,468	94,648	3,199,257	(3,506,212)
Cash flow from financing activities	-	-	2,107,167	(8,462,660)	-	-	-	-	(1,469,320)	(328,899)	637,847	(8,791,559)

NOTES TO THE FINANCIAL STATEMENTS

52. EVENTS AFTER THE REPORTING PERIOD

"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;

52.1 Proposed Dividends

The Board of Directors have approved a final dividend of Rs. 0.14 per share be paid for the financial year ended 31 December 2019.

In accordencce with Sri Lanka Accounting Standard LKAS 10, (Events after the reporting period), this proposed final dividend has not been recognised as a liability as at 31 December 2019.

As required by Section 56 (2) of the Companies Act No 07 of 2007, the Board of Directors has confirmed that the Bank has satisfied the "Solvency test" in accordence with section 57 of the Companies Act No 07 of 2007.

52.2 New amendments to Income Tax Law announced by the Government

Corporate income tax rate to be reduced to 24%

The cabinet has approved to reduce the Banking sector income tax rate to 24% from 28% with effect from 1 January 2020 which is yet to be approved by the parliament. Accordingly the Group continued to calculate the deferred tax assets/ (liabilities) using 28% tax rate.

53. FAIR VALUE OF ASSETS AND LIABILITIES

53.1 Assets and liabilities recorded at fair value

Derivative financial instruments

Derivative products are forward foreign exchange contracts which are valued using a valuation technique with market-observable inputs . The most frequently applied valuation techniques include forward pricing models. The model incorporates various inputs including foreign exchange spot and forward premiums.

Financial investments at fair value through profit or loss

Financial investments held for trading, which primarily consist of Government debt securities, quoted equities and investments in units are measured at fair value.

Government debt securities are valued using yield curves published by the Central Bank of Sri Lanka. For quoted equities and investments in units are valued using market price in active markets as at the reporting date.

Financial investments at fair value through other comprehensive income

Financial investments at fair value through other comprehensive income / Financial investments – Available for Sale , which primarily consist of quoted and unquoted equities, and investment in units and Government debt securities.

Government debt securities are valued using yield curves published by the Central Bank of Sri Lanka. Investment in units and quoted equities are valued using market prices in the active markets at the reporting date.

For all financial instruments where fair values are determined by referring to externally quoted prices or observable pricing inputs, 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 values are determined according to the following hierarchy:

Level 1 – quoted market price (unadjusted) financial instruments with quoted prices in active markets.

Level 2 – valuation technique using observable inputs: financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments are valued using models where all significant inputs are observable.

Level 3 – valuation technique with significant unobservable inputs: This category includes all instruments valued using valuation techniques where one or more significant inputs are unobservable.

53. FAIR VALUE OF ASSETS AND LIABILITIES (Contd.)

BANK

As at 31 December	2019			
	Level 1 Rs.'000	Level 2 Rs.'000	Level 3 Rs.'000	Total Rs.'000
Financial assets measured at fair value				
Derivative financial instruments				
Forward foreign exchange contracts	-	1,360	-	1,360
Currency SWAPs	-	4,870	-	4,870
Financial investments at fair value through profit or loss				
Sri Lanka Government securities	1,827,477	-	-	1,827,477
Investment in units	1,401,088	-	-	1,401,088
Financial investments at fair value through other comprehensive income				
Sri Lanka Government securities	17,500,715	-	-	17,500,715
Total financial assets measured at fair value	20,729,280	6,230	-	20,735,510
Financial liabilities measured at fair value				
Derivative financial instruments				
Forward foreign exchange contracts	-	2,673	-	2,673
Currency SWAPs	-	1,842	-	1,842
Total financial liabilities measured at fair value	-	4,515	-	4,515

As at 31 December	2018			
	Level 1 Rs.'000	Level 2 Rs.'000	Level 3 Rs.'000	Total Rs.'000
Financial assets measured at fair value				
Derivative financial instruments				
Forward foreign exchange contracts	-	7,523	-	7,523
Currency SWAPs	-	26,751	-	26,751
Financial investments at fair value through profit or loss				
Sri Lanka Government securities	1,858,458	-	-	1,858,458
Investment in units	1,004,663	-	-	1,004,663
Financial investments at fair value through other comprehensive income				
Sri Lanka Government securities	17,734,429	-	-	17,734,429
Total financial assets measured at fair value	20,597,550	34,274	-	20,631,824
Financial liabilities measured at fair value				
Derivative financial instruments				
Forward foreign exchange contracts	-	48,350	-	48,350
Currency SWAPs	-	23,401	-	23,401
Total financial liabilities measured at fair value	-	71,751	-	71,751

53. FAIR VALUE OF ASSETS AND LIABILITIES (Contd.)

GROUP

As at 31 December	2019			
	Level 1 Rs.'000	Level 2 Rs.'000	Level 3 Rs.'000	Total Rs.'000
Financial assets measured at fair value				
Derivative financial instruments				
Forward foreign exchange contracts	-	1,360	-	1,360
Currency SWAPs	-	4,870	-	4,870
Financial investments at fair value through profit or loss				
Sri Lanka Government securities	1,827,477	-	-	1,827,477
Investment in units	1,442,731	-	-	1,442,731
Financial investments at fair value through other comprehensive income				
Sri Lanka Government securities	17,500,715	-	-	17,500,715
Equity securities - Quoted	13,039	-	-	13,039
Total financial assets measured at fair value	20,783,962	6,230	-	20,790,192
Financial liabilities measured at fair value				
Derivative financial instruments				
Forward foreign exchange contracts	-	2,673	-	2,673
Currency SWAPs	-	1,842	-	1,842
Total financial liabilities measured at fair value	-	4,515	-	4,515

As at 31 December	2018			
	Level 1 Rs.'000	Level 2 Rs.'000	Level 3 Rs.'000	Total Rs.'000
Financial assets measured at fair value				
Derivative financial instruments				
Forward foreign exchange contracts	-	7,523	-	7,523
Currency SWAPs	-	26,751	-	26,751
Financial investments at fair value through profit or loss				
Sri Lanka Government securities	1,858,458	-	-	1,858,458
Investment in units	1,004,663	-	-	1,004,663
Financial investments at fair value through other comprehensive income				
Sri Lanka Government securities	17,734,429	-	-	17,734,429
Equity securities - Quoted	28,203	-	-	28,203
Investment in units	23,258	-	-	23,258
Total financial assets measured at fair value	20,649,011	34,274	-	20,683,285
Financial liabilities measured at fair value				
Derivative financial instruments				
Forward foreign exchange contracts	-	48,350	-	48,350
Currency SWAPs	-	23,401	-	23,401
Total financial liabilities measured at fair value	-	71,751	-	71,751

53. FAIR VALUE OF ASSETS AND LIABILITIES (Contd.)

53.2 Fair value of financial assets and liabilities not carried at fair value

Financial assets at amortised cost - loans and advances

The financial assets at amortised cost - loans and advances to customers comprise of both fixed rate loans and floating rate loans. Majority of the floating rate loans can be re-priced in a predetermined frequency, while for fixed rate loans, the loan contract allows the Bank to change the contracted rate if there is a material difference between the contracted rate and the market rate. The carrying value of floating rate loans generally approximates the fair value due to the effect of re-pricing while the fair value of loans and receivables to customers with a residual maturity of less than one year generally approximates the carrying value, subject to any significant movement in credit spreads.

The estimated fair value of loans and receivables with a residual maturity of more than one year, is the present value of future cash flows expected to be received from such financial assets are calculated based on interest rates at the reporting date for similar types of loans and receivables.

Financial assets at amortised cost - debt and other instruments

Financial assets at amortised cost - debt and other instruments / Other loans and receivables consist of debenture investments, Sri Lanka development bonds, fixed deposits and lease backed certificates which are subsequently measured at amortised cost. Fair value of these financial assets are valued using discounted cash flow technique. Inputs in to the valuation techniques includes interest rates, repayment period and current market rates.

Due to customers

The fair value of customer deposits which are repayable on demand or have a remaining contractual maturity of less than one year, approximates to the carrying value of such deposits. The fair value of customer deposits with a contractual maturity of more than one year, is estimated as the present value of future cash flows expected from such deposits calculated based on interest rates at the reporting date for similar types of deposits.

For financial assets and financial liabilities that have short term maturity, it is assumed that carrying amounts approximates their fair value. This assumption is applied for following assets and liabilities which are short-term maturity or re-price to current market rates.

Assets

- Cash and cash equivalents
- Balances with Central Bank of Sri Lanka
- Placements with banks
- Reverse repurchased agreements
- Other financial assets

Liabilities

- Due to banks
- Repurchased agreements
- Savings and demand deposits in "Due to customers"
- Other financial liabilities

Under the table the fair values may be different from the actual amounts that will be received / paid on the settlement or maturity of the asset or liability. These do not include the fair values of non financial assets and non financial liabilities.

BANK

As at 31 December

	2019				
	Fair Value				Carrying Value
	Level 1 Rs.'000	Level 2 Rs.'000	Level 3 Rs.'000	Total Value Rs.'000	Rs.'000
Financial assets					
Financial assets at amortised cost - loans and advances to customers	-	77,222,751	-	77,222,751	77,358,301
Financial assets at amortised cost - debt and other instruments	5,550,795	7,851,056	-	13,401,852	13,441,040
Total	5,550,795	85,073,807	-	90,624,603	90,799,341
Financial liabilities					
Due to customers	-	54,794,817	-	54,794,817	57,199,534
Other borrowed funds	-	1,242,450	-	1,242,450	1,242,450
Total	-	56,037,267	-	56,037,267	58,441,984

53. FAIR VALUE OF ASSETS AND LIABILITIES (Contd.)

As at 31 December	2018				
	Fair Value				Carrying
	Level 1	Level 2	Level 3	Total Value	Value
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Financial assets					
Financial assets at amortised cost - loans and advances to customers	-	73,629,090	-	73,629,090	73,749,208
Financial assets at amortised cost - debt and other instruments	7,611,977	8,865,597	-	16,477,574	16,567,940
Total	7,611,977	82,494,687	-	90,106,664	90,317,147
Financial liabilities					
Due to customers	-	57,271,424	-	57,271,424	60,531,578
Other borrowed funds	-	1,234,220	-	1,234,220	1,234,220
Total	-	58,505,644	-	58,505,644	61,765,798

GROUP

As at 31 December	2019				
	Fair Value				Carrying
	Level 1	Level 2	Level 3	Total Value	Value
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Financial assets					
Financial assets at amortised cost - loans and advances to customers	-	84,948,750	-	84,948,750	84,780,138
Financial assets at amortised cost - debt and other instruments	5,550,795	7,080,285	-	12,631,080	12,670,558
Total	5,550,795	92,029,035	-	97,579,830	97,450,696
Financial liabilities					
Due to customers	-	61,570,419	-	61,570,419	62,644,031
Other borrowed funds	-	2,327,225	-	2,327,225	2,327,225
Total	-	63,897,644	-	63,897,644	64,971,256

As at 31 December	2018				
	Fair Value				Carrying
	Level 1	Level 2	Level 3	Total Value	Value
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Financial assets					
Financial assets at amortised cost - loans and advances to customers	-	82,645,440	-	82,645,440	82,120,068
Financial assets at amortised cost - debt and other instruments	7,611,977	8,198,924	-	15,810,901	15,942,404
Total	7,611,977	90,844,364	-	98,456,341	98,062,472
Financial liabilities					
Due to customers	-	64,210,181	-	64,210,181	67,608,361
Other borrowed funds	-	2,921,647	-	2,921,647	2,921,647
Total	-	67,131,828	-	67,131,828	70,530,008

NOTES TO THE FINANCIAL STATEMENTS

54. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

54.1 BANK

As at 31 December	2019			2018		
	Within 12 months Rs.'000	After 12 months Rs.'000	Total Rs.'000	Within 12 months Rs.'000	After 12 months Rs.'000	Total Rs.'000
Assets						
Cash and cash equivalents	2,718,860	-	2,718,860	2,917,866	-	2,917,866
Balances with Central Bank of Sri Lanka	-	2,314,197	2,314,197	-	4,219,932	4,219,932
Placements with banks	94,257	-	94,257	3,265,425	-	3,265,425
Reverse repurchased agreements	426,823	-	426,823	417,146	-	417,146
Derivative financial instruments	6,230	-	6,230	34,274	-	34,274
Financial investments at fair value through profit or loss	1,475,498	1,753,067	3,228,565	1,427,210	1,435,911	2,863,121
Financial assets at amortised cost - loans and advances to customers	46,506,604	30,851,697	77,358,301	48,767,534	24,981,674	73,749,208
Financial assets at amortised cost - debt and other instruments	9,078,092	4,362,948	13,441,040	8,699,654	7,868,286	16,567,940
Financial investments at fair value through other comprehensive income	4,945,395	12,557,850	17,503,245	6,194,335	11,541,624	17,735,959
Current tax asset	1,148	-	1,148	336,167	-	336,167
Investments in subsidiaries	-	912,268	912,268	-	835,373	835,373
Goodwill and intangible assets	-	1,329,791	1,329,791	-	1,202,532	1,202,532
Property, plant and equipment and Right of use assets	-	1,482,366	1,482,366	-	789,158	789,158
Deferred tax assets	-	-	-	-	115,596	115,596
Other assets	578,646	357,922	936,568	460,288	410,169	870,457
Total assets	65,831,553	55,922,106	121,753,659	72,519,899	53,400,255	125,920,154
Liabilities						
Due to banks	11,223,586	251,590	11,475,176	9,183,446	164,763	9,348,209
Derivative financial instruments	4,515	-	4,515	71,750	-	71,750
Repurchased agreements	12,116,040	-	12,116,040	17,585,912	-	17,585,912
Due to customers	71,745,653	4,786,359	76,532,012	76,522,389	2,728,684	79,251,073
Other borrowed funds	1,242,450	-	1,242,450	22,872	1,211,348	1,234,220
Deferred tax liabilities	-	62,299	62,299	-	-	-
Other liabilities	2,248,182	562,529	2,810,711	1,435,819	365,823	1,801,642
Total liabilities	98,580,426	5,662,777	104,243,203	104,822,188	4,470,618	109,292,806
Maturity gap	(32,748,873)	50,259,329	17,510,456	(32,302,289)	48,929,637	16,627,348
Cumulative gap	(32,748,873)	17,510,456		(32,302,289)	16,627,348	

54. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (Contd.)

54.2 GROUP

As at 31 December	2019			2018		
	Within 12 months Rs.'000	After 12 months Rs.'000	Total Rs.'000	Within 12 months Rs.'000	After 12 months Rs.'000	Total Rs.'000
Assets						
Cash and cash equivalents	3,104,542	-	3,104,542	3,306,393	-	3,306,393
Balances with Central Bank of Sri Lanka	-	2,314,197	2,314,197	-	4,219,932	4,219,932
Placements with banks	94,257	-	94,257	3,265,425	-	3,265,425
Reverse repurchased agreements	1,009,581	-	1,009,581	950,998	-	950,998
Derivative financial instruments	6,230	-	6,230	34,274	-	34,274
Financial investments at fair value through profit or loss	1,475,498	1,794,710	3,270,208	1,427,210	1,435,911	2,863,121
Financial assets at amortised cost - loans and advances to customers	48,919,018	35,861,120	84,780,138	53,561,655	28,558,413	82,120,068
Financial assets at amortised cost - debt and other instruments	9,081,410	3,589,148	12,670,558	8,957,167	6,985,237	15,942,404
Financial investments at fair value through other comprehensive income	4,945,395	12,571,090	17,516,485	6,194,335	11,593,286	17,787,621
Current tax assets	1,148	-	1,148	336,167	-	336,167
Investments in real estate	-	112,563	112,563	118,633	-	118,633
Goodwill and intangible assets	-	1,678,668	1,678,668	-	1,550,544	1,550,544
Property, plant and equipment and Right of use assets	-	1,741,074	1,741,074	-	1,013,541	1,013,541
Deferred tax assets	-	497,620	497,620	-	517,374	517,374
Other assets	670,325	372,371	1,042,696	489,529	515,684	1,005,213
Total assets	69,307,404	60,532,561	129,839,965	78,641,786	56,389,922	135,031,708
Liabilities						
Due to banks	11,536,263	65,703	11,601,966	9,350,784	164,763	9,515,547
Derivative financial instruments	4,515	-	4,515	71,750	-	71,750
Repurchased agreements	12,116,040	-	12,116,040	17,535,900	-	17,535,900
Due to customers	76,020,085	6,731,583	82,751,668	79,979,773	6,286,350	86,266,123
Other borrowed funds	1,956,998	557,060	2,514,058	1,046,942	1,874,705	2,921,647
Current tax liabilities	8,223	189,734	197,957	188,001	-	188,001
Deferred tax liabilities	-	63,062	63,062	-	1,436	1,436
Other liabilities	2,248,011	903,417	3,151,428	1,701,061	357,209	2,058,270
Total liabilities	103,890,135	8,510,559	112,400,694	109,874,211	8,684,463	118,558,674
Maturity gap	(34,582,731)	52,022,002	17,439,271	(31,232,425)	47,705,459	16,473,034
Cumulative gap	(34,582,731)	17,439,271		(31,232,425)	16,473,034	

NOTES TO THE FINANCIAL STATEMENTS

55. RISK MANAGEMENT

55.1 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 continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities.

Effective capital and risk management is fundamental to the business activities of the Bank. It is managed in terms of regulatory capital. The enhanced minimum capital and liquidity requirements are defined under Pillar I of Basel II namely credit, market and operational risk are linked to regulatory capital, whilst other risks under Pillar II namely, concentration risk, reputational risk, strategic risk, compliance risk, interest rate risk in the banking books, credit concentration risk and liquidity risk are linked to internal capital, which both put together is termed as economic capital.

The business risks such as changes in the environment, technology and industry are primarily addressed through the Bank's strategic planning process. Industry specific changes are also reviewed and presented on a need basis by the credit risk management unit and are tabled at the Executive Risk Management Committee.

55.1.1 Risk management structure

The Board of Directors is responsible for the overall capital and risk management approach and for approving the risk management strategies and principles.

A Board appointed supervisory committee called "Integrated Risk Management Committee (IRMC)" has the responsibility to monitor and oversee the overall risk process within the Bank.

The IRMC has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. IRMC is also responsible for managing risks and monitoring risk levels and reports on quarterly basis to the Board.

The Risk Management Department (RMD) is responsible for implementing and maintaining risk related procedures to ensure an independent control process is maintained. The unit works closely with the IRMC to ensure that procedures are compliant with the overall framework.

The RMD is also responsible for monitoring compliance with risk principles, policies and limits across the Bank. This unit ensures the complete capture of the risks in risk measurement and reporting systems. Exceptions are reported on daily/ monthly/ quarterly basis, where necessary, to the IRMC or its sub committees, and the relevant actions are taken to address exceptions and any areas of weakness.

The Bank's policy is that risk management processes throughout the Bank are audited annually by the internal audit function, which examines both the adequacy of the procedures and the Bank's compliance with the procedures. Internal audit discusses the results of all assessments with management, and reports its findings and recommendations to the Board Audit Committee.

55.1.2 Risk measurement and reporting systems

Monitoring and controlling risks is primarily performed based on limits 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, with additional emphasis on selected industries. In addition, the Bank's policy is to measure and monitor the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify risks on a timely basis. This information is presented and explained to the Board of Directors and Risk Committees. These reports include aggregate credit exposures, credit concentration, operational risk, market risk, liquidity ratios and stress tests. On a quarterly basis, detailed reporting of industry, customer and geographic risks takes place. Senior management assesses the appropriateness of the allowance for credit losses on a monthly basis. The Board receives a comprehensive risk report once a quarter which is designed to provide all the necessary information to assess and conclude on the risks of the Bank.

All risk related policy/frameworks including a well documented Integrated Risk Management Framework are uploaded in the Bank's Intranet which are being viewed by all staff at all levels for a comprehensive understanding of the Bank's risk appetite and the overall risk management of the Bank.

Briefings are also given to other relevant members of the Bank on the utilisation of market limits, proprietary investments and liquidity, plus any other risk developments.

55. RISK MANAGEMENT (Contd.)

55.1.3 Risk mitigation

As part of its overall risk management, the Bank uses various processes and instruments to manage exposures resulting from credit risks, changes in interest rates, foreign currencies, equity risks, and exposures arising from transactions.

The Bank actively uses collateral to reduce its credit risks.

55.1.4 Excessive risk concentration

In order to avoid excessive concentrations of risk, the Bank's policies and procedures include specific guidelines, including concentration limits to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

55.2 Credit risk

Credit risk is the risk of financial loss for 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 receivables to customers/other banks and investments in debt securities. In addition to the credit risk from direct funding exposure, the Bank would also be exposed to indirect liabilities such as Letter of credit, guarantees etc which would carry credit risk.

The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counter parties and industry concentrations, and by monitoring exposures in relation to such limits.

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of borrowers, including regular collateral revisions. Bank uses a risk rating process to rate the borrowers according to its risk profile. The credit quality review process aims to allow the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

A structured and standardised credit approval process is in place including a procedure for credit appraisal and borrower risks rating. Credit authority lies with the Board of Directors, Board Credit Committee, Executive Credit Committee and members of the management as per the assigned limits on delegated credit authority. All credit facilities are required to be reviewed by the Relationship Mangers/ Branch Managers annually. Also Bank's borrower risk rating system forms an integral part of the evaluation of credit proposals and assists the approval authorities to assess the creditworthiness of the borrowers. Bank's systems for credit evaluation and decision making are independent from collateralisation albeit collateral helps to mitigate credit risk.

The risk management department reviews credit facilities before and after sanctioning of facilities. Under pre-sanction evaluation, RMD independently reviews credit facilities and adds its recommendation where risk is considered acceptable. This independent review covers all new facilities or one-off / temporary facilities for existing lines over an approved threshold. Further corporate and mid market clients are respectively operated from a pre-approved positive list/dynamic list of customers. In the event any customers are to be entertained outside this list, then those names would have to be cleared by risk. Similarly the SME clients are managed from a client segmentation framework. Its criteria are pre-approved and the risk is priced accordingly.

In the post sanctioning review of credit facilities, the Loans Review Manager (LRM) reviews among other things, the disbursements, perfection of collateral and repayments are in accordance with the terms of approval. A separate loan review policy approved by the Board of Directors is in place.

55.2.1 Impairment assessment

The methodology of the impairment assessment has explained in the Note 5.7 under summary of significant accounting policies.

55.2.2 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 customer's liquidity needs. Letters of credit and guarantees commit the Bank to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods or contract financing. Such commitments risks are mitigated by collateral cover, regular review of unfunded limits and exposures similar to review of funded limits and exposures.

55.2.3 Analysis of risk concentration

The Group's concentrations of risk are managed by client/counterparty, by geographical region and by industry sector. Risk is monitored and managed against Board approved limits for industry sector and individual/group exposures.

55. RISK MANAGEMENT (Contd.)

55.2.3 Analysis of risk concentration (Contd.)

The following table shows the risk concentration by industry for the components of the Statement of Financial Position

BANK

As at 31 December 2019	Financial Services Rs.'000	Government Rs.'000	Consumer Rs.'000	Retail and Wholesale Rs.'000	Construction Rs.'000	Manufacturing Rs.'000	Service Rs.'000	Total Rs.'000
Financial assets								
Cash and cash equivalents	2,718,860	-	-	-	-	-	-	2,718,860
Balances with Central Bank of Sri Lanka	-	2,314,197	-	-	-	-	-	2,314,197
Placements with banks	94,257	-	-	-	-	-	-	94,257
Reverse repurchased agreements	234,786	192,037	-	-	-	-	-	426,823
Derivative financial instruments	5,573	-	656	-	-	-	-	6,230
Financial investments at fair value through profit or loss	1,401,088	1,827,477	-	-	-	-	-	3,228,565
Financial assets at amortised cost - loans and advances to customers	8,802,302	-	18,277,204	16,492,107	5,716,388	11,579,222	16,491,078	77,358,301
Financial assets at amortised cost - debt and other instruments	4,668,352	8,772,688	-	-	-	-	-	13,441,040
Financial investments at fair value through other comprehensive income	2,530	17,500,715	-	-	-	-	-	17,503,245
Other financial assets	-	-	-	-	-	-	217,561	217,561
Subtotal	17,927,748	30,607,114	18,277,860	16,492,107	5,716,388	11,579,222	16,708,639	117,309,078
Undrawn loan commitments	222,090	-	9,355,367	1,115,654	951,763	512,954	654,870	12,812,699
Guarantees	-	-	7,398,933	624,147	1,282,698	36,971	197,281	9,540,029
Letters of credit	-	-	1,300,019	56,261	43,641	35,005	245,885	1,680,811
Acceptances	-	-	814,672	108,690	-	28,124	-	951,486
Other contingent items	-	-	1,297,640	-	-	-	-	1,297,640
Subtotal	222,090	-	20,166,631	1,904,751	2,278,101	613,055	1,098,036	26,282,665
Total	18,149,839	30,607,114	38,444,491	18,396,858	7,994,489	12,192,277	17,806,675	143,591,743

As at 31 December 2018	Financial Services Rs.'000	Government Rs.'000	Consumer Rs.'000	Retail and Wholesale Rs.'000	Construction Rs.'000	Manufacturing Rs.'000	Service Rs.'000	Total Rs.'000
Financial assets								
Cash and cash equivalents	2,917,866	-	-	-	-	-	-	2,917,866
Balances with Central Bank of Sri Lanka	-	4,219,932	-	-	-	-	-	4,219,932
Placements with banks	3,265,425	-	-	-	-	-	-	3,265,425
Reverse repurchased agreements	417,146	-	-	-	-	-	-	417,146
Derivative financial instruments	34,274	-	-	-	-	-	-	34,274
Financial investments at fair value through profit or loss	1,004,663	1,858,458	-	-	-	-	-	2,863,121
Financial assets at amortised cost - loans and advances to customers	10,456,066	-	14,159,818	18,953,615	5,282,187	10,980,315	13,917,207	73,749,208
Financial assets at amortised cost - debt and other instruments	5,460,371	11,107,569	-	-	-	-	-	16,567,940
Financial investments at fair value through other comprehensive income	1,530	17,734,429	-	-	-	-	-	17,735,959
Other financial assets	-	-	-	-	-	-	153,865	153,865
Total	23,557,340	34,920,388	14,159,818	18,953,615	5,282,187	10,980,315	14,071,072	121,924,735

55. RISK MANAGEMENT (Contd.)

55.2.3 Analysis of risk concentration (Contd.)

GROUP

As at 31 December	2019							
	Financial Services Rs.'000	Government Rs.'000	Consumer Rs.'000	Retail and Wholesale Rs.'000	Construction Rs.'000	Manufacturing Rs.'000	Service Rs.'000	Total Rs.'000
Financial assets								
Cash and cash equivalents	3,104,542	-	-	-	-	-	-	3,104,542
Balances with Central Bank of Sri Lanka	-	2,314,197	-	-	-	-	-	2,314,197
Placements with banks	94,257	-	-	-	-	-	-	94,257
Reverse repurchased agreements	817,544	192,037	-	-	-	-	-	1,009,581
Derivative financial instruments	5,573	-	656	-	-	-	-	6,230
Financial investments at fair value through profit or loss	1,442,731	1,827,477	-	-	-	-	-	3,270,208
Financial assets at amortised cost - loans and advances to customers	9,304,121	-	21,135,887	18,631,077	6,045,519	12,204,177	17,459,358	84,780,138
Financial assets at amortised cost - debt and other instruments	3,897,869	8,772,688	-	-	-	-	-	12,670,558
Financial investments at fair value through other comprehensive income	7,133	17,500,715	-	-	-	-	8,637	17,516,485
Other financial assets	12,130	-	-	-	-	-	233,826	245,956
Subtotal	18,685,900	30,607,114	21,136,543	18,631,077	6,045,519	12,204,177	17,701,821	125,012,152
Undrawn loan commitments	222,090	-	9,355,367	1,152,442	951,763	512,954	654,869	12,849,485
Guarantees	-	-	7,398,933	624,147	1,282,698	36,971	197,281	9,540,029
Letters of credit	-	-	1,300,019	56,261	43,641	35,005	245,885	1,680,811
Acceptances	-	-	814,672	108,690	-	28,124	-	951,486
Other contingent items	-	-	1,297,640	-	-	-	-	1,297,640
Subtotal	222,090	-	20,166,631	1,941,540	2,278,102	613,054	1,098,035	26,319,452
Total	18,907,991	30,607,114	41,303,174	20,572,617	8,323,621	12,817,231	18,799,855	151,331,602

As at 31 December	2018							
	Financial Services Rs.'000	Government Rs.'000	Consumer Rs.'000	Retail and Wholesale Rs.'000	Construction Rs.'000	Manufacturing Rs.'000	Service Rs.'000	Total Rs.'000
Financial assets								
Cash and cash equivalents	3,306,393	-	-	-	-	-	-	3,306,393
Balances with Central Bank of Sri Lanka	-	4,219,932	-	-	-	-	-	4,219,932
Placements with banks	3,265,425	-	-	-	-	-	-	3,265,425
Reverse repurchased agreements	950,998	-	-	-	-	-	-	950,998
Derivative financial instruments	34,274	-	-	-	-	-	-	34,274
Financial investments at fair value through profit or loss	1,004,663	1,858,458	-	-	-	-	-	2,863,121
Financial assets at amortised cost - loans and advances to customers	10,260,671	-	17,948,343	21,574,377	5,839,289	11,618,476	14,878,912	82,120,068
Financial assets at amortised cost - debt and other instruments	4,834,835	11,107,569	-	-	-	-	-	15,942,404
Financial investments at fair value through other comprehensive income	38,090	17,734,429	-	-	8,010	-	7,092	17,787,621
Other financial assets	81,401	-	-	-	-	-	153,866	235,267
Total	23,776,749	34,920,388	17,948,343	21,574,377	5,847,299	11,618,476	15,039,867	130,725,499

55. RISK MANAGEMENT (Contd.)

55.2.4 Credit quality per segments, industry and asset classes

Credit risk exposure analysis

The below tables summaries the quantitative summary of aggregate credit risk exposures of Financial investments at fair value through other comprehensive income and Financial assets at amortised cost that reconciles to the Statement of Financial Position. The disclosures also includes credit risk likely to arise from off- balance sheet commitments by category;

As at 31 December	2019							
	BANK				Group			
	Stage 1 Rs'000	Stage 2 Rs'000	Stage 3 Rs'000	Total Rs'000	Stage 1 Rs'000	Stage 2 Rs'000	Stage 3 Rs'000	Total Rs'000
By portfolio								
Placements with banks	94,257	-	-	94,257	94,257	-	-	94,257
Reverse repurchased agreements	426,823	-	-	426,823	1,009,581	-	-	1,009,581
Financial investments at fair value through profit or loss	3,228,565	-	-	3,228,565	3,270,208	-	-	3,270,208
Loans and advances	69,135,685	1,460,775	6,761,841	77,358,301	72,994,238	3,445,659	8,340,241	84,780,138
Term loans	44,378,034	629,202	5,107,307	50,114,543	45,355,022	1,041,000	5,418,266	51,814,288
Overdrafts	9,243,823	549,350	856,734	10,649,907	9,151,310	549,350	856,734	10,557,394
Trade finance	12,479,018	105,148	519,466	13,103,632	12,479,018	105,148	519,466	13,103,632
Lease and hire-purchase	331,932	117,661	188,673	638,266	2,038,230	1,644,620	1,227,934	4,910,784
Factoring	353,839	-	73,080	426,919	1,372,747	11,795	282,315	1,666,857
Pawning	348,240	16,415	3,230	367,885	348,240	16,415	3,230	367,885
Credit card	1,098,686	42,999	13,351	1,155,036	1,098,686	42,999	13,351	1,155,036
Staff loans	902,113	-	-	902,113	902,113	-	-	902,113
Others	-	-	-	-	248,872	34,332	18,945	302,149
Financial assets at amortised cost - debt and other instruments	13,131,815	309,225	-	13,441,040	12,670,558	-	-	12,670,558
Financial investments at fair value through other comprehensive income	17,503,245	-	-	17,503,245	17,516,485	-	-	17,516,485
Other financial assets	217,561	-	-	217,561	245,956	-	-	245,956
Subtotal	103,737,951	1,770,000	6,761,841	112,269,791	107,801,283	3,445,659	8,340,241	119,587,183
Undrawn loan commitments	12,236,991	153,558	422,149	12,812,698	12,236,991	153,558	458,936	12,849,485
Guarantees	9,540,029	-	-	9,540,029	9,540,029	-	-	9,540,029
Letters of credit	1,680,811	-	-	1,680,811	1,680,811	-	-	1,680,811
Acceptances	951,486	-	-	951,486	951,486	-	-	951,486
Other contingent items	1,297,640	-	-	1,297,640	1,297,640	-	-	1,297,640
Subtotal	25,706,957	153,558	422,149	26,282,664	25,706,957	153,558	458,936	26,319,451
Total	129,444,908	1,923,558	7,183,990	138,552,455	133,508,240	3,599,217	8,799,177	145,906,634
By industry segment								
Construction	7,247,261	344,054	402,748	7,994,063	7,351,095	457,826	514,269	8,323,190
Consumer	36,789,548	423,178	1,235,695	38,448,421	37,570,320	1,368,711	1,821,916	40,760,947
Financial services	43,686,659	312,194	37,131	44,035,983	44,774,531	110,709	94,274	44,979,512
Manufacturing	10,255,832	313,709	1,965,619	12,535,160	10,507,804	554,749	2,097,563	13,160,116
Service	16,053,807	242,584	1,638,021	17,934,412	16,486,823	514,122	1,901,747	18,902,692
Wholesale & retail trade	15,411,801	287,839	1,904,776	17,604,416	16,817,667	593,100	2,369,408	19,780,175
Total	129,444,908	1,923,558	7,183,990	138,552,455	133,508,240	3,599,217	8,799,177	145,906,634

55. RISK MANAGEMENT (Contd.)

55.2.4 Credit quality per segments, industry and asset classes (Contd.)

As at 31 December	2019							
	BANK				Group			
	Stage 1 Rs'000	Stage 2 Rs'000	Stage 3 Rs'000	Total Rs'000	Stage 1 Rs'000	Stage 2 Rs'000	Stage 3 Rs'000	Total Rs'000
By province								
Central	1,431,605	44,100	468,492	1,944,197	1,670,237	237,296	609,287	2,516,820
Eastern	174,213	2,852	48,804	225,869	265,121	51,701	74,689	391,511
North Central	549,638	8,880	197,471	755,989	743,277	174,143	262,013	1,179,433
North Western	1,830,724	113,381	479,376	2,423,481	1,950,688	228,012	637,509	2,816,209
Northern	1,195,429	15,175	106,593	1,317,197	1,195,429	15,175	106,593	1,317,197
Sabaragamuwa	1,147,739	52,802	464,174	1,664,715	1,357,245	219,982	567,306	2,144,533
Southern	3,333,780	103,520	409,490	3,846,790	3,917,978	634,541	738,904	5,291,423
Uva	354,571	1,749	177,489	533,809	354,571	1,749	177,489	533,809
Western	119,427,209	1,581,099	4,832,101	125,840,408	122,045,694	2,036,618	5,625,387	129,715,697
Total	129,444,908	1,923,558	7,183,990	138,552,455	133,508,240	3,599,217	8,799,177	145,906,634

55.2.5 Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are in place covering the acceptability and valuation of each type of collateral.

The main types of collateral obtained are as follows:

For securities lending and reverse repurchase transactions, cash or securities
For commercial lending, charges over real estate properties, inventory and trade receivables, etc.
For retail lending, mortgages over residential properties, etc.

The Bank also obtains guarantees from parent companies for loans 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 of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Bank does not occupy repossessed properties for business use.

The Bank also makes use of netting agreements with borrowers with whom a significant volume of transactions are undertaken. Although on Statement of Financial Position netting arrangements may significantly reduce credit risk, it should be noted that *"Credit risk is eliminated only to the extent that amounts due to the same borrower will be settled after the assets are realised that the documentation are legally enforceable".*

The tables on the following pages show the maximum exposure to credit risk by class of financial assets. They also show the total fair value of collateral, any surplus collateral and the net exposure to credit risk;

55. RISK MANAGEMENT (Contd.)

55.2.5.1 Maximum and net exposure to credit risk by class of financial assets

BANK

As at 31 December

	2019											
		Fair value of collateral and credit enhancements held										
	Maximum exposure to credit risk	Documentary Bills (Excluding Export Bills purchased)	Stocks, Bonds, Debentures, Life Policies	Fixed, Savings and other Deposits	Foreign Currency Deposits	Stock in Trade	Immovable Property Plant and Machinery	Purchase Agreements	Leasing and Hire Movable Property	Trust Certificates, Other Securities	Gold	Net Exposure
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Placements with banks	94,257	-	-	-	-	-	-	-	-	-	-	94,257
Reverse repurchased agreements	426,823	-	-	-	-	-	-	-	-	426,823	-	-
Derivative financial instruments	6,230	-	-	-	-	-	-	-	-	-	-	6,230
Financial investments at fair value through profit or loss	3,228,565	-	-	-	-	-	-	-	-	-	-	3,228,565
Financial assets at amortised cost - loans and advances to customers	79,316,043	13,119,063	490,772	5,384,912	16,263	524,255	24,320,293	708,997	320,408	1,737,271	369,592	32,324,218
Financial assets at amortised cost - debt and other instruments	13,477,795	-	4,661,260	-	-	-	-	-	-	7,092	-	8,809,443
Financial investments at fair value through other comprehensive income	17,503,245	-	-	-	-	-	-	-	-	-	-	17,503,245
Other financial assets	217,561	-	-	-	-	-	-	-	-	-	-	217,561
Total financial assets	114,270,519	13,119,063	5,152,032	5,384,912	16,263	524,255	24,320,293	708,997	320,408	2,171,186	369,592	62,183,518

As at 31 December

	2018											
		Fair value of collateral and credit enhancements held										
	Maximum exposure to credit risk	Documentary Bills (Excluding Export Bills purchased)	Stocks, Bonds, Debentures, Life Policies	Fixed, Savings and other Deposits	Foreign Currency Deposits	Stock in Trade	Immovable Property Plant and Machinery	Purchase Agreements	Leasing and Hire Movable Property	Trust Certificates, Other Securities	Gold	Net Exposure
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Placements with banks	3,265,425	-	-	-	-	-	-	-	-	-	-	3,265,425
Reverse repurchased agreements	417,146	-	-	-	-	-	-	-	-	417,146	-	-
Derivative financial instruments	34,274	-	-	-	-	-	-	-	-	-	-	34,274
Financial investments at fair value through profit or loss	2,863,121	-	-	-	-	-	-	-	-	-	-	2,863,121
Financial assets at amortised cost - loans and advances to customers	75,787,035	13,147,784	178,615	9,036,508	441,454	536,084	17,716,953	1,195,318	353,662	8,103,826	1,136,794	23,940,037
Financial assets at amortised cost - debt and other instruments	16,609,077	-	5,407,250	-	-	-	-	-	-	94,258	-	11,107,569
Financial investments at fair value through other comprehensive income	17,735,959	-	-	-	-	-	-	-	-	-	-	17,735,959
Other financial assets	153,865	-	-	-	-	-	-	-	-	-	-	153,865
Total financial assets	116,865,902	13,147,784	5,585,865	9,036,508	441,454	536,084	17,716,953	1,195,318	353,662	8,530,430	1,136,794	59,100,250

55. RISK MANAGEMENT (Contd.)

55.2.5.1 Maximum and net exposure to credit risk by class of financial assets (Contd.)

GROUP

As at 31 December

	2019											
		Fair value of collateral and credit enhancements held										
	Maximum exposure to credit risk	Documentary Bills (Excluding Export Bills purchased)	Stocks, Bonds, Debentures, Life Policies	Fixed, Savings and other Deposits	Foreign Currency Deposits	Stock in Trade	Immovable Property Plant and Machinery	Purchase Agreements	Leasing and Hire Movable Property	Trust Certificates, Other Securities	Gold	Net Exposure
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Placements with banks	94,257	-	-	-	-	-	-	-	-	-	-	94,257
Reverse repurchased agreements	1,009,581	-	-	-	-	-	-	-	-	1,009,581	-	-
Derivative financial instruments	6,230	-	-	-	-	-	-	-	-	-	-	6,230
Financial investments at fair value through profit or loss	3,270,208	-	-	-	-	-	-	-	-	-	-	3,270,208
Financial assets at amortised cost - loans and advances to customers	87,397,947	13,119,063	490,772	6,141,504	16,263	524,255	24,320,293	5,264,988	320,408	3,893,711	674,741	32,631,949
Financial assets at amortised cost - debt and other instruments	12,703,995	-	4,661,260	-	-	-	-	-	-	7,092	-	8,035,643
Financial investments at fair value through other comprehensive income	17,516,485	-	-	-	-	-	-	-	-	-	-	17,516,485
Other financial assets	245,956	-	-	-	-	-	-	-	-	-	-	245,956
Total financial assets	122,244,659	13,119,063	5,152,032	6,141,504	16,263	524,255	24,320,293	5,264,988	320,408	4,910,384	674,741	61,800,728

As at 31 December

	2018											
		Fair value of collateral and credit enhancements held										
	Maximum exposure to credit risk	Documentary Bills (Excluding Export Bills purchased)	Stocks, Bonds, Debentures, Life Policies	Fixed, Savings and other Deposits	Foreign Currency Deposits	Stock in Trade	Immovable Property Plant and Machinery	Purchase Agreements	Leasing and Hire Movable Property	Trust Certificates, Other Securities	Gold	Net Exposure
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Placements with banks	3,265,425	-	-	-	-	-	-	-	-	-	-	3,265,425
Reverse repurchased agreements	950,998	-	-	-	-	-	-	-	-	950,998	-	-
Derivative financial instruments	34,274	-	-	-	-	-	-	-	-	-	-	34,274
Financial investments at fair value Mthrough profit or loss	2,863,121	-	-	-	-	-	-	-	-	-	-	2,863,121
Financial assets at amortised cost - loans and advances to customers	85,452,541	13,147,784	178,615	9,336,565	441,454	536,084	17,319,782	8,346,573	353,662	9,202,298	1,185,448	25,404,277
Financial assets at amortised cost - debt and other instruments	15,979,252	-	5,407,250	257,513	-	-	-	-	-	94,258	-	10,220,230
Financial investments at fair value through other comprehensive income	17,787,621	-	-	-	-	-	-	-	-	-	-	17,787,621
Other financial assets	235,267	-	-	-	-	-	-	-	-	-	-	235,267
Total financial assets	126,568,499	13,147,784	5,585,865	9,594,078	441,454	536,084	17,319,782	8,346,573	353,662	10,247,554	1,185,448	59,810,215

55. RISK MANAGEMENT (Contd.)

55.2.5.2 Collateral and other credit enhancements

The table below summarises the Bank's collateral for loans and advances to customers by stage classification;

As at 31 December	2019											
	Gross Carrying Amount				Collateral				Net Exposure			
	Stage 1 Rs'000	Stage 2 Rs'000	Stage 3 Rs'000	Total Rs'000	Stage 1 Rs'000	Stage 2 Rs'000	Stage 3 Rs'000	Total Rs'000	Stage 1 Rs'000	Stage 2 Rs'000	Stage 3 Rs'000	Total Rs'000
BANK												
Term loans	44,675,687	647,890	5,971,928	51,295,505	20,774,752	83,418	4,512,492	25,370,662	23,900,935	564,472	1,459,436	25,924,843
Overdrafts	9,311,863	576,719	1,345,543	11,234,125	5,414,815	265,740	801,709	6,482,264	3,897,048	310,979	543,834	4,751,861
Trade finance	12,485,924	105,434	560,386	13,151,744	12,453,243	105,434	560,386	13,119,063	32,681	-	-	32,681
Lease and hire purchase	334,952	122,740	251,305	708,997	334,952	122,740	251,305	708,997	-	-	-	-
Factoring	365,526	-	111,635	477,161	148,040	-	43,905	191,945	217,486	-	67,730	285,216
Pawning	349,737	16,415	3,440	369,592	349,737	16,415	3,441	369,593	-	-	-	-
Credit cards	1,107,855	49,408	19,543	1,176,806	22,870	854	76	23,800	1,084,985	48,554	19,467	1,153,006
Staff loans	902,113	-	-	902,113	725,502	-	-	725,502	176,611	-	-	176,611
Grand total	69,533,657	1,518,606	8,263,780	79,316,043	40,223,911	594,601	6,173,314	46,991,826	29,309,746	924,005	2,090,467	32,324,218
GROUP												
Term loans	45,666,433	1,075,513	6,348,130	53,090,076	22,886,204	397,983	5,002,539	28,286,726	22,780,229	677,530	1,345,591	24,803,350
Overdrafts	9,218,992	576,719	1,345,544	11,141,255	5,414,815	265,740	801,709	6,482,264	3,804,177	310,979	543,835	4,658,991
Trade finance	12,485,924	105,434	560,386	13,151,744	12,453,243	105,434	560,386	13,119,063	32,681	-	-	32,681
Lease and hire purchase	2,078,434	1,707,750	1,554,712	5,340,896	2,076,341	1,707,255	1,478,360	5,261,956	2,093	495	76,352	78,940
Factoring	1,399,261	19,406	501,648	1,920,315	148,040	-	43,905	191,945	1,251,221	19,406	457,743	1,728,370
Pawning	349,737	16,415	3,441	369,593	349,738	16,415	3,441	369,593	-	-	-	-
Credit cards	1,107,855	49,408	19,543	1,176,806	22,869	854	76	23,799	1,084,986	48,554	19,467	1,153,007
Staff loans	902,113	-	-	902,113	725,503	-	-	725,503	176,610	-	-	176,610
Others	248,872	34,332	21,945	305,149	248,872	34,332	21,945	305,149	-	-	-	-
Grand total	73,457,621	3,584,977	10,355,349	87,397,947	44,325,624	2,528,013	7,912,361	54,765,998	29,131,997	1,056,964	2,442,988	32,631,949

BANK

As at 31 December	2018						
	Neither past due nor impaired Rs'000	Past due but not impaired				Individually impaired Rs'000	Total Rs'000
		Less than 3 months Rs'000	*3-6 months Rs'000	*6-12 months Rs'000	Over 12 months Rs'000		
Cash and cash equivalents	2,917,866	-	-	-	-	-	2,917,866
Balances with Central Bank of Sri Lanka	4,219,932	-	-	-	-	-	4,219,932
Placements with banks	3,265,424	-	-	-	-	-	3,265,424
Reverse repurchased agreements	417,146	-	-	-	-	-	417,146
Derivative financial instruments	34,274	-	-	-	-	-	34,274
Financial investments at fair value through profit or loss	2,863,121	-	-	-	-	-	2,863,121
Financial assets at amortised cost - loans and advances	59,959,173	11,888,261	78,797	205,268	884,611	2,770,924	75,787,035
Financial assets at amortised cost - debt and other instruments	16,567,940	-	-	-	-	-	16,567,940
Financial investments at fair value through other comprehensive income	17,735,959	-	-	-	-	-	17,735,959
Other financial assets	153,866	-	-	-	-	-	153,866
Total financial assets	108,134,701	11,888,261	78,797	205,268	884,611	2,770,924	123,962,563

NOTES TO THE FINANCIAL STATEMENTS

55. RISK MANAGEMENT (Contd.)

55.2.5.2 Collateral and other credit enhancements (Contd.)

GROUP

As at 31 December	2018						
	Neither past due nor impaired Rs'000	Past due but not impaired: Less than 3 months Rs'000	*3-6 months Rs'000	*6-12 months Rs'000	Over 12 months Rs'000	Individually impaired Rs'000	Total Rs'000
Cash and cash equivalents	3,306,393	-	-	-	-	-	3,306,393
Balances with Central Bank of Sri Lanka	4,219,932	-	-	-	-	-	4,219,932
Placements with banks	3,265,424	-	-	-	-	-	3,265,424
Reverse repurchased agreements	950,998	-	-	-	-	-	950,998
Derivative financial instruments	34,274	-	-	-	-	-	34,274
Financial investments at fair value through profit or loss	2,863,121	-	-	-	-	-	2,863,121
Financial assets at amortised cost - loans and advances	63,075,069	15,698,129	824,294	538,603	1,763,530	3,552,916	85,452,541
Financial assets at amortised cost - debt and other instruments	15,942,404	-	-	-	-	-	15,942,404
Financial investments at fair value through other comprehensive income	17,787,621	-	-	-	-	-	17,787,621
Other financial assets	235,267	-	-	-	-	-	235,267
Total financial assets	111,680,502	15,698,129	824,294	538,603	1,763,530	3,552,916	134,057,974

55.2.6 Concentration by Location

Concentration by location for loans and advances is measured based on the location of the customer center that granted the facility, which has a high correlation with the location of the borrower except for loans granted by the Foreign Currency Banking Unit (FCBU). Concentration of loans and advances by location is given below.

BANK

As at 31 December	2019 Rs.'000	2019 %	2018 Rs.'000	2018 %
Central	**1,641,416**	**2%**	1,656,359	2%
Eastern	**206,040**	**0%**	321,867	0%
North Central	**611,872**	**1%**	517,918	1%
North Western	**2,081,604**	**3%**	2,236,092	3%
Northern	**1,110,593**	**1%**	1,075,525	1%
Sabaragamuwa	**1,445,354**	**2%**	1,952,161	3%
Southern	**3,489,111**	**4%**	3,906,801	5%
Uva	**452,195**	**1%**	475,255	1%
Western	**66,320,116**	**86%**	61,607,230	84%
Total	**77,358,301**	**100%**	73,749,208	100%

GROUP

As at 31 December	2019 Rs.'000	2019 %	2018 Rs.'000	2018 %
Central	**2,214,038**	**3%**	2,291,831	3%
Eastern	**371,407**	**0%**	521,436	1%
North Central	**1,035,316**	**1%**	976,504	1%
North Western	**2,474,333**	**3%**	2,841,642	3%
Northern	**1,110,593**	**1%**	1,075,525	1%
Sabaragamuwa	**1,925,173**	**2%**	2,488,599	3%
Southern	**4,933,744**	**6%**	5,600,915	7%
Uva	**452,195**	**1%**	475,255	1%
Western	**70,263,339**	**83%**	65,848,361	80%
Total	**84,780,138**	**100%**	82,120,068	100%

55. RISK MANAGEMENT (Contd.)

55.3 Liquidity risk

Liquidity risk in simple terms is the risk of a bank's inability to meet its commitments as and when due. In addition to being satisfied with the adequacy of liquid funds to meet its day today commitments. It is managed by Assets and Liability Committee (ALCO) using various statistical analysis using both current and stressed scenarios. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, and adopted a policy of managing assets with liquidity consistently through ALCO. The Bank has developed internal control processes and contingency funding 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.

55.3.1 Liquidity risk management

Liquidity measurement is a difficult task and measured through stock and flow approaches.

(a) Stock approach – Under the stock approach, liquidity is measured in terms of key ratios which portray the liquidity stored in the balance sheet.

(b) Flow approach – Banks should prepare a statement of maturities of assets and liabilities placing all cash inflows and outflows in the time bands according to the residual time to maturity

As at 31 December	2019 %	2018 %
Year end	**23.0%**	21.7%
Maximum	**24.4%**	23.3%
Minimum	**21.1%**	20.5%
Average	**22.0%**	21.4%

	BANK		GROUP	
As at 31 December	**2019 %**	**2018 %**	**2019 %**	**2018 %**
Advances to deposits ratio				
Year end	**103.6%**	95.6%	**105.6%**	99.1%
Maximum	**103.6%**	105.0%	**105.6%**	108.3%
Minimum	**100.6%**	95.6%	**103.7%**	99.2%
Average	**102.4%**	100.0%	**105.0%**	103.4%
Net loans to assets				
Year-end	**63.5%**	58.6%	**65.3%**	60.8%
Maximum	**64.9%**	63.2%	**66.8%**	66.0%
Minimum	**61.0%**	58.5%	**63.1%**	60.8%
Average	**62.7%**	60.5%	**64.6%**	63.1%

55. RISK MANAGEMENT (Contd.)

55.3.2 Analysis of financial assets and liabilities by remaining contractual maturities

The table below summarises the maturity profile of the undiscounted cash flows of the Bank's financial assets and liabilities as at 31 December. 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 repayments on the earliest date it could be required to pay and the table does not reflect the expected cash flows indicated by its deposit retention history.

BANK

As at 31 December	2019					
	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
Financial assets						
Cash and cash equivalents	2,718,860	-	-	-	-	2,718,860
Balances with Central Bank of Sri Lanka	-	-	-	-	2,314,197	2,314,197
Placements with banks	-	94,257	-	-	-	94,257
Reverse repurchased agreements	-	427,122	-	-	-	427,122
Derivative financial instruments	-	5,137	1,093	-	-	6,230
Financial investments at fair value through profit or loss	-	1,437,767	312,871	2,420,380	-	4,171,018
Financial assets at amortised cost - loans and advances to customers	11,006,943	32,725,600	13,135,561	27,442,282	8,897,941	93,208,327
Financial assets at amortised cost - debt and other instruments	-	590,282	6,293,792	8,303,679	-	15,187,753
Financial investments at fair value through other comprehensive income	-	58,562	7,377,431	12,320,369	2,578,336	22,334,698
Other financial assets		195,932	5,886	15,466	277	217,561
Total undiscounted financial assets	13,725,803	35,534,659	27,126,634	50,502,176	13,790,751	140,680,023
Financial liabilities						
Due to banks	-	5,646,915	5,276,945	2,384,498	-	13,308,358
Derivative financial instruments	-	3,686	829	-	-	4,515
Repurchased agreements	-	11,225,105	984,340	-	-	12,209,445
Due to customers	21,458,686	23,922,001	27,051,140	9,060,343	-	81,492,170
Other borrowed funds	-	-	1,358,650	-	-	1,358,650
Other financial liabilities	-	1,205,966	442,130	259,660	-	1,907,756
Total undiscounted financial liabilities	21,458,686	42,003,673	35,114,034	11,704,501	-	110,280,894
Net undiscounted financial assets/(liabilities)	(7,732,883)	(6,469,014)	(7,987,400)	38,797,675	13,790,751	30,399,129
Cumulative gap	(7,732,883)	(14,201,897)	(22,189,297)	16,608,378	30,399,129	

55. RISK MANAGEMENT (Contd.)

55.3.2 Analysis of financial assets and liabilities by remaining contractual maturities (Contd.)

BANK

As at 31 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
Financial assets						
Cash and cash equivalents	2,917,866	-	-	-	-	2,917,866
Balances with Central Bank of Sri Lanka	-	-	-	-	4,219,932	4,219,932
Placements with banks	-	3,265,425	-	-	-	3,265,425
Reverse repurchased agreements	-	418,152	-	-	-	418,152
Derivative financial instruments	-	6,740	27,534	-	-	34,274
Financial investments at fair value through profit or loss	-	1,043,590	436,708	1,371,031	605,250	3,456,579
Financial assets at amortised cost - loans and advances to customers	12,142,359	29,697,865	10,484,886	24,846,530	7,728,103	84,899,743
Financial assets at amortised cost - debt and other instruments	-	2,191,733	8,099,052	5,089,077	3,458,109	18,837,971
Financial investments at fair value through other comprehensive income	-	252,281	6,831,532	12,680,129	1,567,524	21,331,466
Other financial assets	-	127,611	10,449	15,543	262	153,865
Total undiscounted financial assets	15,060,225	37,003,397	25,890,161	44,002,310	17,579,180	139,535,273
Financial liabilities						
Due to banks	-	6,413,883	2,979,166	164,763	-	9,557,812
Derivative financial instruments	-	45,550	26,200	-	-	71,750
Repurchased agreements	-	17,061,903	537,353	-	-	17,599,256
Due to customers	20,733,220	7,788,645	5,561,944	48,017,028	-	82,100,837
Other borrowed funds	-	-	-	1,654,120	-	1,654,120
Other financial liabilities	-	838,184	63,843	70,303	-	972,330
Total undiscounted financial liabilities	20,733,220	32,148,165	9,168,506	49,906,214	-	111,956,105
Net undiscounted financial assets/(liabilities)	(5,672,995)	4,855,232	16,721,655	(5,903,904)	17,579,180	27,579,168
Cumulative gap	(5,672,995)	(817,763)	15,903,892	9,999,988	27,579,168	

NOTES TO THE FINANCIAL STATEMENTS

55. RISK MANAGEMENT (Contd.)

55.3.2 Analysis of financial assets and liabilities by remaining contractual maturities (Contd.)

GROUP

As at 31 December	2019					
	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
Financial assets						
Cash and cash equivalents	3,104,542	-	-	-	-	3,104,542
Balances with Central Bank of Sri Lanka	-	-	-	-	2,314,197	2,314,197
Placements with banks	-	94,257	-	-	-	94,257
Reverse repurchased agreements	-	1,009,880	-	-	-	1,009,880
Derivative financial instruments	-	5,136	1,094	-	-	6,230
Financial investments at fair value through profit or loss	-	1,437,767	312,871	2,420,380	41,643	4,212,661
Financial assets at amortised cost - loans and advances to customers	11,006,943	33,912,945	15,449,865	32,338,954	10,736,977	103,445,684
Financial assets at amortised cost - debt and other instruments	-	593,600	6,293,792	7,529,879	-	14,417,271
Financial investments at fair value through other comprehensive income	-	58,562	7,377,433	12,320,369	2,591,575	22,347,939
Other financial assets	-	213,441	9,698	22,540	277	245,956
Total undiscounted financial assets	14,111,485	37,325,588	29,444,753	54,632,122	15,684,669	151,198,617
Financial liabilities						
Due to banks	313,624	5,626,413	5,344,455	2,212,038	-	13,496,530
Derivative financial instruments	-	3,686	829	-	-	4,515
Repurchased agreements	-	11,225,105	984,340	-	-	12,209,445
Due to customers	21,403,933	25,824,679	30,014,161	11,566,819	-	88,809,592
Other borrowed funds	-	510,015	2,190,259	863,432	-	3,563,706
Other financial liabilities	71,936	1,205,966	466,643	334,028	6,828	2,085,401
Total undiscounted financial liabilities	21,789,493	44,395,864	39,000,687	14,976,317	6,828	120,169,189
Net undiscounted financial assets/(liabilities)	(7,678,008)	(7,070,276)	(9,555,934)	39,655,805	15,677,841	31,029,428
Cumulative gap	(7,678,008)	(14,748,284)	(24,304,218)	15,351,587	31,029,428	

NOTES TO THE FINANCIAL STATEMENTS

55. RISK MANAGEMENT (Contd.)

55.3.2 Analysis of financial assets and liabilities by remaining contractual maturities (Contd.)

GROUP

As at 31 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
Financial assets						
Cash and cash equivalents	3,306,393	-	-	-	-	3,306,393
Balances with Central Bank of Sri Lanka	-	-	-	-	4,219,932	4,219,932
Placements with banks	-	3,265,425	-	-	-	3,265,425
Reverse repurchased agreements	583,864	368,140	-	-	-	952,004
Derivative financial instruments	-	6,740	27,534	-	-	34,274
Financial investments at fair value through profit or loss	-	1,043,590	436,708	1,371,031	605,250	3,456,579
Financial assets at amortised cost - loans and advances to customers	12,088,635	32,432,473	13,201,170	31,515,496	8,071,965	97,309,739
Financial assets at amortised cost - debt and other instruments	-	2,449,246	8,099,052	4,206,028	3,458,109	18,212,435
Financial investments at fair value through other comprehensive income	-	252,281	6,831,532	12,680,129	1,619,186	21,383,128
Other financial assets	-	137,089	30,326	55,014	12,838	235,267
Total undiscounted financial assets	15,978,892	39,954,984	28,626,322	49,827,698	17,987,280	152,375,176
Financial liabilities						
Due to banks	167,338	6,413,883	2,979,166	164,763	-	9,725,150
Derivative financial instruments	-	45,550	26,200	-	-	71,750
Repurchased agreements	-	17,011,891	537,353	-	-	17,549,244
Due to customers	20,671,401	9,500,135	7,947,080	52,069,114	-	90,187,730
Other borrowed funds	-	576,724	872,660	2,366,537	-	3,815,921
Other financial liabilities	-	906,915	68,949	70,303	-	1,046,167
Total undiscounted financial liabilities	20,838,739	34,455,098	12,431,408	54,670,717	-	122,395,962
Net undiscounted financial assets/(liabilities)	(4,859,847)	5,499,886	16,194,914	(4,843,019)	17,987,280	29,979,214
Cumulative gap	(4,859,847)	640,039	16,834,953	11,991,934	29,979,214	

55. RISK MANAGEMENT (Contd.)

55.3.3 Contractual Maturities of Commitments and Contingencies

The table below shows the contractual expiry by maturity of the Bank's contingent liabilities and commitments.

Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down.

For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

BANK

As at 31 December	2019					
	Total Rs.'000	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
Commitments						
Undrawn overdraft	3,532,334	3,532,334	-	-	-	-
Commitments for unutilised facilities	9,354,611	9,354,611	-	-	-	-
Total	12,886,945	12,886,945	-	-	-	-
Contingent Liabilities						
Acceptances	952,060	952,060	-	-	-	-
Guarantees	9,545,781	1,416,751	2,099,356	5,187,445	842,229	-
Documentary credit	1,681,824	184,641	1,203,944	171,284	121,955	-
Forward contracts	2,563,677	140,676	2,030,679	392,322	-	-
Spot contracts	1,651,024	-	1,651,024	-	-	-
Cheque pending for realisation	503,543	503,543	-	-	-	-
Forward bonds	931,760	830,672	101,088	-	-	-
Other contingent items	1,297,640	1,227,477	-	31,637	38,526	-
Total	19,127,309	5,255,820	7,086,091	5,782,688	1,002,710	-
Total commitments and contingent liabilities	32,014,254	18,142,765	7,086,091	5,782,688	1,002,710	-

As at 31 December	2018					
	Total Rs.'000	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
Commitments						
Undrawn overdraft	3,400,648	3,400,648	-	-	-	-
Commitments for unutilised facilities	10,155,542	10,155,542	-	-	-	-
Total	13,556,190	13,556,190	-	-	-	-
Contingent liabilities						
Acceptances	758,373	392,077	364,273	2,023	-	-
Guarantees	8,048,011	1,578,091	2,237,709	3,276,771	954,891	549
Documentary credit	1,961,053	351,041	1,447,474	162,538	-	-
Forward contracts	5,741,729	-	5,595,643	146,086	-	-
Spot contracts	540,168	-	540,168	-	-	-
Cheques pending for realisation	887,413	887,413	-	-	-	-
Other contingent items	2,844,267	744,930	1,956,128	81,625	61,583	-
Total	20,781,014	3,953,552	12,141,395	3,669,043	1,016,474	549
Total commitments and contingent liabilities	34,337,204	17,509,742	12,141,395	3,669,043	1,016,474	549

55. RISK MANAGEMENT (Contd.)

55.3.3 Contractual Maturities of Commitments and Contingencies (Contd.)

GROUP

As at 31 December	2019					
	Total Rs.'000	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
Commitments						
Undrawn overdraft	3,622,271	3,622,271	-	-	-	-
Commitments for unutilised facilities	9,354,611	9,354,611				
Total	12,976,882	12,976,882	-	-	-	-
Contingent liabilities						
Acceptances	952,060	952,060	-	-	-	-
Guarantees	9,545,781	1,416,752	2,099,356	5,187,445	842,228	-
Documentary credit	1,681,824	184,642	1,203,944	171,284	121,954	-
Forward contracts	2,563,677	140,675	2,030,679	392,323	-	-
Spot contracts	1,651,024	-	1,651,024	-	-	-
Cheques pending for realisation	503,543	503,543	-	-	-	-
Forward Bonds	931,760	830,673	101,087	-	-	-
Other contingent items	1,297,640	1,227,476	-	31,637	38,526	-
Total	19,127,309	5,255,821	7,086,090	5,782,689	1,002,709	-
Total commitments and contingent liabilities	32,104,191	18,232,703	7,086,091	5,782,689	1,002,709	-

As at 31 December	2018					
	Total Rs.'000	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
Commitments						
Undrawn overdraft	3,497,839	3,497,839	-	-	-	-
Commitments for unutilised facilities	10,155,542	10,155,542	-	-	-	-
Total	13,653,381	13,653,381	-	-	-	-
Contingent liabilities						
Acceptances	758,373	392,077	364,273	2,023	-	-
Guarantees	8,048,011	1,578,091	2,237,709	3,276,771	954,891	549
Documentary credit	1,961,053	351,041	1,447,474	162,538	-	-
Forward contracts	5,741,729	-	5,595,643	146,086	-	-
Spot contracts	540,168	-	540,168	-	-	-
Cheques pending for realisation	887,413	887,413	-	-	-	-
Other contingent items	2,938,699	744,930	1,956,128	176,058	61,583	-
Total	20,875,446	3,953,552	12,141,395	3,763,476	1,016,474	549
Total commitments and contingent liabilities	34,528,827	17,606,933	12,141,395	3,763,476	1,016,474	549

55. RISK MANAGEMENT (Contd.)

55.4 Market risk

Market risk is defined as the risk of losses in on or off balance sheet positions arising from movements in market price. The market risk comprises of interest rate risk, foreign exchange risk, equity price risk and commodity price risk. Other risks such as volatility risk and basis risk are integral parts of these risk types. The Bank classifies exposures to market risk into either trading or non trading portfolios and manages each of those portfolios separately. The market risk for the trading portfolio is marked to market on a daily basis. Non–trading positions are managed and monitored using other sensitivity analyses on a monthly basis.

55.4.1 Market risk – trading (including financial assets and financial liabilities designated at fair value through profit or loss)

The trading book is marked to market on a daily basis by the Treasury Mid Office (TMO) who's independent from Treasury front office and is reporting to the Chief Risk Officer. Various Board approved limits pertain to Market Risk also monitored on a daily basis by TMO.

55.4.2 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 impacting the Statement of Profit or Loss and the economic value of equity. The Board has established limits on the non–trading interest rate gaps for stipulated periods.

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the profit or loss for a year. The total sensitivity of equity is based on the assumption that there are parallel shifts in the yield curve.

55.4.2.1 Interest rate sensitivity analysis

The following table demonstrates the sensitivity of the Bank's profit before tax to reasonable possible changes in interest rate with all other variables held constant.

2019	Increase/(Decrease) in basis points	Sensitivity of effect on Profit/(Loss)
Rate sensitive assets	100 / (100)	642Mn/(642Mn)
Rate sensitive liabilities	100 / (100)	(671Mn)/671Mn
Net effect		(29Mn)/29Mn

2018	Increase/(Decrease) in basis points	Sensitivity of effect on Profit/(Loss)
Rate sensitive assets	100 / (100)	648Mn/(648Mn)
Rate sensitive liabilities	100 / (100)	(748Mn)/748Mn
Net effect		(100Mn)/100Mn

55. RISK MANAGEMENT (Contd.)

55.4.2.2 Interest rate risk exposure

The table below analyses the Bank's interest rate risk exposure on financial assets and financial liabilities. The Bank's financial assets and financial liabilities are included at carrying amount and categorised by the earlier of contractual re–pricing or maturity dates.

BANK

As at 31 December	2019					
		Interest Sensitive				Non
	Carrying Amount 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	Interest Sensitive Rs.'000
Financial assets						
Cash and cash equivalents	2,718,860	-	-	-	-	2,718,860
Balances with Central Bank of Sri Lanka	2,314,197	-	-	-	-	2,314,197
Placements with banks	94,257	94,257	-	-	-	-
Reverse repurchased agreements	426,823	426,823	-	-	-	-
Derivative financial instruments	6,230	-	-	-	-	6,230
Financial investments at fair value through profit or loss	3,228,565	53,152	21,258	1,753,067	-	1,401,088
Financial assets at amortised cost - loans and advances to customers	77,358,301	36,578,692	9,927,913	19,324,486	11,527,210	-
Financial assets at amortised cost - debt and other instruments	13,441,040	752,680	8,325,412	4,362,948	-	-
Financial investments at fair value through other comprehensive income	17,503,245	274,836	4,670,559	10,281,762	2,273,558	2,530
Other financial assets	217,561	-	-	-	-	217,561
Total	117,309,079	38,180,440	22,945,142	35,722,263	13,800,768	6,660,466
Financial liabilities						
Due to banks	11,475,176	6,505,271	4,718,315	251,590	-	-
Derivative financial instruments	4,515	-	-	-	-	4,515
Repurchased agreements	12,116,040	11,138,130	977,910	-	-	-
Due to customers	76,532,012	43,596,660	24,285,114	4,786,359	-	3,863,879
Other borrowed funds	1,242,450	-	1,242,450	-	-	-
Other financial liabilities	1,907,756	-	-	-	-	1,907,756
Total	103,277,949	61,240,061	31,223,789	5,037,949	-	5,776,150
Interest rate sensitivity gap	14,031,130	(23,059,621)	(8,278,647)	30,684,314	13,800,768	884,316

55. RISK MANAGEMENT (Contd.)

55.4.2.2 Interest rate risk exposure (Contd.)

As at 31 December	2018					
		Interest Sensitive				Non Interest Sensitive
	Carrying Amount 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	Rs.'000
Financial assets						
Cash and cash equivalents	2,917,866	-	-	-	-	2,917,866
Balances with Central Bank of Sri Lanka	4,219,932	-	-	-	-	4,219,932
Placements with banks	3,265,425	3,265,425	-	-	-	-
Reverse repurchased agreements	417,146	417,146	-	-	-	-
Derivative financial instruments	34,274	-	-	-	-	34,274
Financial investments at fair value through profit or loss	2,863,121	83,815	338,732	991,525	444,386	1,004,663
Financial assets at amortised cost - loans and advances to customers	73,749,208	40,538,095	8,871,438	16,768,672	7,571,003	-
Financial assets at amortised cost - debt and other instruments	16,567,940	1,713,232	6,986,422	7,868,286	-	-
Financial investments at fair value through other comprehensive income	17,735,959	356,011	5,838,324	10,235,230	1,304,863	1,531
Other financial assets	153,865	-	-	-	-	153,865
Total	121,924,736	46,373,724	22,034,916	35,863,713	9,320,252	8,332,131
Financial liabilities						
Due to banks	9,348,209	6,257,092	2,926,354	164,763	-	-
Derivative financial instruments	71,750	-	-	-	-	71,750
Repurchased agreements	17,585,912	17,059,785	526,127	-	-	-
Due to customers	79,251,073	47,840,709	24,638,526	2,728,684	-	4,043,154
Other borrowed funds	1,234,220	-	-	1,234,220	-	-
Other financial liabilities	972,330	-	-	-	-	972,330
Total	108,463,494	71,157,586	28,091,007	4,127,667	-	5,087,234
Interest rate sensitivity gap	13,461,242	(24,783,862)	(6,056,091)	31,736,046	9,320,252	3,244,897

55. RISK MANAGEMENT (Contd.)

55.4.2.2 Interest rate risk exposure (Contd.)

GROUP

As at 31 December	2019					
		Interest Sensitive				Non
	Carrying Amount 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	Interest Sensitive Rs.'000
Financial assets						
Cash and cash equivalents	3,104,542	-	-	-	-	3,104,542
Balances with Central Bank of Sri Lanka	2,314,197	-	-	-	-	2,314,197
Placements with banks	94,257	94,257	-	-	-	-
Reverse repurchased agreements	1,009,581	1,009,581	-	-	-	-
Derivative financial instruments	6,230	-	-	-	-	6,230
Financial investments at fair value through profit or loss	3,270,208	53,152	21,258	1,753,067	-	1,442,731
Financial assets at amortised cost - loans and advances to customers	84,780,138	37,272,612	11,646,406	23,278,335	12,582,785	-
Financial assets at amortised cost - debt and other instruments	12,670,558	755,998	8,325,412	3,589,148	-	-
Financial investments at fair value through other comprehensive income	17,516,485	274,836	4,670,559	10,281,762	2,273,558	15,770
Other financial assets	245,956	-	-	-	-	245,956
Total	125,012,152	39,460,436	24,663,635	38,902,312	14,856,343	7,129,426
Financial liabilities						
Due to banks	11,601,966	6,777,527	4,758,736	65,703	-	-
Derivative financial instruments	4,515	-	-	-	-	4,515
Repurchased agreements	12,116,040	11,138,130	977,910	-	-	-
Due to customers	82,751,668	45,480,499	26,899,126	6,731,583	-	3,640,460
Other borrowed funds	2,514,058	323,910	1,633,088	557,060	-	-
Other financial liabilities	2,085,401	-	-	-	-	2,085,401
Total	111,073,648	63,720,066	34,268,860	7,354,346	-	5,730,376
Interest rate sensitivity gap	13,938,504	(24,259,630)	(9,605,225)	31,547,966	14,856,343	1,399,050

55. RISK MANAGEMENT (Contd.)

55.4.2.2 Interest rate risk exposure (Contd.)

As at 31 December	2018					
		Interest Sensitive				Non Interest Sensitive
	Carrying Amount 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	Rs.'000
Financial assets						
Cash and cash equivalents	3,306,393	-	-	-	-	3,306,393
Balances with Central Bank of Sri Lanka	4,219,932	-	-	-	-	4,219,932
Placements with banks	3,265,425	3,265,425	-	-	-	-
Reverse repurchased agreements	950,998	950,998	-	-	-	-
Derivative financial instruments	34,274	-	-	-	-	34,274
Financial investments at fair value through profit or loss	2,863,121	83,815	338,732	991,525	444,386	1,004,663
Financial assets at amortised cost - loans and advances to customers	82,120,068	40,758,956	12,024,736	21,369,390	7,966,986	-
Financial assets at amortised cost - debt and other instruments	15,942,404	1,970,746	6,986,422	6,985,236	-	-
Financial investments at fair value through other comprehensive income	17,787,621	356,011	5,838,324	10,235,230	1,356,324	1,732
Other financial assets	235,267	-	-	-	-	235,267
Total	130,725,503	47,385,951	25,188,214	39,581,381	9,767,696	8,802,261
Financial liabilities						
Due to banks	9,515,547	6,424,430	2,926,354	164,763	-	-
Derivative financial instruments	71,750	-	-	-	-	71,750
Repurchased agreements	17,535,900	17,009,773	526,127	-	-	-
Due to customers	86,266,123	49,336,899	26,599,720	6,241,734	44,616	4,043,154
Other borrowed funds	2,921,647	1,398,704	93,332	1,326,520	-	103,091
Other financial liabilities	1,046,167	-	-	-	-	1,046,167
Total	117,357,134	74,169,806	30,145,533	7,733,017	44,616	5,264,162
Interest rate sensitivity gap	13,368,369	(26,783,855)	(4,957,319)	31,848,364	9,723,080	3,538,099

55. RISK MANAGEMENT (Contd.)

55.4.3 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The 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 with established limits. Following table illustrate the changes to the Bank's capital adequacy ratio (CAR) due to the volatility in the exchange rates.

55.4.3.1 Adjusted CAR for the possible exchange rate movements

BANK

2019

	If Exchange Rate	Current	Revised CAR After Stress Testing		
			Scenario 1	Scenario 2	Scenario 3
			5%	10%	15%
Bank Tier 1 Ratio	Moves down by	16.61%	16.61%	16.61%	16.61%
Total CAR	Moves down by	16.75%	16.75%	16.75%	16.75%
Bank Tier 1 Ratio	Moves up by	16.61%	16.61%	16.61%	16.61%
Total CAR	Moves up by	16.75%	16.74%	16.74%	16.74%

2018

	If Exchange Rate	Current	Revised CAR After Stress Testing		
			Scenario 1	Scenario 2	Scenario 3
			5%	10%	15%
Bank Tier 1 Ratio	Moves down by	17.41%	17.41%	17.42%	17.42%
Total CAR	Moves down by	17.41%	17.41%	17.42%	17.42%
Bank Tier 1 Ratio	Moves up by	17.41%	17.41%	17.40%	17.40%
Total CAR	Moves up by	17.41%	17.41%	17.40%	17.40%

55.4.3.2 Foreign currency sensitivity

The following table demonstrates the maximum impact in Statement of Profit or Loss for the maximum usage if the allowable net open position limit

	Changes in Foreign currency rate	Net open position (Before currency sensitivity)	Net open position (After currency sensitivity)	Effect on profit
2019	5%/(5%)	19Mn	20Mn/18Mn	1Mn/(1Mn)
2018	5%/(5%)	192Mn	202Mn/182Mn	(10Mn)/10Mn

55.5 Equity price risk

Equity price risk is the risk that the fair value of equities decreases as the result of changes in the level of equity indices and individual stocks.

55.6 Country risk

Country risk is the risk that an occurrence within the country could have an adverse effect on the Group directly by impairing the value of the Group or indirectly through an obligor's inability to meet its obligations to the Group.

Generally, these occurrences relate, but are not limited to sovereign events as defaults or restructuring; political events such as contested elections, restrictions on currency movements, non market currency convertibility, regional currency conflicts, economic contagion from other events such as sovereign default issues or regional turmoil, banking and currency crisis and natural disasters.

NOTES TO THE FINANCIAL STATEMENTS

55. RISK MANAGEMENT (Contd.)

55.6.1 Geographical analysis

BANK & GROUP

As at 31 December	2019					
	Asia Rs.'000	Europe Rs.'000	America Rs.'000	Australia Rs.'000	Middle East Rs.'000	Total Rs.'000
Balances with foreign banks	97,297	37,040	277,307	-	1,307	412,950
Placements with banks	-	-	94,257	-	-	94,257
Total	97,297	37,040	371,563	-	1,307	507,207

As at 31 December	2018					
	Asia Rs.'000	Europe Rs.'000	America Rs.'000	Australia Rs.'000	Middle East Rs.'000	Total Rs.'000
Balances with foreign banks	120,566	29,000	611,962	5,079	3,879	770,486
Placements with banks	-	-	2,836,238	-	-	2,836,238
Total	120,566	29,000	3,448,200	5,079	3,879	3,606,724

Except for the above, the Bank does not carry any other financial asset or financial liability outside Sri Lanka.

56. CAPITAL

The Bank maintains adequate capital base to cover risks inherent in the business and is meeting the capital adequacy requirements of the local banking supervisor, Central Bank of Sri Lanka. The adequacy of the Bank's capital is monitored using the rules and ratio established by the Basel Committee on Banking supervision.

56.1 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 segment of the Bank to achieve the overall strategic objectives.

56.2 Regulatory capital

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, commercial banks in Sri Lanka need to maintain minimum capital adequacy ratios as specified in the CBSL guidelines. The Bank is well above the minimum requirements.

BANK

As at 31 December	2019		2018	
	Actual	Required	Actual	Required
Common Equity Tier 1 (CET1) Capital (Rs. '000)	15,286,211	N/A	15,031,473	N/A
Tier 1 Capital (Rs. '000)	15,286,211	N/A	15,031,473	N/A
Total Capital (Rs. '000)	15,413,097	N/A	15,031,473	N/A
Risk Weighted Assets (Rs. '000)	92,045,633	N/A	86,356,644	N/A
Common Equity Tier 1 Capital Ratio (%)	16.61%	7.00%	17.41%	6.38%
Tier 1 Capital Ratio (%)	16.61%	8.50%	17.41%	7.88%
Total Capital Ratio (%)	16.75%	12.50%	17.41%	11.88%

GROUP

As at 31 December	2019		2018	
	Actual	Required	Actual	Required
Common Equity Tier 1 (CET1) Capital (Rs. '000)	15,810,228	N/A	15,557,644	N/A
Tier 1 Capital (Rs. '000)	15,810,228	N/A	15,557,644	N/A
Total Capital (Rs. '000)	16,050,219	N/A	15,557,644	N/A
Risk Weighted Assets (Rs. '000)	98,097,743	N/A	94,471,677	N/A
Common Equity Tier 1 Capital Ratio (%)	16.12%	7.00%	16.47%	6.38%
Tier 1 Capital Ratio (%)	16.12%	8.50%	16.47%	7.88%
Total Capital Ratio (%)	16.36%	12.50%	16.47%	11.88%

SUPPLEMENTARY INFORMATION

TEN YEARS AT A GLANCE

	2019 Rs.'000	2018 Rs.'000	2017 Rs.'000	2016 Rs.'000
Operating Results				
Gross income	14,712,069	13,910,425	11,937,763	8,545,874
Interest income	12,956,243	12,142,268	10,498,284	7,223,212
Interest expense	8,477,329	8,490,006	7,452,377	4,716,433
Net interest income	4,478,914	3,652,262	3,045,907	2,506,779
Non interest income	1,541,680	1,632,999	1,329,731	1,230,599
Share of profit of equity accounted investees, net of tax	103,823	34,614	55,801	76,696
Operating expenses (Including impairment & VAT)	4,932,816	4,542,481	3,897,321	3,378,139
Profit/ (loss) before taxation	1,191,601	777,394	534,118	435,935
Income tax	481,254	304,846	73,500	(15,244)
Profit/ (loss) after income tax	710,347	472,548	460,618	451,179
Assets				
Cash & balances with Central Bank	5,033,057	7,137,798	8,483,417	4,994,490
Placement with banks	94,257	3,265,425	716,147	2,819,628
Reverse repurchased agreements	426,823	417,146	1,795	2,137
Derivative financial instruments	6,230	34,274	2,760	15,412
Financial investments at fair value through profit or loss	3,228,565	2,863,121	-	-
Financial investments - held for trading	-	-	5,949,023	1,346,932
Financial assets at amortised cost - loans and advances to customers	77,358,301	73,749,208	70,577,923	55,438,415
Financial assets at amortised cost - debt and other instruments	13,441,040	16,567,940	-	-
Other loans and receivables	-	-	9,609,639	7,747,231
Financial investments - held to maturity	-	-	2,546,553	140,231
Financial investments at fair value through other comprehensive income	17,503,245	17,735,959	-	-
Financial investments - available for sale	-	-	16,453,207	16,520,365
Current tax asset	1,148	336,167	436,279	268,456
Investments in subsidiaries	912,268	835,373	1,262,612	940,027
Goodwill and intangible assets	1,329,791	1,202,532	1,220,999	1,151,033
Property, plant & equipment	1,482,366	789,158	888,359	897,371
Deferred tax asset	-	115,596	-	82,534
Investment securities	-	-	-	-
Sri Lanka government securities	-	-	-	-
Bills of exchange	-	-	-	-
Net loans and advances	-	-	-	-
Other assets	936,568	870,457	858,695	644,247
Total	121,753,659	125,920,154	119,007,408	93,008,509
Liabilities				
Due to banks	11,475,176	9,348,209	17,208,641	12,160,244
Derivative financial instruments	4,515	71,750	4,867	3,976
Repurchased agreements	12,116,040	17,585,912	10,381,193	10,256,670
Due to other customers	76,532,012	79,251,073	70,325,594	51,841,372
Other borrowed funds	1,242,450	1,234,220	1,224,812	-
Current tax liabilities	-	-	-	-
Deferred tax liabilities	62,299	-	144,922	-
Other liabilities	2,810,711	1,801,642	1,859,682	1,663,030
Total liabilities	104,243,203	109,292,806	101,149,711	75,925,292
Shareholder's funds				
Stated capital	16,334,782	16,334,782	16,334,782	16,334,782
Share warrants	65,484	65,484	65,484	65,484
Reserves	1,110,190	227,082	1,457,431	682,951
Total equity	17,510,456	16,627,348	17,857,697	17,083,217
Total	121,753,659	125,920,154	119,007,408	93,008,509
Share information				
Earnings per share	0.65	0.43	0.42	0.41

TEN YEARS AT A GLANCE

2015 Rs.'000	2014 Rs.'000	2013 Rs.'000	2012 Rs.'000	2011 Rs.'000	2010 Rs.'000
5,005,441	4,546,418	4,792,752	3,924,169	2,496,806	2,078,120
4,155,484	3,972,062	4,129,391	3,444,114	2,083,742	1,771,977
2,133,782	2,209,487	2,973,676	2,211,053	1,102,215	997,841
2,021,702	1,762,575	1,155,715	1,233,061	981,527	774,136
788,737	530,797	622,908	445,601	378,439	306,144
43,069	-	-	-	-	-
2,618,262	2,232,569	1,674,656	1,215,687	908,723	772,288
235,246	60,803	103,967	462,975	451,243	307,992
13,296	3,715	(8,747)	149,331	143,550	158,195
221,950	57,088	112,714	313,644	307,693	149,797
2,811,325	2,408,572	2,134,479	2,325,987	1,887,571	1,092,432
284,078	73,995	314,545	1,601,622	1,951,978	943,349
1,513,425	10,543,106	1,349,743	601,313	245,127	1,852,605
13,481	4,150	1,458	-	148	1,275
-	-	-	-	-	-
8,463,807	2,584,471	989,206	431,054	149,622	161,206
40,095,332	25,944,570	23,461,925	20,024,729	17,292,929	9,919,465
-	-	-	-	-	-
5,721,549	2,470,115	2,375,111	-	-	-
140,529	140,027	1,736,728	2,285,290	2,197,453	2,112,995
-	-	-	-	-	-
8,356,130	1,647,686	139,556	-	-	-
208,404	149,448	94,515	-	-	-
883,378	892,364	892,364	912,364	912,382	-
1,118,200	951,750	53,951	39,996	10,671	4,025
913,814	754,548	1,025,088	614,441	465,108	235,670
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	1,632,054	1,006,065	2,434,527
-	-	-	-	-	-
-	-	-	-	-	-
475,910	430,319	442,293	354,025	272,269	212,907
70,999,362	48,995,121	35,010,962	30,822,875	26,391,323	18,970,456
6,945,249	2,090,588	163,448	911,898	380,999	320,825
2,860	-	-	2,058	1,913	-
8,242,551	1,116,489	129,450	499,495	128,289	81,785
37,652,508	27,808,891	28,339,687	23,142,802	19,754,597	13,442,439
-	-	-	-	-	-
-	-	-	36,134	21,535	-
30,089	25,284	23,964	37,155	19,661	5,884
1,212,916	1,203,585	897,128	730,329	885,385	563,117
54,086,173	32,244,837	29,553,677	25,359,871	21,192,379	14,414,050
16,334,782	16,334,782	4,979,791	4,979,791	4,979,791	4,604,791
65,484	65,484	-	-	-	-
512,923	350,018	477,494	483,213	219,153	(48,385)
16,913,189	16,750,284	5,457,285	5,463,004	5,198,944	4,556,406
70,999,362	48,995,121	35,010,962	30,822,875	26,391,323	18,970,456
0.20	0.10	0.30	0.90	0.90	0.60

KEY REGULATORY RATIOS-CAPITAL AND LIQUIDITY

As at 31 December	BANK		GROUP	
	2019	2018	2019	2018
Regulatory Capital (LKR '000)				
Common Equity Tier 1	15,286,211	15,031,473	15,810,228	15,557,644
Tier 1 Capital	15,286,211	15,031,473	15,810,228	15,557,644
Total Capital	15,413,097	15,031,473	16,050,219	15,557,644
Regulatory Capital Ratios (%)				
Common Equity Tier 1 Capital Ratio (Minimum Requirement - 2019- 7.0% & 2018 -6.375%)	16.61%	17.41%	16.12%	16.47%
Tier 1 Capital Ratio (Minimum Requirement- 2019 - 8.5% & 2018 - 7.875%)	16.61%	17.41%	16.12%	16.47%
Total Capital Ratio (Minimum Requirement- 2019 - 12.5% & 2018 - 11.875%)	16.75%	17.41%	16.36%	16.47%
Leverage Ratio (Minimum Requirement - 3%)	10.64%	N/A	10.36%	N/A
Regulatory Liquidity				
Statutory Liquid Assets				
Domestic Banking Unit (LKR'000)	19,095,889	18,006,765		
Foreign Currency Banking Unit (USD'000)	13,587	12,791		
Statutory Liquid Assets Ratio % (Minimum Requirement-20%)				
Domestic Banking Unit (%)	22.95%	21.77%		
Foreign Currency Banking Unit (%)	21.95%	21.14%		
Liquidity Coverage Ratio (%) (Minimum Requirement - 2019 - 100% & 2018 - 90%)				
Rupee	225.57%	335.43%		
All Currency	154.70%	131.50%		
Net Stable Funding Ratio (Minimum Requirement - 100%)	113.08%	N/A		

PILLAR III MARKET DISCLOSURES

BASEL III COMPUTATION OF CAPITAL RATIO

As at 31 December	2019		2018	
	BANK Rs.'000	GROUP Rs.'000	BANK Rs.'000	GROUP Rs.'000
Common Equity Tier I (CETI) Capital after adjustments	15,286,211	15,810,228	15,031,473	15,557,644
Total Common Equity Tier I (CET1) Capital	18,118,854	17,923,453	17,324,907	17,624,126
Equity capital or stated capital/assigned capital	16,334,782	16,334,782	16,334,782	16,334,782
Reserve fund	175,400	200,020	139,882	157,569
Published retained earnings/(Accumulated retained losses)	1,278,438	925,538	1,193,505	798,077
Published accumulated other comprehensive income (OCI)	213,324	213,324	(461,562)	(461,562)
General and other disclosed reserves	116,910	116,910	118,300	118,300
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	-	132,879	-	676,960
Total adjustments to CET1 Capital	2,832,644	2,113,224	2,293,435	2,066,482
Goodwill (net)	-	113,031	-	113,031
Other intangible assets (net)	1,329,791	1,565,636	1,202,533	1,437,513
Deferred tax assets (net)	-	434,557	115,596	515,938
Shortfall of the cumulative impairment to specific provisions	-	-	-	-
Significant investments in the capital of financial institutions where the Bank owns more than 10 per cent of the issued ordinary share capital of the entity	744,378	-	975,305	-
Shortfall of capital in financial subsidiaries	758,475	-	-	-
Additional Tier 1 (AT1) Capital after adjustments	-	-	-	-
Total Additional Tier 1 (ATI) Capital	-	-	-	-
Qualifying Additional Tier 1 Capital Instruments	-	-	-	-
Instruments issued by consolidated banking and financial subsidiaries of the Bank and held by third parties	-	-	-	-
Total adjustments to AT1 Capital	-	-	-	-
Investment in own shares	-	-	-	-
Regulatory adjustments applied to AT1 due to insufficient Tier 2 capital to cover adjustments	-	-	-	-
Tier 2 Capital after adjustments	126,886	239,991	-	-
Total Tier 2 Capital	426,886	239,991	-	-
Qualifying Tier 2 Capital Instruments	-	-	-	-
Revaluation gains	-	-	-	-
General provisions	426,886	239,991	-	-
Instruments issued by consolidated banking and financial subsidiaries of the Bank and held by third parties	-	-	-	-
Total adjustments to Tier 2 Capital	300,000	-	-	-
Investment in own shares	-	-	-	-
Investments in the capital of financial institutions and where the bank does not own more than 10 per cent of the issued capital carrying voting rights of the issuing entity	300,000	-	-	-
CET1 Capital	15,286,211	15,810,228	15,031,473	15,557,644
Total Tier 1 Capital	15,286,211	15,810,228	15,031,473	15,557,644
Total Capital	15,413,097	16,050,219	15,031,473	15,557,644

PILLAR III MARKET DISCLOSURES

As at 31 December	2019		2018	
	BANK Rs.'000	GROUP Rs.'000	BANK Rs.'000	GROUP Rs.'000
Total Risk Weighted Assets (RWAs)	92,045,633	98,097,743	86,356,644	94,471,677
RWAs for Credit Risk	78,348,894	83,190,868	74,058,959	80,939,633
RWAs for Market Risk	7,672,787	7,751,862	6,992,096	7,051,323
RWAs for Operational Risk	6,023,952	7,155,013	5,305,589	6,480,721
CET1 Capital Ratio (including Capital Conservation Buffer, Countercyclical Capital Buffer & Surcharge on D-SIBs)(%)	16.61%	16.12%	17.41%	16.47%
of which : Capital Conservation Buffer (%)	2.50%	2.50%	1.88%	1.88%
of which : Countercyclical Buffer (%)	-	-	-	-
of which : Capital Surcharge on D-SIBs (%)	N/A	N/A	N/A	N/A
Total Tier 1 Capital Ratio (%)	16.61%	16.12%	17.41%	16.47%
Total Capital Ratio (including Capital Conservation Buffer, Countercyclical Capital Buffer & Surcharge on D-SIBs)(%)	16.75%	16.36%	17.41%	16.47%
of which : Capital Conservation Buffer (%)	2.50%	2.50%	1.88%	1.88%
of which : Countercyclical Buffer (%)	-	-	-	-
of which : Capital Surcharge on D-SIBs (%)	N/A	N/A	N/A	N/A

COMPUTATION OF LEVERAGE RATIO

As at 31 December	2019		2018	
	BANK Rs.'000	GROUP Rs.'000	BANK Rs.'000	GROUP Rs.'000
Tier 1 Capital	15,286,211	15,810,228	N/A	N/A
Total Exposure	143,732,818	152,538,544	N/A	N/A
On-balance sheet items (excluding Derivatives and Securities Financing Transactions,but including collateral)	118,488,059	127,293,785	N/A	N/A
Derivative exposures	5,974,953	5,974,953	N/A	N/A
Securities Financing Transaction exposures	12,540,997	12,540,997	N/A	N/A
Other off -balance sheet exposures	6,728,809	6,728,809	N/A	N/A
Basel III Leverage Ratio (%) (Tier 1/Total Exposure)	10.64%	10.36%	N/A	N/A

BASEL III COMPUTATION OF LIQUIDITY COVERAGE RATIO - BANK

As at 31 December	2019		2018	
	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)	14,356,196	14,276,051	11,392,892	12,762,762
Total Adjusted Level 1A Assets	14,356,196	14,276,051	11,392,892	11,392,892
Level 1 Assets	14,276,051	14,276,051	12,762,762	12,762,762
Total Adjusted Level 2A Assets	-	-	-	-
Level 2A Assets	-	-	-	-
Total Adjusted Level 2B Assets	-	-	-	-
Level 2B Assets	-	-	-	-
Total Cash Outflows	108,742,620	20,220,691	121,975,905	20,943,895
Deposits	59,714,794	5,722,068	51,600,198	5,151,164
Unsecured wholesale funding	21,535,751	13,291,069	29,701,572	13,996,571
Secured funding transactions	-	-	-	-
Undrawn portion of committed (irrevocable) facilities and other contingent funding obligations	27,492,075	1,207,554	40,599,182	1,721,207
Additional requirements	-	-	74,953	74,953
Total Cash inflows	18,121,070	10,992,504	19,374,109	11,238,548
Maturing secured lending transactions backed by collateral	1,858,269	1,858,269	1,942,955	1,942,949
Committed facilities	-	-	-	-
Other inflows by counterparty which are maturing within 30 days	15,818,467	9,132,521	16,660,667	9,295,599
Operational deposits	442,620	-	770,487	-
Other cash inflows	1,714	1,714	-	-
Liquidity Coverage Ratio,(%)(Stock of High Quality Liquid Assets/ Total Net Cash Outflows over the Next 30 Calender Days)*100		154.70%		131.50%

PILLAR III MARKET DISCLOSURES

MAIN FEATURES OF REGULATORY CAPITAL INSTRUMENTS

As at 31 December	2019 BANK Rs.'000	2019 GROUP Rs.'000
Description of the Capital Instrument	-	-
Issuer	-	-
Unique identifier	-	-
Governing law(s) of the instrument	-	-
Original date of issuance	-	-
Par value of instrument	-	-
Perpetual or dated	-	-
Original maturity date, if applicable	-	-
Amount recongnised in regulatory capital	15,413,097 *	16,050,219
Accounting classification (equity/liability)	Equity	Equity
Issuer Call subject to prior supervisory approval	-	-
Optional call date, contingent call dates and redemption amount	-	-
Subsequent call dates, if applicable	-	-
Coupons/Dividends	-	-
Fixed or floating dividend/coupon	-	-
Coupon rate and any related index	-	-
Non-cumulative or cumulative	-	-
Convertible or Non-Convertible	-	-
If convertible, conversion trigger (s)	-	-
If convertible, fully or partially	-	-
If convertible, mandatory or optional	-	-
If convertible, conversion rate	-	-

Note:
* Tier 1 & Tier 2 Instruments have not been issued.

Current and Future Capital Requirement	
Overview of Capital planning and assessment process	The capital management plan of the Bank is integrated with the Bank's rolling strategic plan and the Internal Capital Adequacy Assessment Process (ICAAP). In the planning process, the Bank is actively realigning portfolios to optimize capital utilization.
Material risk exposures in line with strategic plan	Strategic plan is sensitive to stability of external variables such as GDP, interest rates, exchange rate and also tax regulations.
Current and future capital needs,anticipated capital expenditure and desirable capital sources.	The Bank is required to maintain Rs. 20Bn capital commencing from 31 December 2020. Culture Financial Holding Limited (CFHL), the immediate parent of the Bank confirmed that it will provide any additional capital required by the Bank to meet the said minimum capital requirement by exercising the rights with regard to the unlisted warrants currently held by CFHL or by such other appropriate means.
Internal and External capital sources	The primary source of capital is through the internally generated reserves. In addition, during the financial year ended 31 December 2014, the Bank had issued 218,281,250 warrants to the main shareholder to be exercised within a period of 6 years at a price of Rs.16 per warrant. Right issue or a debenture issue could also be an option.
Assessment of the adequacy of Bank's capital commensurate with and unexpected events such as raising additional capital,restricting and unexpected events such as raising additional capital,restricting business activities or using risk mitigation techniques.	Management monitors capital adequacy ratios on a regular basis and ensures that it operates well above the regulatory limit. Any shortfall to meet the above said minimum capital requirement will be generated through above mentioned sources.

PILLAR III MARKET DISCLOSURES

CREDIT RISK UNDER STANDARDISED APPROACH-CREDIT RISK EXPOSURES AND CREDIT RISK MITIGATION (CRM) EFFECTS

As at 31 December 2019	BANK					
	Exposures before Credit Conversion Factor (CCF) and CRM		Exposures post (CCF) and CRM		RWA and RWA Density	
Asset Classes	On Balance Sheet Amount Rs.'000	Off Balance Sheet Amount Rs.'000	On Balance Sheet Amount Rs.'000	Off Balance Sheet Amount Rs.'000	RWA Rs.'000	RWA Density %
Claims on Central Government and Central Bank of Sri Lanka	11,266,461	-	11,266,461	-	623,879	6%
Claims on Foreign Sovereigns and their Central Banks	-	-	-	-	-	-
Claims on Public Sector Entities	-	-	-	-	-	-
Claims on Official Entities and Multilateral Development Banks	-	-	-	-	-	-
Claims on Banks exposures	1,287,934	71,339	1,287,934	71,339	557,123	41%
Claims on financial institutions	7,329,176	226,685	7,329,176	226,685	6,189,588	82%
Claims on corporates	23,286,767	10,606,103	23,286,767	1,115,899	22,239,341	91%
Retail claims	26,068,235	21,452,086	21,255,293	5,398,443	21,398,814	80%
Claims secured by residential property	10,884,301	-	10,884,301	-	10,662,478	98%
Claims secured by commercial real estate	8,671,724	-	8,671,724	-	8,671,724	100%
Non-Performing Assets (NPAs)	4,509,457	-	4,509,457	-	5,098,911	113%
Higher-risk categories	167,891	-	167,891	-	419,727	250%
Cash items and other assets	6,804,758	737	4,476,373	737	2,487,309	56%
Total	100,276,704	32,356,950	93,135,377	6,813,103	78,348,894	84%

As at 31 December 2019	GROUP					
	Exposures before Credit Conversion Factor (CCF) and CRM		Exposures post (CCF) and CRM		RWA and RWA Density	
Asset Classes	On-Balance Sheet Amount Rs.'000	Off-Balance Sheet Amount Rs.'000	On-Balance Sheet Amount Rs.'000	Off-Balance Sheet Amount Rs.'000	RWA Rs.'000	RWA Density %
Claims on Central Government and Central Bank of Sri Lanka	11,849,219	-	11,849,219	-	623,879	5%
Claims on Foreign Sovereigns and their Central Banks	-	-	-	-	-	-
Claims on Public Sector Entities	-	-	-	-	-	-
Claims on Official Entities and Multilateral Development Banks	-	-	-	-	-	-
Claims on Banks exposures	1,467,294	71,339	1,467,294	71,339	646,803	42%
Claims on financial institutions	6,796,749	226,685	6,796,749	226,685	5,923,374	87%
Claims on corporates	23,286,868	10,606,103	23,286,868	1,115,899	22,239,443	96%
Retail claims	32,183,922	21,542,024	27,370,981	5,398,443	25,756,718	94%
Claims secured by residential property	10,884,301	-	10,884,301	-	10,662,478	98%
Claims secured by commercial real estate	8,784,288	-	8,784,288	-	8,784,288	100%
Non-Performing Assets (NPAs)	5,168,705	-	5,168,705	-	5,729,331	111%
Higher-risk categories	-	-	-	-	-	-
Cash items and other assets	8,092,893	737	4,856,092	737	2,824,554	58%
Total	108,514,239	32,446,888	100,464,497	6,813,103	83,190,868	83%

Note:

(i) NPAs-As per Banking Act Directions on Classification of loans and advances,income recognition and provisioning.

(ii) RWA Density-Total RWA/Exposures post CCF and CRM

PILLAR III MARKET DISCLOSURES

CREDIT RISK UNDER STANDARDISED APPROACH : EXPOSURES BY ASSET CLASSES AND RISK WEIGHTS

As at 31 December 2019	BANK							
	Post CCF & CRM							
Risk Weight / Asset Classes	0% Rs.'000	20% Rs.'000	50% Rs.'000	75% Rs.'000	100% Rs.'000	150% Rs.'000	>150% Rs.'000	Total Credit Exposures Amount Rs.'000
Claims on Central Government and Central Bank of Sri Lanka	8,147,065	3,119,396	-	-	-	-	-	11,266,461
Claims on Foreign Sovereigns and their Central Banks	-	-	-	-	-	-	-	-
Claims on Public Sector Entities (PSEs)	-	-	-	-	-	-	-	-
Claims on Official Entities and Multilateral Development Banks(MDBs)	-	-	-	-	-	-	-	-
Claims on Banks exposures	-	956,686	73,603	-	328,984	-	-	1,359,273
Claims on financial institutions	-	-	2,732,546	-	4,823,315	-	-	7,555,861
Claims on corporates	-	7,092	4,315,301	-	20,080,272	-	-	24,402,665
Retail claims	9,828	45,266	-	20,708,059	5,890,584	-	-	26,653,737
Claims secured by residential property	-	-	443,645	-	10,440,656	-	-	10,884,301
Claims secured by commercial real estate	-	-	-	-	8,671,724	-	-	8,671,724
Non-Performing Assets (NPAs)	-	-	510,959	-	2,308,630	1,689,867	-	4,509,457
Higher-risk categories	-	-	-	-	-	-	167,891	167,891
Cash items and other assets	1,963,657	32,681	-	-	2,480,772	-	-	4,477,110
Total	10,120,550	4,161,121	8,076,054	20,708,059	55,024,937	1,689,867	167,891	99,948,480

CREDIT RISK UNDER STANDARDISED APPROACH : EXPOSURES BY ASSET CLASSES AND RISK WEIGHTS

As at 31 December 2019

	GROUP							
	Post CCF & CRM							
Risk Weight / Asset Classes	0% Rs.'000	20% Rs.'000	50% Rs.'000	75% Rs.'000	100% Rs.'000	150% Rs.'000	>150% Rs.'000	Total Credit Exposures Amount Rs.'000
Claims on Central Government and Central Bank of Sri Lanka	8,729,823	3,119,396	-	-	-	-	-	11,849,219
Claims on Foreign Sovereigns and their Central Banks	-	-	-	-	-	-	-	-
Claims on Public Sector Entities (PSEs)	-	-	-	-	-	-	-	-
Claims on Official Entities and Multilateral Development Banks(MDBs)	-	-	-	-	-	-	-	-
Claims on Banks exposures	-	956,686	252,963	-	328,984	-	-	1,538,633
Claims on financial institutions	-	-	2,200,118	-	4,823,315	-	-	7,023,433
Claims on corporates	-	7,092	4,315,301	-	20,080,374	-	-	24,402,767
Retail claims	314,977	45,266	-	26,518,597	5,890,584	-	-	32,769,424
Claims secured by residential property	-	-	443,645	-	10,440,656	-	-	10,884,301
Claims secured by commercial real estate	-	-	-	-	8,784,288	-	-	8,784,288
Non-Performing Assets (NPAs)	-	-	568,615	-	2,910,223	1,689,867	-	5,168,705
Higher-risk categories	-	-	-	-	-	-	-	-
Cash items and other assets	2,006,130	32,681	-	-	2,818,018	-	-	4,856,829
Total	11,050,930	4,161,121	7,780,642	26,518,597	56,076,442	1,689,867	-	107,277,599

PILLAR III MARKET DISCLOSURES

MARKET RISK UNDER STANDARDISED MEASUREMENT METHOD

As at 31 December 2019	Risk Weighted Assets	
	BANK	GROUP
	Rs.'000	Rs.'000
(a) RWA for Interest Rate Risk	606,359	606,359
General Interest Rate Risk	606,359	606,359
(I) Net Long or Short Position	606,359	606,359
(II) Horizontal Disallowance	-	-
(iii) Vertical Disallowance	-	-
(iv) Options	-	-
Specific Interest Rate Risk	-	-
(b)RWA for Equity	350,272	360,156
(i) General Equity Risk	175,136	180,184
(ii) Specific Equity Risk	175,136	179,972
(C)RWA for Foreign Exchange & Gold	2,467	2,467
Capital Charge for Market Risk [(a)+(b)+ (c)] * CAR	7,672,787	7,751,862

OPERATIONAL RISK UNDER BASIC INDICATOR APPROACH/THE STANDARDISED APPROACH/THE ALTERNATIVE STANDARDISED APPROACH

As at 31 December 2019	BANK					GROUP			
	Capital Charge Factor	Fixed Factor	Gross Income			Capital Charge Factor	Gross Income		
			1st Year Rs.'000	2nd Year Rs.'000	3rd Year Rs.'000		1st Year Rs.'000	2nd Year Rs.'000	3rd Year Rs.'000
The Basic Indicator Approach	15%		4,068,517	5,103,835	5,887,527	15%	4,990,057	6,103,980	6,793,494
The Standardised Approach									
Corporate finance	18%	-	-	-	-	18%	-	-	-
Trading and sales	18%	-	-	-	-	18%	-	-	-
Payment and settlement	18%	-	-	-	-	18%	-	-	-
Agency services	15%	-	-	-	-	15%	-	-	-
Asset management	12%	-	-	-	-	12%	-	-	-
Retail brokerage	12%	-	-	-	-	12%	-	-	-
Retail banking	12%	-	-	-	-	12%	-	-	-
Commercial banking	15%	-	-	-	-	15%	-	-	-
The Alternative Standardised Approach									
Corporate finance	18%	-	-	-	-	18%	-	-	-
Trading and sales	18%	-	-	-	-	18%	-	-	-
Payment and settlement	18%	-	-	-	-	18%	-	-	-
Agency services	15%	-	-	-	-	15%	-	-	-
Asset management	12%	-	-	-	-	12%	-	-	-
Retail brokerage	12%	-	-	-	-	12%	-	-	-
Retail banking	12%	0.035	-	-	-	12%	-	-	-
Commercial banking	15%	0.035	-	-	-	15%	-	-	-
Capital Charges for Operational Risk									
The Basic Indicator Approach	752,994					894,377			
The Standardised Approach									
The Alternative Standardised Approach									
Risk-Weighted Amount for Operational Risk									
The Basic Indicator Approach	6,023,952					7,155,013			
The Standardised Approach									
The Alternative Standardised Approach									

PILLAR III MARKET DISCLOSURES

DIFFERENCE BETWEEN ACCOUNTING AND REGULATORY SCOPES AND MAPPING OF FINANCIAL STATEMENT CATEGORIES WITH REGULATORY RISK CATEGORIES-BANK

As at 31 December 2019

	a	b	c	d	e
	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	121,753,659	121,284,776	91,107,462	20,401,292	9,215,495
Cash and cash equivalents	2,718,860	2,751,541	2,751,541	-	-
Balances with Central Bank of Sri Lanka	2,314,197	2,416,628	2,416,628	-	-
Placements with banks	94,257	94,257	94,257	-	-
Reverse repurchased agreements	426,823	426,727	426,727	-	-
Derivative financial instruments	6,230	-	-	-	-
Financial investments at fair value through profit or loss	3,228,565	3,175,413	-	3,175,413	-
Financial assets at amortised cost - loans and advances to customers	77,358,301	77,250,711	70,109,387	-	7,141,326
Financial assets at amortised cost - debt and other instruments	13,441,040	13,273,579	12,973,579	-	300,000
Financial investments at fair value through other comprehensive income	17,503,245	17,228,409	2,530	17,225,879	-
Current tax assets	1,148	-	-	-	-
Investments in real estate	-	-	-	-	-
Investments in subsidiaries	912,268	1,172,797	167,891	-	444,378
Goodwill and intangible assets	1,329,791	1,329,791	-	-	1,329,791
Property, plant and equipment	1,482,366	723,644	723,644	-	-
Deferred tax assets	-	-	-	-	-
Other assets	936,568	1,441,279	1,441,279	-	-
Liabilities	104,243,203	103,696,161	-	-	-
Due to banks	11,475,176	10,700,929	-	-	-
Derivative financial instruments	4,515	-	-	-	-
Repurchased agreements	12,116,040	-	-	-	-
Due to other customers	76,532,012	74,601,204	-	-	-
Other borrowings	1,242,450	13,492,797	-	-	-
Current tax liabilities	-	-	-	-	-
Deferred tax liabilities	62,299	-	-	-	-
Other liabilities	2,810,711	4,901,231	-	-	-
Off -balance sheet liabilities	32,014,254	32,014,254	32,014,254	-	-
Guarantees	6,258,137	6,258,137	6,258,137	-	-
Performance bonds	3,287,644	3,287,644	3,287,644	-	-
Letter of credits	1,681,824	1,681,824	1,681,824	-	-
Other contingent items	5,166,760	5,166,760	5,166,760	-	-
Undrawn loan commitments	12,886,945	12,886,945	12,886,945	-	-
Other commitments	2,732,944	2,732,944	2,732,944	-	-
Equity					
Stated capital	16,334,782	16,334,782	-	-	-
Share warrants	65,484	65,484	-	-	-
Statutory reserve fund	175,400	95,439	-	-	-
ESOP reserve	51,426	51,426	-	-	-
Fair value reserve	44,549	-	-	-	-
Retained earnings	838,815	1,041,484	-	-	-
Total equity attributable to equity holders of the Bank	17,510,456	17,588,615	-	-	-
Total equity and liabilities	121,753,659	121,284,776	-	-	-

Note:
The reasons for more than 1% variances between (a) and (b) are SLFRS related adjustments on the carrying value reported in Published Financial Statements.

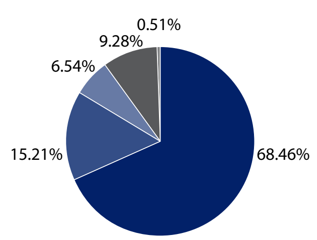
QUARTERLY PERFORMANCE OF THE BANK

	2019			
	Quarter 1	Quarter 2	Quarter 3	Quarter 4
For the Quarter ended (Rs'000)				
Net interest income	1,013,205	1,117,462	1,335,815	1,012,432
Non Interest Income	355,049	413,825	401,777	371,029
Less:				
Impairment for Loans and Other Losses	51,340	88,067	214,915	35,971
Total Operating Expenses	954,816	1,018,743	986,075	870,359
Share of Profit of equity accounted investees, net of tax	3,681	58,648	36,003	5,490
Profit before value added tax (VAT), nation building tax (NBT) and debt repayment levy (DRL) on financial services	365,777	483,125	572,606	482,621
Tax expenses	260,543	290,910	337,444	304,884
Profit After Tax	105,234	192,215	235,161	177,737
As at the Quarter ended (Rs'000)				
Total Assets	124,623,720	121,747,631	115,574,230	121,753,659
Financial assets at amortised cost - loans and advances to customers	76,279,487	74,222,440	74,997,811	77,358,301
Due to other customers	77,897,162	74,609,275	74,707,078	76,532,012
Total equity attributable to equity holders of the bank	16,921,885	17,312,217	17,375,875	17,510,456
Regulatory Capital Adequacy (%)				
Common Equity Tier 1 Capital Ratio (Minimum Requirement - 7.0%)	16.88%	17.23%	16.13%	16.61%
Tier 1 Capital Ratio (Minimum Requirement - 8.5%)	16.88%	17.23%	16.13%	16.61%
Total Capital Ratio (Minimum Requirement - 12.5%)	16.88%	17.23%	16.46%	16.75%
Leverage Ratio (Minimum Requirement - 3%)	10.13%	10.03%	10.58%	10.64%
Regulatory Liquidity (%)				
Statutory Liquid Assets Ratio % (Minimum Requirement, 20%)				
Domestic Banking Unit	21.26%	23.27%	21.36%	22.95%
Foreign Currency Banking Unit	21.60%	22.02%	23.96%	21.95%
Net Stable Funding Ratio (%) (Minimum Requirement - 100%)	118.40%	111.44%	115.34%	113.08%
Liquidity Coverage Ratio (%) (Minimum Requirement - 100%)	185.15%	125.83%	124.01%	154.70%
Asset Quality (%)				
Gross Non Performing Advances Ratio, % (net of interest suspense)	4.32%	5.40%	5.22%	5.03%
Net Non Performing Advances, % (net of interest suspense and provision)	3.11%	3.95%	3.90%	3.55%
Profitability (Annualised) (%)				
Interest Margin, %	3.24%	3.44%	3.83%	3.62%
Return on Assets (Before Tax), %	0.64%	0.82%	0.98%	0.96%
Return on Equity (After Tax), %	2.51%	3.51%	4.18%	4.16%
Ordinary share information (Rs.)				
Market Value - Closing price	11.00	11.50	13.50	13.30
High	13.00	11.80	14.30	13.80
Low	10.70	10.80	11.30	12.30

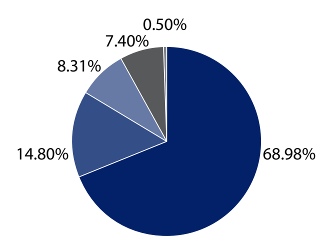
DIRECT ECONOMIC VALUE GENERATED & DISTRIBUTED

{GRI 201-1}

For the year ended 31st December	2019 Rs.'000	2018 Rs.'000
Direct Economic Value Generated		
Interest Income	12,956,243	12,142,268
Net Fee Commission Income	855,224	832,850
Net fair value gains/ (losses) from financial instruments at fair value through profit or loss	350,771	309,519
Net gains/(losses) from financial investments	323,660	173,026
Other Operating Income	12,025	317,604
	14,497,924	13,775,267
Economic Value Distributed		
To Depositors & Lender as an interest	8,477,329	8,490,006
To Employees as Emoluments		
- Salary, bonus & contribution plans	1,474,085	1,408,127
- Benefits	409,241	413,655
To providers of Suppliers & Services	810,346	1,023,229
	11,171,001	11,335,017
To Government as Taxation		
Corporate Tax	426,005	158,763
VAT on Financial Services	416,772	368,851
NBT on Financial Services	51,193	49,180
Debt repayment levy	244,562	52,693
Crop Insurance Levy	6,064	4,426
Stamp duty & Other Local Taxes	430,016	436,164
To Central Bank of Sri Lanka as Deposit Insurance premium	63,364	61,301
	1,637,976	1,131,378
Economic Value Retained	1,688,946	1,308,872



Economic Value Distributed - 2019



Economic Value Distributed - 2018

- To Depositors & Lender as an interest
- To Employees as Emoluments
- To providers of Suppliers & Services
- To Government as Taxation
- To Central Bank of Sri Lanka as Deposit Insurance premium

- To Depositors & Lender as an interest
- To Employees as Emoluments
- To providers of Suppliers & Services
- To Government as Taxation
- To Central Bank of Sri Lanka as Deposit Insurance premium

COMPLIANCE WITH ANNUAL REPORT DISCLOSURE REQUIREMENTS OF CENTRAL BANK OF SRI LANKA

Given below is the state of compliance with the Disclosure requirements specified by the Central Bank of Sri Lanka for the preparation of Annual Financial Statements of Licensed Commercial Banks.

1. Information about the significance of financial instruments for financial position and performance	
1.1 Statement of Financial Position	
1.1.1 Disclosures on categories of financial assets and financial liabilities	
1.1.2 Other disclosures	Note 22
(i) Special disclosures about financial assets and financial liabilities designated to be measured at fair value through profit or loss, including disclosures about credit risk and market risk, changes in fair values attributable to these risks and the methods of measurement.	N/A
(ii) Reclassifications of financial instruments from one category to another.	Note 7
(iii) Information about financial assets pledged as collateral and about financial or non-financial assets held as collateral.	Note 49
(iv) Reconciliation of the impairment allowance account for credit losses by class of financial assets.	Note 29.5.2
(v) Information about compound financial instruments with multiple embedded derivatives.	N/A
(vi) Breaches of terms of loan agreements.	N/A
1.2 Statement of Comprehensive Income	
1.2.1 Disclosures on items of income, expense, gains and losses	Note 8, 9,10,11,12,13,14,15,16 & 17
1.2.2 Other disclosures:	
(i) Total interest income and total interest expense for those financial instruments that are not measured at fair value through profit and loss.	Note 9
(ii) Fee income and expense.	Note 10
(iii) Amount of impairment losses by class of financial assets.	Note 14
(iv) Interest income on impaired financial assets.	Note 9.1
1.3 Other disclosures	
1.3.1 Accounting policies for financial instruments	Note 3.2, 3.4, 5.4, 5.5, 5.6, 5.7 & 5.8
1.3.2 Financial liabilities designated as at FVTPL	
(i) If a bank is presenting the effects of changes in that financial liability's credit risk in other comprehensive income (OCI): (a) Any transfers of the cumulative gain/loss within equity during the period, including the reasons for the transfers; (b) If the liability is de-recognised during the period, then the amount (if any) presented in OCI that was realised at de-recognition; (c) Detailed description of the methodologies used to determine whether presenting the effects of changes in a liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss; and (ii) Detailed description, if the effects of changes in a liability's credit risk are presented in profit or loss.	N/A
1.3.3 Investments in equity instruments designated as at FVOCI	
(i) Details of equity instruments that have been designated as at FVOCI and the reasons for the designation; (ii) Fair value of each investment at the reporting date; (iii) Dividends recognised during the period, separately for investments derecognised during the reporting period and those held at the reporting date; (iV) Any transfers of the cumulative gain or loss within equity during the period and the reasons for those transfers; (v) If investments in equity instruments measured at FVOCI are derecognised during the reporting period, (a) reasons for disposing of the investments; (b) fair value of the investments at the date of de-recognition; and (c) the cumulative gain or loss on disposal.	N/A

COMPLIANCE WITH ANNUAL REPORT DISCLOSURE REQUIREMENTS OF CENTRAL BANK OF SRI LANKA

1.3.4 Reclassifications of financial assets	
(i) For all reclassifications of financial assets in the current or previous reporting period: - date of reclassification; - detailed explanation of the change in the business model and a qualitative description of its effect on the financial statements; and - the amount reclassified into and out of each category. (ii) For reclassifications from FVTPL to amortised cost or FVOCI: - the effective interest rate (EIR) determined on the date of reclassification; and - the interest revenue recognised. (iii) For reclassifications from FVOCI to amortised cost, or from FVTPL to amortised cost or FVOCI: - the fair value of the financial assets at the reporting date; and - the fair value gain or loss that would have been recognised in profit or loss or OCI during the reporting period if the financial assets had not been reclassified.	Note 7
1.3.5 Information on hedge accounting	N/A
1.3.6 Information about the fair values of each class of financial asset and financial liability, along with:	
(i) Comparable carrying amounts.	Note 53
(ii) Description of how fair value was determined.	Note 53
(iii) The level of inputs used in determining fair value.	Note 53
(iv) Reconciliations of movements between levels of fair value measurement hierarchy, additional disclosures for financial instruments for which fair value is determined using level 3 inputs.	Note 53
(v) Information if fair value cannot be reliably measured.	N/A
2. Information about the nature and extent of risks arising from financial instruments	
2.1. Qualitative disclosures	
2.1.1. Risk exposures for each type of financial instrument	Note 55 - Risk Management
2.1.2. Management's objectives, policies, and processes for managing those risks	Note 55.1 - Risk Management
2.1.3. Changes from the prior period	Risk Management
2.2 Quantitative disclosures	
2.2.1. Summary of quantitative data about exposure to each risk at the reporting date.	Note 55 - Risk Management
2.2.2 Disclosures about credit risk, liquidity risk, market risk, operational risk, interest rate risk and how these risks are managed.	
(i) Credit Risk (a) Maximum amount of exposure (before deducting the value of collateral), information about credit quality of financial assets that are neither past due nor impaired and information about credit quality of financial assets. (b) For financial assets that are past due or impaired, disclosures on age, factors considered in determining as impaired and the description of collateral on each class of financial asset. (c) Information about collateral or other credit enhancements obtained or called. (d) Credit risk management practices: - Information about credit risk management practices and how they relate to the recognition and measurement of expected credit losses (ECL), including the methods, assumptions and information used to measure ECL. - Quantitative and qualitative information to evaluate the amounts in the financial statements arising from ECL, including changes and the reasons for those changes. - How the bank determines whether the credit risk of financial instruments has increased significantly since initial recognition, including whether and how financial instruments are considered to have low credit risk, including the classes of financial instruments to which the low credit risk exception has been applied; and the presumption that financial assets with contractual payments more than 30 days past due have a significant increase in credit risk has been rebutted; - The bank's definitions of default for different financial instruments, including the reasons for selecting those definitions; - How instruments are grouped if ECL are measured on a collective basis;	Note 55.2 – Risk Management

COMPLIANCE WITH ANNUAL REPORT DISCLOSURE REQUIREMENTS OF CENTRAL BANK OF SRI LANKA

- How the bank determines that financial assets are credit-impaired; - The bank's write off policy, including the indicators that there is no reasonable expectation of recovery; and - How the modification requirements have been applied, including how the bank determines whether the credit risk of a financial asset that has been modified while subject to a lifetime ECL allowance has improved to the extent that the loss allowance reverts to being measured at an amount equal to 12-month ECL and monitors the extent to which the loss allowance on those assets subsequently reverts to being measured at an amount equal to lifetime ECL.	Note 55.2 – Risk Management
e) ECL calculations - Basis of the inputs, assumptions and the estimation techniques used when, • estimating 12-month and lifetime ECL; • determining whether the credit risk of financial instruments has increased significantly since initial recognition; and • determining whether financial assets are credit-impaired. - How forward-looking information has been incorporated into the determination of ECL, including the use of macro-economic information; and - changes in estimation techniques or significant assumptions made during the reporting period and the reasons for those changes. (f) Amounts arising from ECL - Provide reconciliation for each class of financial instrument [Financial assets measured at AC, Financial assets mandatorily measured at FVOCI, Loan commitments when there is an obligation to extend credit (except those measured at Fair Value through Profit or Loss), Financial guarantee contracts (except those measured at Fair Value through Profit or Loss), Lease receivables within the scope of LKAS 17: Leases, Contract assets within the scope of SLFRS 15: Revenue from contracts with customers etc…] of the opening balance to the closing balance of the impairment loss allowance. - Explain the reasons for changes in the loss allowances in the reconciliation.	Note 5.7
(g) Collaterals - Amount that best represents the bank's maximum exposure to credit risk at the reporting date, without taking account of any collateral held or other credit enhancements; - Narrative description of collateral held as security and other credit enhancements (except for lease receivables), including: • discussion on the nature and quality of the collaterals held; • explanation of any significant changes in quality as a result of a deterioration or changes in the bank's collateral policies during the reporting period; • information about financial instruments for which the bank has not recognised a loss allowance because of the collateral; • quantitative information about the collateral held as security and other credit enhancements; • Information about the fair value of the collateral and other credit enhancements, or to quantify the exact value of the collateral that was included in calculation of ECL. (h) Written-off assets - Contractual amount outstanding of financial assets written off during the reporting period that are still subject to enforcement activity.	Note 55.2
(i) For other disclosures, refer Pillar III disclosures of the Banking Act Directions No. 01 of 2016 on Capital Requirements under Basel III for Licensed Banks.	Market disclosures – page 296
(ii) Liquidity Risk a) A maturity analysis of financial assets and liabilities. (b) Description of approach to risk management. (c) For other disclosures, refer Pillar III disclosures of the Banking Act Directions No. 01 of 2016 on Capital Requirements under Basel III for Licensed Banks.	 Note 55.3 – Risk Management Note 55.3 – Risk Management Market disclosures – page 296

COMPLIANCE WITH ANNUAL REPORT DISCLOSURE REQUIREMENTS OF CENTRAL BANK OF SRI LANKA

(iii) Market Risk (a) A sensitivity analysis of each type of market risk to which the entity is exposed. (b) Additional information, if the sensitivity analysis is not representative of the entity's risk exposure. (c) For other disclosures, refer Pillar III disclosures of the Banking Act Directions No. 01 of 2016 on Capital Requirements under Basel III for Licensed Banks. (iv) Operational Risk For other disclosures, refer Pillar III disclosures of the Banking Act Directions No. 01 of 2016 on Capital Requirements under Basel III for Licensed Banks.	Note 55.4 N/A Note 55 and Market disclosures – Page 296
(v) Equity risk in the banking book (a) Qualitative disclosures • Differentiation between holdings on which capital gains are expected and those taken under other objectives including for relationship and strategic reasons. • Discussion of important policies covering the valuation and accounting of equity holdings in the banking book. (b) Quantitative disclosures • Value disclosed in the statement of financial position of investments, as well as the fair value of those investments; for quoted securities, a comparison to publicly quoted share values where the share price is materially different from fair value. • The types and nature of investments • The cumulative realised gains/(losses) arising from sales and liquidations in the reporting period. (vi) Interest rate risk in the banking book (a) Qualitative disclosures Nature of interest rate risk in the banking book (IRRBB) and key assumptions (b) Quantitative disclosures The increase/ (decline) in earnings or economic value (or relevant measure used by management) for upward and downward rate shocks according to management's method for measuring IRRBB, broken down by currency (as relevant).	N/A Note 55.4.2 – Risk Management
2.2.3 Information on concentrations of risk	*Risk management*
3. Market Disclosures	
3.1 Regulatory Requirements on Capital and Liquidity	
(i) Key Regulatory Ratios-Capital and Liquidity (ii) Basel III Computation of Capital Ratios (iii) Basel III Computation of Liquidity Coverage Ratio (iv) Main Features of Regulatory Capital Instruments	Page 280 Page 281 Page 283 Page 284
3.2 Risk Weighted Assets (RWA)	
(i) Summary Discussion on Adequacy/Meeting Current and Future Capital Requirements (ii) Credit Risk under Standardised Approach: Credit Risk Exposures and Credit Risk Mitigation (CRM) Effects (iii) Credit Risk under Standardised Approach: Exposures by Asset Classes and Risk Weights (iv) Market Risk under Standardised Measurement Method (v) Operational Risk under Basic Indicator Approach/ The Standardised Approach/ The Alternative Standardised Approach	Page 284 Page 285 Page 286, 287 Page 288 Page 289
3.3 Linkages Between Financial Statements & Regulatory Exposures	
(i) Differences Between Accounting and Regulatory Scopes and Mapping of Financial Statement Categories with Regulatory Risk Categories – Bank Only (ii) Explanations of Differences Between Accounting and Regulatory Exposure Amounts	Page 290 Page 290

GLOSSARY OF FINANCIAL TERMS

A

Acceptances
The signature on a bill of exchange indicates that the person to whom it is drawn accepts the conditions of the bill. In other words a bill of exchange that has been accepted.

Accounting Policies
The specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting Financial Statements.

Accrual Basis
Recognition of the effects of transactions and other events when they occur without waiting for receipt or payment of cash or its equivalents.

Actuarial Gain/Loss
Gain or Loss arising from the difference between estimates and actual experience in a Company's Pension Plan.

Amortisation
The systematic allocation of the depreciable amount of an intangible asset over its useful life.

Amortised Cost
The amount at which the financial asset of financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest rate method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use if an allowance account) for impairment or in collectability.

Amounts Due to Customers
Money deposited by account holders. Such funds are recorded as liabilities.

Associates
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.

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.

Assets pledge
Asset used as collateral for a loan. A pledged asset is transferred to the lender from the borrower to secure the debt. Ownership of the asset remains with the borrower during the loan period.

B

Bills of 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.

Basel III
The BCBS issued the Basel III rules text, which presents the details of strengthened global regulatory standards on Bank capital adequacy and liquidity.

Basis Point (BP)
One hundredth of a percentage point, i.e., 100bp equals 1%, used in quoting movements in interest rates, security yields, etc.

Business Model Assessment
The Bank determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective

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 Buffers (CCBs)
These are mandatory capital buffers that banks should build up during normal times (i.e. outside the period of stress) which can be drawn down during a stressed period.

Capital Gain (Capital Profit)
The gain on the disposal of an asset calculated by deducting the cost of the asset from the proceeds received on its disposal.

Capital Reserves
Capital Reserves consist of revaluation reserves arising from revaluation of properties owned by the Bank and Reserve Fund set aside for specific purposes defined under the Banking Act, No 30 of 1988 and shall not be reduced or impaired without the approval of the Monetary Board.

Cash Equivalents
Short-term highly liquid investments that are readily convertible to known amounts of cash and which subject to an insignificant risk of changes in value.

Cash Flow Hedge
A cash flow hedge is a hedge of the exposure to the variability in cash flows that (i) is attributable to a particular risk associated with a recognised asset or liability (such as all or some future interest payments on variable rate debt) or a highly probable forecast transaction and (ii) could affect profit or loss.

Cash Generating Unit (CGU)
The smallest group of assets that independently generates cash flow and the cash flow is largely independent of the cash flows generated by other assets.

Collective Impairment
The measurement of impairment losses under SLFRS 9 across all categories of financial assets requires judgment, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

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.

Commitments
Credit facilities approved but not yet utilised by the clients at the date of Statement of Financial Position.

Contingencies
A condition or situation existing at the date of the Statement of Financial Position where the outcome will be confirmed only by occurrence or non-occurrence of one or more future events.

GLOSSARY OF FINANCIAL TERMS

Control
Control is the power over an investee, exposure, or rights, to variable returns from its involvement with the investee, and the ability to use its powers over the investee to affect the amount of the investor's returns.

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 to Income Ratio
Operating expenses excluding impairment for loans and receivables and other losses as a percentage of total operating income.

Country Risk
The risk that a foreign government will not satisfy 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 ability to repay its obligations or likelihood of not defaulting carried out by an independent rating agency.

Credit Risk
Credit risk or default risk is most simply defined as the potential that a borrower or counter party will fail to meet its obligations in accordance with agreed terms and conditions.

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

Dealing Securities
These are marketable securities acquired and held with the intention to resale over a short period of time.

Debt Repayment Levy (DRL)
DRL on Financial Services is calculated in accordance with the Finance Act No. 35 of 2018. DRL on financial services is calculated based on the total value addition used for the purpose of VAT on financial services.

Deferred Taxation
Sum set aside in the Financial Statements 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.

Defined Benefit Obligation
The costs of the defined benefit plans and the present value of its obligations are determined using an actuarial valuation. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and possible future gratuity increases, if any.

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.

De-recognition
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).

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)
Commercial letters of credit provided for payment by a bank to the name beneficiary usually the seller of merchandise, against delivery of documents specified in the credit.

E

Earnings Per Share (EPS)
Profit attributable to ordinary shareholders divided by the weighted average number of ordinary shares in issue.

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 including deferred tax divide 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.

GLOSSARY OF FINANCIAL TERMS

Equity Risk
The risk arising from positions, either long or short, in equities or equity-based instruments, which create exposure to a change in the market price of the equities or equity instruments.

Equity Method
This is a method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition changes in the investor's share of net assets of the investee. The profit and loss of investor includes the investor's share of the profit or the loss of the investee.

Expected Credit Loss (ECL)
Expected credit loss is outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgments and estimates include,

- The Bank's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a Life Time Expected Credit Loss (LTECL) basis.
- The segmentation of financial assets when their ECL is assessed on a collective basis.
- Development of ECL models, including the various formulas and the choice of inputs.
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on Probability of Defaults (PDs), Exposure at Defaults (EADs) and Loss Given Defaults (LGDs).

Exposure
A claim, contingent claim or position which carries a risk of financial loss.

ESOP (Employee Share Option Plan)
A method of giving employees shares in the business for which they work.

F

Fair Value
Fair Value is the amount for which an asset could be exchanged or liability settled between a knowledgeable willing parties in an arm's length transaction.

Fair Value Adjustment
An adjustment to the fair value of a financial instrument which is determined using a valuation technique (level 2 and level 3) to include additional factors that would be considered by a market participant that are not incorporated within the valuation model.

Fair Value through Other Comprehensive Income (FVOCI)
Financial assets are classified and measured at fair value through other comprehensive income if they are held in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

Finance Lease
A contract whereby a lessor conveys to the lessee the right to use an asset for rent over and agreed period of time which is sufficient to amortise the capital outlay of the lessor. The lessor retains ownership of the asset but transfers substantially all the risks and rewards of ownership to the lessee.

Financial Asset
Any asset that is cash, an equity instrument of another entity or a contractual right to receive cash or another financial asset from another entity.

Financial Guarantee Contract
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.

Fair Value Through Profit or Loss
A financial assets/liability: Acquired/incurred principally for the purpose of selling or repurchasing it in the near term, part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of profit taking or derivative (except for a derivative that is a financial guarantee contract).

Financial Instrument
Financial Instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial Liability
A contractual obligation to deliver cash or another financial asset to another entity or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity.

Forward Exchange Contract
Agreement between two parties to exchange one currency for another at a future date at a rate agreed upon today.

Foreign Exchange Profit
Profit earn on foreign currency transactions arising from the difference in foreign exchange rates between the transaction/last date of the Statement of Financial Position and the settlement/date of the Statement of Financial Position. Also arises from trading in foreign currencies.

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.

G

Gearing
Long term borrowings divided by the total funds available for shareholders.

Global Reporting Initiative (GRI)
The GRI is an international independent standards organization that helps businesses, governments, and other organizations understand and communicate their impacts on issues such as climate change, human rights, and corruption. GRI promotes sustainability reporting as a way for organizations to become more sustainable and contribute to sustainable development.

Gross Dividend
The portion of profits distributed to the shareholders including the tax withheld.

Group
A group is a parent and all its subsidiaries and associates.

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 fulfill the contractual obligations.

GLOSSARY OF FINANCIAL TERMS

H

Hedging
A strategy under which transactions are effected with the aim of providing cover against the risk of unfavourable price movements (Interest Rate, Prices and Commodities, etc.).

Held for Trading
Debt and equity investments that are purchased with the intent of selling them within a short period of time (usually less than one year).

High Quality Liquid Assets (HQLA)
Assets that can be easily and immediately converted into cash at little or no loss of value, 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.

Historical Cost
Historical cost is the original nominal value of an economic item.

I

Impairment
This occurs when recoverable amount of an asset is less than its carrying amount.

Impairment Charges for Loan Losses
Amounts set aside against possible losses on loans, receivables and other credit facilities as a result of such facilities becoming partly or wholly uncollectible.

Impairment Allowances
Management's best estimate of losses incurred in the loan portfolios at the reporting date.

Individual Impairment
Reviewing individually significant loans and receivables 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.

Intangible Asset
An identifiable non-monetary asset without physical substance held for use in the production / supply of goods / services or for rental to others or for administrative purposes.

Interest Margin
Net interest income expressed as a percentage of 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
Arrangement whereby one party exchanges one set of interest payments for another.

Interest Spread
This represents the difference between the average interest rate earned and the average interest rate paid on funds.

Investment Securities
Securities acquired and held for yield or capital growth purposes and are usually held to maturity.

Integrated Reporting
A methodology of reporting an organisation's strategy, governance, financial performance and prospects in relation to the creation of value over the short, medium and long term in its economic, social and environmental context.

K

Key Management Personnel
Key Management Personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any Director (whether Executive or otherwise) of that entity and key employees who are holding directorships in subsidiary companies and other key employees who meet the criteria mentioned above.

L

LCR Definition
With the introduction of Basel III rules on Liquidity Risk Management LCR has been identified as a key policy measured to further strengthen the liquidity risk management to promote a more resilient banking sector.

LCR is expected to improve the banking sector's ability to absorb shocks arising from financial and economic stress, thus, reducing the risk of spillover from the financial sector to the real economy.

LCR represents the Ratio of Stock of high quality liquid assets available to total net cash outflows over next 30 calendar days.

Level 1 – Quoted Market Price
Financial instruments with quoted prices for identical instruments in active markets.

Level 2 – Valuation Technique Using Observable Inputs
Financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.

Level 3 –Valuation Technique with Significant Unobservable Inputs
Financial instruments valued using valuation techniques where one or more significant inputs are unobservable.

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.

Loans Payable
Loans payable are financial liabilities, other than short term trade payables on normal credit terms.

Loss Given Default (LGD)
The estimated ratio (percentage) of the loss on an exposure to the amount outstanding at default (EAD) upon default of counterparty.

M

Market Capitalisation
The value of a company obtained by multiplying the number of issued shares by its market value as at a date.

GLOSSARY OF FINANCIAL TERMS

Market Risk
This refers to the possibility of loss arising from changes in the value of a financial instrument as a result of changes in market variables such as interest rates, exchange rates, credit spreads and other asset prices.

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.

Minority Interest
The interest of individual shareholders, in a company more than 50% of which is owned by a holding company.

N

Net Asset Value Per Share
Shareholders' Funds excluding preference shares if any, 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 220 liabilities such as deposits refinance Union Bank of Colombo PLC funds and inter-bank borrowings.

Net Interest Margin (NIM)
The margin is expressed as net interest income divided by average interest earning assets.

Non-Performing Loans (NPL)
A loan or an receivables placed on cash basis (i.e., Interest income is only recognised when cash is received) because, in the opinion of management, there is reasonable doubt regarding the collectability of principal or interest.

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.

NPL Ratios
Total non-performing loans and receivables (net of interest in suspense) divided by total loans and receivables portfolio (net of interest in suspense)

Non Controlling Interest (NCI)
Non controlling interest is the equity in a subsidiary not attributable, directly or indirectly to a parent.

Non-Performing Loans Cover (NPL Cover)
Cumulative loan provision as a percentage of total non-performing loans (net of interest in suspense).

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 has one or more subsidiaries.

Past Due
A financial asset is past due when a counterparty has failed to make a payment when contractually due.

Price Earnings Ratio (P/E Ratio)
The current market price of the share is divided by the earnings per share.

Probability of Default (PD)
The probability that an obligor will default within a given period of time.

Provision Cover
Total provisions for loan losses expressed as a percentage of net non-performing loans and advances before discounting for provisions on non-performing loans and advances.

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

Related Parties
Parties where one party has ability to control the other party or exercise significant influence over the other party in making financial and operating decisions, directly or indirectly.

Related Party Transaction (RPT)
RPT is a transfer of resources, services or obligations between a reporting entity and a related party, regardless whether a price is charged.

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)
Net income expressed as a percentage of average total assets.

Return On Average Equity (ROE)
Net income, less preferred share Dividend if any, expressed as a percentage of average ordinary shareholders' equity.

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.

Risk Weighted Assets
On-Balance Sheet assets and the credit equivalent of Off-Balance Sheet assets multiplied by the relevant risk weighting factors.

S

Segmental Analysis
Analysis of financial information by segments of an enterprise specifically industries in which it operates.

Shareholders' Funds
Total of issued and fully paid share capital and capital and revenue reserves.

Significant Influence
If an entity holds, directly or indirectly (e.g. through subsidiaries), 20% or more of the voting power of the investee, it is presumed that entity has significant influence it can be clearly demonstrated otherwise.

Single Borrower Limit
30% of Tier II Capital.

Statutory Reserve Fund
A capital reserve created as per the provisions of the Banking Act No. 30 of 1988.

Subsidiary Company
A subsidiary is an enterprise that is controlled by another enterprise (known as the parent).

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.

GLOSSARY OF FINANCIAL TERMS

SWAPS (Currency)
The simultaneous purchase of an amount of a currency for spot settlement and the sale of the same amount of the same currency for forward settlement. Alternatively a simultaneous spot sale and forward purchase of a currency.

Stakeholders
Stakeholders are defined as entities or individuals that can reasonably be expected to be significantly affected by the organisation's activities, products, and services; and whose actions can reasonably be expected to affect the ability of the organisation to successfully implement its strategies and achieve its objectives. This includes entities or individuals whose rights under law or international conventions provide them with legitimate claims vis-à-vis the organisation.

T

Total Regulatory Capital
Regulatory capital of licensed banks will consist the following

Tier 1 Capital
a) Common Equity Tier 1 (CET1)
This is a component of Tier 1 capital that consists mostly of common stock held by a bank .
b) Additional Tier 1 Capital (AT1)
This is similar to CET 1, but may additionally include non-redeemable non-cumulative preferred stock.

Tier 2 Capital
This is the secondary component of a bank's capital, in addition to Tier 1 capital, that makes up a bank's required reserves. Tier 2 capital is designated as supplementary capital, and it is composed of items such as revaluation reserves, undisclosed reserves, hybrid instruments and subordinated term debt.

Transfer Pricing Arrangement
Transfer pricing involves the terms and prices at which related parties sell (or should sell) goods or services to each other. When the parties are located in different taxing jurisdictions, opportunities exist for the movement of income to a lower-taxing jurisdiction. A transfer pricing arrangement is developed to combat potential losses of income tax revenue.

U

Unit Trust
An undertaking formed to invest in securities under the terms of a trust deed.

V

Value Added
Value of wealth created by providing banking and other related services less the cost of providing such services.

Value-at-Risk (VaR)
A measure of the loss that could occur on risk positions as a result of adverse movements in market risk factors (e.g., rates, prices, volatilities) over a specified time horizon and to a given level of confidence.

W

Write offs
Financial assets are written off either partially or in their entirety only when the Bank has no reasonable expectation of recovering a financial asset in its entirety or a portion thereof.

Y

Yield to Maturity
Discount rate at which the security's present value of future payments would equal the security's current price.

ABBREVIATIONS

AC	Amortised Cost
AGM	Annual General Meeting
ALCO	Assets and Liabilities Committee
AML	Anti Money Laundering
ASPI	All Share Price Index
BAC	Board Audit Committee
BCP	Business Continuity Plan
BCC	Board Credit Committee
CAR	Capital Adequacy Ratio
CASA	Current Accounts and Savings Accounts
CBSL	Central Bank of Sri Lanka
CCB	Capital Conservation Buffer
CEO	Chief Executive Officer
CFM	Close Family Members
CFO	Chief Financial Officer
CGU	Cash Generating Units
CRM	Credit Risk Mitigation
CRO	Chief Risk Officer
CSE	Colombo Stock Exchange
DBU	Domestic Banking Unit
DRP	Disaster Recovery Plan
EADs	Exposure at Defaults
ECC	Executive Credit Committee
ECL	Expected Credit Loss
EPS	Earnings Per Share
ERMC	executive Risk Management committee
ESOP	Employee Share Option Plan
FIS	Fixed Income Securities
FX	Foreign Exchange
FVPL	Fair Value Through Profit or Loss
FVOCI	Fair Value through Other Comprehensive Income
GDP	Gross Domestic Product
GRI	Global Reporting Initiative
HR	Human Resources
HRRC	Human Resources & Remuneration Committee
ICAAP	Internal Capital Adequacy Assessment Process
ITSC	IT Steering Committee
IRMC	Integrated Risk Management Committee
IMF	International Monetary Fund
KMP	Key Management Personnel
LCB	Licensed Commercial Bank
LCR	Liquidity Coverage Ratio
LTV	Loan to Value Ratio
LGD's	Loss Given Defaults
LTECL	Life Time Expected Credit Loss
NBTFS	Nation Building Tax on Financial Services
NC	Nomination Committee
NII	Net Interest Income
NIM	Net Interest Margin
NOP	Net Open Position
NPA	Non Performing Assets
OMC	Outsourcing Management Committee
ORMC	Operational Risk Management committee
PAT	Profit After Tax
PBT	Profit Before Tax
PD	Probability of Defaults
ROA	Return on Assets
ROE	Return on Equity
RPT	Related Party Transactions
RPTRC	Related Party Transactions Review Committee
RSA	Rate Sensitive Assets
RWA	Risk Weighted Assets
SEC	Securities and Exchange Commission of Sri Lanka
SLDB	Sri Lanka Development Bonds
SME	Small and Medium Enterprises
VaR	Value at Risk
VATFS	Value Added Tax on Financial Services
YoY	Year on Year
12mECL	12 months' Expected Credit Loss

BRANCH NETWORK

Branch		Address	Telephone
01.	Head Office	64, Galle Road, Colombo 3.	011 2374100
02.	Akuressa	50A, D.C. Wanigasekara Mawatha, Akuressa.	041 2284672
03.	Ambalangoda	118, Galle Road, Ambalangoda.	091 2256420
04.	Ambalantota	133/1, Hambantota Road, Ambalantota.	047 2225642
05.	Angunakolapelessa	Hungama Road, Angunakolapelessa.	047 2228500
06.	Anuradhapura	38, Main Street, Anuradhapura.	025 2224888
07.	Atchuvely	Pathameny, Sannadhy Road, Atchuvely.	021 2058650
08.	Attidiya	126, Main Street, Attidiya.	011 2761292
09.	Badulla	81, Bank Road, Badulla.	055 2224657
10.	Balangoda	167/B, Barns Rathwathta Mawatha, Balangoda.	045 2289455
11.	Bandarawela	No.348, Badulla Road, Bandarawela.	057 2221808
12.	Batticaloa	03, Station Road, Batticaloa.	065 2228512
13.	Borella	40, Gnanartha Pradeepa Mawatha, Colombo 8.	011 2672404
14.	Chilaw	50, Colombo Road, Chilaw.	032 2224556
15.	Chunnakam	118, Sir P Ramanathan Road, Chunnakam.	021 2240930
16.	Dambulla	723, Anuradhapura Road, Dambulla.	066 2285511
17.	Elpitiya	40, Ambalangoda Road, Elpitiya.	091 2291695
18.	Embilipitiya	58, Main Street, Pallegama, Embilipitiya.	047 2230761
19.	Galle	143, Main Street, Galle.	091 2247307
20.	Gampaha	No. 170 A, Colombo Road, Gampaha.	033 2248813
21.	Gampola	121, Kandy Road, Gampola.	081 2353785
22.	Ganemulla	367/B3, Kadawatha Road, Ganemulla.	033 2250170
23.	Horana	41, Panadura Road, Horana.	034 2263156
24.	Horowpothana	Rest House Junction, Trincomalee Road, Horowpothana.	025 2278558
25.	Ibbagamuwa	48, Aluth Mawatha, Ibbagamuwa.	037 2057177
26.	Ja Ela	151/B, Colombo Road, Ja-Ela.	011 2228573
27.	Jaffna	398, Hospital Road, Jaffna.	021 2224567
28.	Kadawatha	315F, Kandy Road, Kadawatha.	011 2927716
29.	Kandy	165, D.S.Senanayake Veediya, Kandy.	081 2224500
30.	Kebithigollewa	Padaviya Road, Kebithigollewa.	025 2298111
31.	Kegalle	340, Kandy Road, Kegalle.	035 2223605
32.	Kekirawa	21D, Yakalla Road, Kekirawa.	025 2265350
33.	Kohuwala	96B, Dutugamunu Street, Kohuwala.	011 2813693
34.	Kollupitiya	51A, Ananda Coomaraswamy Mawatha, Colombo 3.	011 2565475

BRANCH NETWORK

Branch		Address	Telephone
35.	Kotahena	16A, Kotahena Street, Colombo 13.	011 2448825
36.	Kuliyapitiya	203, Hettipola Road, Kuliyapitiya.	037 2284446
37.	Kurunagala	11, Rajapihilla Road, Kurunagala.	037 2225419
38.	Maharagama	140, High Level Road, Maharagama.	011 2088800
39.	Mannar	66, Main Street, Mannar.	023 2251343
40.	Marawila	44, Chilaw Road, Marawila.	032 2252522
41.	Matara	17, Station Road, Matara.	041 2228442
42.	Matugama	121/B, Agalawatta Road, Matugama.	034 2248555
43.	Medawachchiya	40, Kandy Road, Medawachchiya.	025 2245580
44.	Minuwangoda	68, Veyangoda Road, Minuwangoda.	011 2299277
45.	Monaragala	48, New Bus Stand Road, Monaragala.	055 2055456
46.	Moratuwa	729, Galle Road, Moratuwa.	011 2642502
47.	Narammala	64, Kuliyapitiya Road, Narammala.	037 2248710
48.	Nawala	232, Nawala Road, Nawala.	011 2806987
49.	Nawalapitiya	21, Dolosbage Road, Nawalapitiya.	054 2050722
50.	Negombo	387, Main Street, Negombo.	031 2238299
51.	Nugegoda	114, Stanley Thilakaratne Mawatha, Nugegoda.	011 2832323
52.	Old Moor Street	343, Old Moor Street, Colombo 12.	011 2399994
53.	Panadura	495, Galle Road, Panadura.	038 2237098
54.	Pelawatte	966, Pannipitiya Road, Pelawatte.	011 2785337
55.	Peradeniya	921, Peradeniya Road, Kandy.	081 2068440
56.	Pettah	111, Main Street, Colombo 11.	011 2321139
57.	Pilimathalawa	211/A, Colombo Road, Pilimathalawa.	081 2575901
58.	Piliyandala	71, Moratuwa Road, Piliyandala.	011 2606152
59.	Rajagiriya	115, Old Kotte Road, Rajagiriya.	011 2075566
60.	Ratmalana	143C, Mount City, Galle Road, Ratmalana.	011 2730860
61.	Ratnapura	109, Main Street, Ratnapura.	045 2224422
62.	Trincomalee	306, Central Road, Trincomalee.	026 2226505
63.	Vavuniya	124, Bazzar Street, Vavuniya.	024 2225612
64.	Warakapola	238B, Kandy Road, Warakapola.	035 2268226
65.	Wattala	258, Negombo Road, Wattala.	011 2980731
66.	Wellawatte	605, Galle Road, Colombo 6.	011 2553223
67.	Wennappuwa	33, Colombo Road, Wennappuwa.	031 2253543

NOTICE OF MEETING

UNION BANK OF COLOMBO PLC
(PB 676 PQ)

NOTICE IS HEREBY GIVEN THAT the 25th Annual General Meeting of UNION BANK OF COLOMBO PLC will be held on 31 March 2020 at 2.00 p.m. at the "Auditorium" of Sri Lanka Foundation at No. 100, Sri Lanka Padanama Mawatha, Independence Square, Colombo 07 for the following purposes:

1. To receive and consider the Annual Report of the Board of Directors on the affairs of the Company and the Statement of Audited Accounts for the year ended 31 December 2019 together with the Report of the Auditors thereon.

2. To re-elect as a director in terms of Article 89 of the Articles of Association of the Company, Mr. Atul Malik who retires at this Annual General Meeting in terms of Articles 88 (i) read together with Article 89 of the Articles of Association of the Company.

3. To re-elect as a director in terms of Article 89 of the Articles of Association of the Company, Mr. Trevine Fernandopulle who retires at this Annual General Meeting in terms of Articles 88 (i) read together with Article 89 of the Articles of Association of the Company.

4. To re-elect as a director in terms of Article 89 of the Articles of Association of the Company, Ms. Dilshani Wijayawardana who retires at this Annual General Meeting in terms of Articles 88 (i) read together with Article 89 of the Articles of Association of the Company.

5. To re-elect as a director in terms of Article 95 of the Articles of Association of the Company, Mr. Sarath Wikramanayake who retires at this Annual General Meeting in terms of the said Article 95.

6. To authorise the Directors to determine donations for the year ending 31 December 2020 and up to the date of the next Annual General Meeting.

7. To re-appoint Messrs. Ernst & Young, Chartered Accountants as Auditors for the ensuing year and to authorise the Board of Directors to determine their remuneration.

8. To consider and if thought fit, pass the following resolution as a Special Resolution for the purpose of amending the Special Resolution adopted by the Company on the 17 of June 2015 approving the terms and conditions of the Employee Share Option Plan of the Company,

   That the Exercise Price of an option to be issued by the Company under the existing Employee Share Option Plan of the Company shall henceforth be the volume weighted average price of the ordinary shares of the Company taking into consideration all transactions of such ordinary shares during the thirty (30) market day period immediately preceding the grant date of such option or LKR 15.70, whichever is higher.

By order of the Board.

Inoka Jayawardhana
Company Secretary

26 February 2020

Notes:
1. A Shareholder unable to attend the Meeting is entitled to appoint a Proxy to attend and vote in his/her/its place.
2. A Proxy need not be a Shareholder of the Company.
3. A Shareholder wishing to vote by proxy at the meeting may use the Form of Proxy enclosed.
4. In order to be valid, the completed Form of Proxy must be lodged at the registered office of the Company at No. 64, Galle Road, Colombo 03 not less than thirty six (36) hours before the time appointed for the holding of the meeting.

FORM OF PROXY

I/We, ... of ....

....being a Shareholder/Shareholders of Union Bank of Colombo

PLC hereby appoint Mr/Mrs/Miss .... (holder of NIC No ....)

of .... (or failing him)

Mr. Atul Malik	of No. 64, Galle Road, Colombo 03 or failing him
Mr. Priyantha Fernando	of No.12/14, Dharmaratne Avenue, Rawatawatte, Moratuwa or failing him
Mr. Sabry Ghouse	of No. 127A, Campbell Place, Colombo 08 or failing him
Mr. Gaurav Trehan	of No. 64, Galle Road, Colombo 03 or failing him
Mr. Puneet Bhatia	of No. 64, Galle Road, Colombo 03 or failing him
Mr. Michael J. O'Hanlon	of No. 64, Galle Road, Colombo 03 or failing him
Mr. Indrajit Wickramasinghe	of No. 410/35, Bauddhaloka Mawatha, Colombo 07 or failing him
Ms. Dilshani Wijayawardana	of No. 40/15, Park Road, Colombo 05 or failing her
Mr. Trevine Fernandopulle	of No.03, Austin Place, Off Kynsey Road, Colombo 08 or failing him
Mr. Sarath Wikramanayake	of No.8, Swarna Place, Nawala

as my/our proxy to represent me/us and to speak and vote whether on a show of hands or on a poll for me/us on my/our behalf at the Annual General Meeting of the Company to be held on 31 March 2020 at 2.00 p.m. at the "Auditorium" of Sri Lanka Foundation at No. 100, Sri Lanka Padanama Mawatha, Independence Square, Colombo 07 and at any adjournment thereof.

		For	Against
1.	To receive and consider the Annual Report of the Board of Directors on the affairs of the Company and the Statement of Audited Accounts for the year ended 31st December 2019 together with the Report of the Auditors thereon.		
2.	To re-elect, as a director, in terms of Article 89 of the Articles of Association of the Company, Mr. Atul Malik who retires at this Annual General Meeting in terms of Article 88 (i) read together with Article 89 of the Articles of Association of the Company.		
3.	To re-elect, as a director, in terms of Article 89 of the Articles of Association of the Company, Mr. Trevine Fernandopulle who retires at this Annual General Meeting in terms of Article 88 (i) read together with Article 89 of the Articles of Association of the Company.		
4.	To re-elect, as a director, in terms of Article 89 of the Articles of Association of the Company, Ms. Dilshani Wijayawardana who retires at this Annual General Meeting in terms of Article 88 (i) read together with Article 89 of the Articles of Association of the Company.		
5.	To re-elect, as a director, in terms of Article 95 of the Articles of Association of the Company, Mr. Sarath Wikramanayake who retires at this Annual General Meeting in terms of the said Article 95.		
6.	To authorise the Directors to determine donations for the year ending 31 December 2020 and up to the date of the next Annual General Meeting.		
7.	To re-appoint Messrs. Ernst & Young, Chartered Accountants as Auditors for the ensuing year and authorise the Board of Directors to determine their remuneration.		
8.	To consider and if thought fit, pass the following resolution as a Special Resolution for the purpose of amending the Special Resolution adopted by the Company on the 17th of June 2015 approving the terms and conditions of the Employee Share Option Plan of the Company, That the Exercise Price of an option to be issued by the Company under the existing Employee Share Option Plan of the Company shall henceforth be the volume weighted average price of the ordinary shares of the Company taking into consideration all transactions of such ordinary shares during the thirty (30) market day period immediately preceding the grant date of such option or LKR 15.70, whichever is higher.		

Signed on this …………….............................. day of …………………. .. Two Thousand and Twenty.

…………………………………

Signature

Notes:

1. Instructions as to completion appear overleaf.
2. Please indicate with 'X' in the space provided, how your Proxy is to vote on the Resolutions. If no indication is given, the Proxy in its discretion will vote as it thinks fit.

FORM OF PROXY

INSTRUCTIONS FOR COMPLETION

1. The full name and the registered address of the shareholder appointing the Proxy should be legibly entered in the Form of Proxy, duly signed and dated.

2. The completed Form of Proxy should be deposited at the Registered Office of the Company at No.64, Galle Road, Colombo 03 not less than thirty six (36) hours before the time appointed for the holding of the Meeting.

3. The Proxy shall –
   (a) in the case of an individual, be signed by the shareholder or by his attorney, and if signed by an attorney, a notarially certified copy of the Power of Attorney should be attached to the completed Proxy if it has not already been registered with the Company.

   (b) in the case of a company or corporate body, either be under its Common Seal or signed by its attorney or by an officer on behalf of the company or corporate body in accordance with the Articles of Association or the Constitution of that company or corporate body.

   The Company may but shall not be bound to, require evidence of the authority of any such attorney or officer.

   (c) in the case of joint holders, be signed by the joint holder whose name appears first in the Register of Members.

4. Every alteration or addition to the Proxy must be duly authenticated by the full signature of the shareholder signing the Proxy. Such signature should as far as possible be placed in close proximity to the alteration or addition intended to be authenticated.

5. Please indicate with an 'X' in the space provided how your Proxy is to vote on the resolution. If no indication is given, the Proxy will vote as it thinks fit.

Please fill the details:

Share Certificate No./ CDS Account No.	:
Name	:
Address	:
Jointly with	:
National Identity Card No/s. Passport No/s of the shareholders	:

STAKEHOLDER FEEDBACK FORM

We welcome your valuable feedback on this integrated Annual Report, on our commitments and our performance. Please complete the following and return this page to –

Acting Head of Finance
Union Bank of Colombo PLC
No. 64, Galle road,
Colombo 03,
Sri Lanka

Name : ....

Permanent Mailing Address : ....

Contact number – (Tel) : ....

(Fax) : ....

E-mail : ....

Queries / Comments

Recommendations

NOTES

CORPORATE INFORMATION

Name of the Company
Union Bank of Colombo PLC

Legal Form
A Public Limited Liability Company incorporated in Sri Lanka under the Companies Act No. 17 of 1982 and re-registered under the Companies Act No. 7 of 2007. Listed as a public quoted Company on the Colombo Stock Exchange. A Licensed Commercial Bank under the Banking Act No. 30 of 1988.

Date of Incorporation
2nd February 1995

Company Registration Number
PB 676 PQ

Registered Office
No. 64, Galle Road,
Colombo 03,
Sri Lanka.
Tel : +94 11 2374100
Fax : +94 11 2370971
E-mail : info@unionb.com
Website : www.unionb.com

Swift Code
UBCL LK LC

VAT Registration Number
134005610-7000

Auditors
M/s. Ernst & Young,
Chartered Accountants,
No.201, De Saram Place,
Colombo 10.

Board of Directors
Atul Malik - Chairman
Priyantha Damian Joseph Fernando - Deputy Chairman/Senior Director
Indrajit Asela Wickramasinghe - Executive Director/Chief Executive Officer
Mohamed Hisham Sabry Ghouse
Gaurav Trehan
Puneet Bhatia
Michael J O' Hanlon
Dilshani Gayathri Wijayawardana
Trevine Sylvester Anthony Fernandopulle
Sarath Wikramanayake

Alternate Directors
Sanjeev Mehra

Company Secretary
Inoka Jayawardhana

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UNION BANK

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