REFOCUS
READJUST
REINFORCE

UNION BANK

ANNUAL REPORT 2020

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REFOCUS READJUST REINFORCE

'Refocus, readjust, and reinforce' has been our mantra during a year in which we experienced unprecedented challenges.

Although the pandemic proffered many obstacles that impeded our strategic growth intentions for this year, our resolute nature and strong financial standing enabled sustained progress amidst adversities.

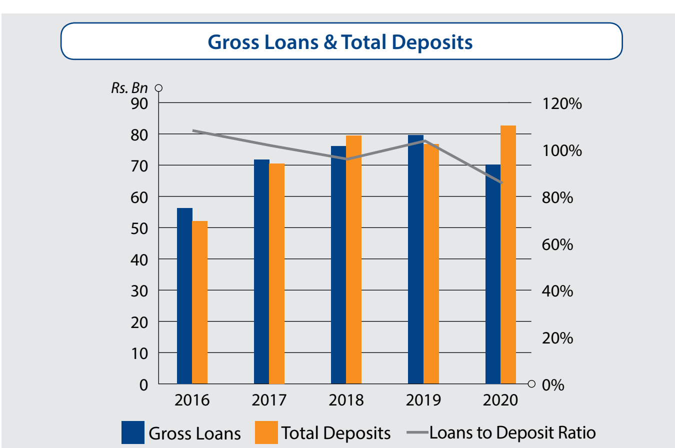
As an empathetic banking partner, we readjusted our strategic priorities to continuously support and empower our stakeholders during this arduous time. Effectuating these to our staff we provided a safe and flexible work environment while to our customers we enhanced accessibility through strengthened digital channels and offered timely credit relief, financial impetus and expertise by engaging in empathetic dialogues with them. We worked diligently with regulators, authorities and all our stakeholders to ensure best practices during times of uncertainty and supported the rebuilding efforts of our communities.

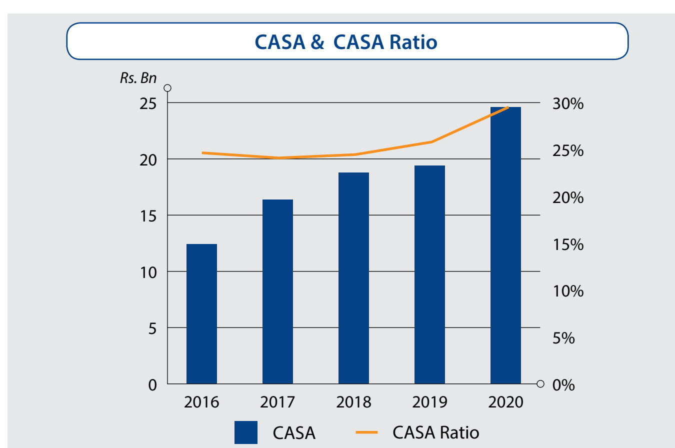
Aided by our mantra of 'refocus, readjust and reinforce' we continued to stay strong and resilient: by refocusing our strategies to meet evolving stakeholder needs, readjusting our priorities to ensure safety, well-being and sustained growth of our stakeholders and reinforcing our customers with support to revive their livelihoods, businesses and lifestyles within the 'new normal'.

Contents

Financial Highlights

	BANK 2020	BANK 2019	BANK Change %	GROUP 2020	GROUP 2019	GROUP Change %
Results for the year (Rs.'000)						
Gross Income	13,370,190	14,712,069	-9.1%	15,042,092	16,781,718	-10.4%
Total operating income	5,890,249	6,020,594	-2.2%	6,688,145	6,916,154	-3.3%
Impairment for loans and other losses	735,731	390,294	88.5%	948,288	580,288	63.4%
Profit attributable to equity holders of the parent	576,536	710,347	-18.8%	632,712	765,133	-17.3%
Assets and Liabilities (Rs.'000)						
Gross loans and advances to customers	69,994,780	79,316,043	-11.8%	76,924,720	87,397,947	-12.0%
Due to customers	82,383,852	76,532,012	7.6%	87,104,192	82,751,668	5.3%
Total assets	122,943,274	121,753,659	1.0%	129,570,362	129,839,965	-0.2%
Total liabilities	104,853,257	104,243,203	0.6%	111,505,406	112,400,694	-0.8%
Total equity attributable to equity holders of the Bank	18,090,017	17,510,456	3.3%	17,834,363	17,198,626	3.7%
Profitability (%)						
Net Interest Margin	3.16%	3.62%		NA	NA	
Non-performing loans ratio (Gross)	6.05%	5.03%		NA	NA	
Return on average shareholders' funds (ROE)	3.24%	4.16%		3.61%	4.57%	
Return on average assets (ROA)	0.47%	0.57%		0.49%	0.58%	
Investor Information						
Earnings per share - Basic (Rs.)	0.53	0.65		0.58	0.70	
Net asset value per share (Rs.)	16.70	16.16		16.46	15.87	
Market value per share as at 31 December (Rs.)	11.70	13.30		NA	NA	
Market capitalisation (Rs.000)	12,677,633	14,411,321		NA	NA	
Dividend per share (Rs.)	-	0.14		NA	NA	
Dividend yield (%)	-	1.05%		NA	NA	
Regulatory Ratios (%)						
Capital Adequacy Ratios (%)						
Common Equity Tier 1 Capital Ratio (Minimum Requirement - 2020- 6.5% & 2019 -7.0%)	16.66%	16.61%		16.34%	16.12%	
Tier 1 Capital Ratio (Minimum Requirement- 2020 - 8.0% & 2019 -8.5%)	16.66%	16.61%		16.34%	16.12%	
Total Capital Ratio (Minimum Requirement- 2020 - 12.0% & 2019 - 12.5%)	16.95%	16.75%		17.00%	16.36%	
Leverage Ratio (Minimum Requirement - 3%)	10.23%	10.64%		10.14%	10.36%	
Liquid Asset Ratio (Minimum Requirement - 20%)						
Domestic Banking Unit	29.08%	22.95%		NA	NA	
Foreign Currency Banking Unit	21.93%	21.95%		NA	NA	
Liquidity Coverage Ratio (%) (Minimum Requirement - 2020 - 90% & 2019 - 100%)						
Rupee	861.13%	225.57%		NA	NA	
All Currency	459.60%	154.70%		NA	NA	
Net Stable Funding Ratio (Minimum Requirement - 2020 - 90% & 2019 - 100%)	121.05%	113.08%		NA	NA	





Corporate Profile

Established in 1995 as the 8th indigenous bank, Union Bank recorded 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 recorded 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 and to the technological and delivery platforms with a 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, digital banking platforms 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 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 approximately $ 85 Bn of assets under management and offices in San Francisco, Fort Worth, Austin, Beijing, Hong Kong, Houston, London, Luxembourg, Melbourne, Moscow, Mumbai, New York, 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

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 2020 to 31st of December 2020, 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 contribute 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 2019.

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 130-131 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 2020, 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 of operations and changes in the location of suppliers, the structure of the supply chain, or in relationships with suppliers, including selection and termination.

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. As an addition to the material topics and boundaries the tax disclosure has been incorporated. The significance of materiality topics discussed herein are detailed below.

Economic Performance (GRI 201)

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 12-13. 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) (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.

Employment/Anti-Competitive Behaviour (GRI 401/206)

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 taken 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 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 (GRI 403)

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. Bank also imposed effective controlling mechanisms and health safety measures such as providing face masks, surgical gloves, hand sanitising facility to ensure employee safety from the prevailing pandemic, COVID-19. As a responsible employer that is concerned about the health and safety of its employees in the face of the pandemic, the Bank has minimised staff coming in to work by facilitating Work From Home (WFH) options and allowing staff to perform their duties on a roster basis. In addition, all employees in 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 equipment are checked and well-maintained frequently. All department heads led by the HR department, ensure employee safety from COVID-19, by prioritising on enhancing awareness and maintaining regular communications with their respective teams. 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.

Training and Education/Labour Management Relations (GRI 404/402)

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 be provide an update of 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 programmes 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 (GRI 418/417/419)

Reasons for Materiality	As one of the fastest growing commercial banks in Sri Lanka with a Branch 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.

Diversity and Equal Opportunity (GRI 405)

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 (GRI 406/408/409)

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 is 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.

Tax (GRI 207)

Reasons for Materiality	Tax could be recognised as the key mechanism which allows corporates to contribute to the economy and social well-being. As a responsible corporate citizen, the Bank has an obligation to comply with tax legislations and ensure tax compliance to its stakeholders.
Management Strategy	The Bank provides significant concern towards tax regulations and a separate managerial person has been assigned to ensure that the Bank's functions are in line with the prevailing tax laws which are volatile in nature due to unstable economic conditions. Currently, the Bank adheres to the main tax requirements of Income Tax of 28% on Bank Operations, Value Added Tax (VAT) liability of 15% on Financial Services and 8% on Non-Financial Services. The Bank encourages to maintain an intense concern towards rapid changes in taxation and remains flexible to incorporate respective fluctuating regulatory requirements to its operations.
Evaluation Mechanism	Reviews and audits are carried out by internal and external auditors to facilitate further assurance on the Bank's compliance towards prevailing tax rules and regulations. Further, the Compliance department also conducts regular reviews on respective tax regulations to ensure the fact that the Bank is preserving the title of a responsible corporate citizen in all aspects.

Other GRI Prospects

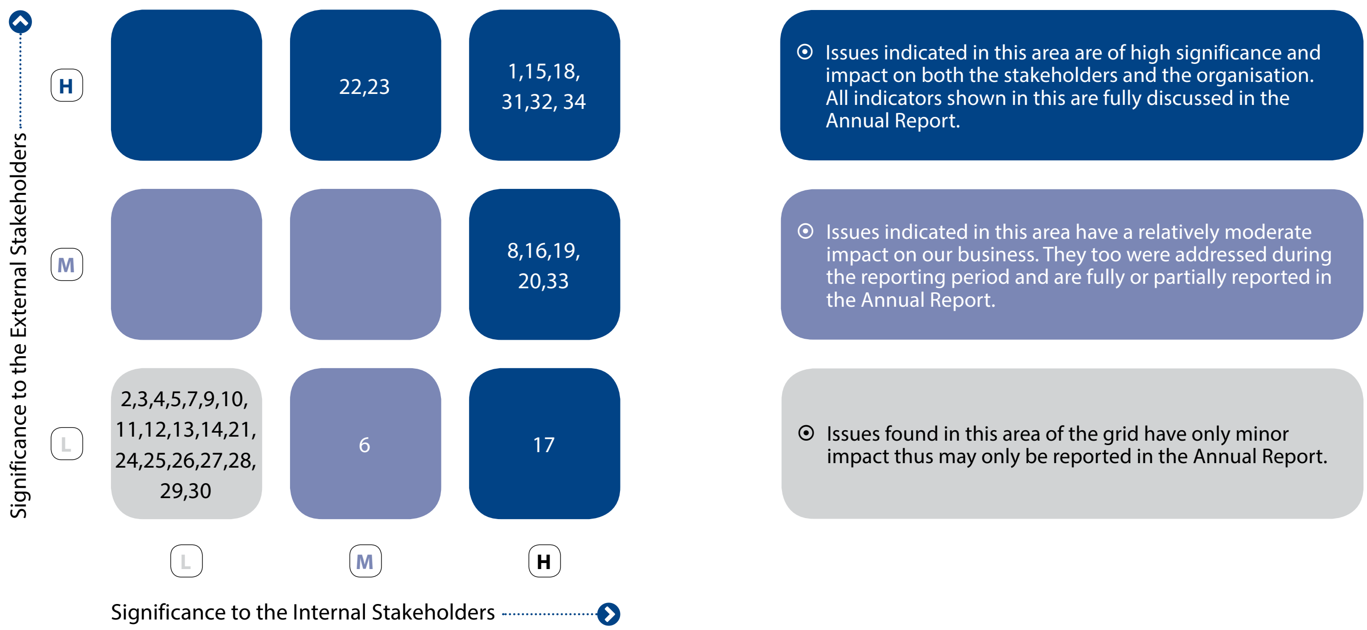
(GRI102-11/102-16/402-1)

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.

(GRI 102-46)



1. Economic Performance	13. Environmental Compliance	25. Rights of Indigenous People
2. Market Presence	14. Supplier Environmental Assessment	26. Human Rights Assessment
3. Indirect Economic Impacts	15. Employment	27. Local Communities
4. Procurement Practices	16. Labour/Management Practices	28. Supplier Social Assessment
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12. Effluents and Waste	24. Security Practices	

Contact

(GRI 102-53)

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

Financial Controller,
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 303 in this report.

Stakeholder Engagement

Creating Sustainable Corporate Values

(GRI 102-40)

Stakeholder	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

The table below illustrates how we engage with our important stakeholder groups

(GRI102-43/102-44/207-3)

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 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;

Step 1	Step 2	Step 3	Step 4	Step 5
Stakeholder identification and initial outreach	Establish mission, goals and objectives	Define performance criteria and resource requirement	Evaluate deficiencies and develop alternative plan	Performance measure and feedback

Feedback

We value your suggestions to enhance our processes, for your suggestions please find attached the Stakeholder Feedback Form on page 303 in this report.

Key Performance Indicators

ENVIRONMENT

104
No. of trees saved

24,500
KWH of electricity

14
Cubic metres of land fill

8,808
Oil litres

162,300
Water litres

EMPLOYEES

1:1.4
(Female : Male)
Employee composition ratio

1,275
Work force

NETWORK

67
No. of branches

115
On-site/Off-site ATMs

SHAREHOLDERS

7.60%
ROE - Before all taxes

3.24%
ROE - After all taxes

REGULATORS

Rs. 409 Mn
Taxes paid to Government

Rs. 35 Mn
Taxes collected on behalf of the Government

FINANCIAL

Rs. 1,382 Mn
Results from Operating Activities

Rs. 123 Bn
Total Assets

6.05%
Gross NPA Ratio

16.66%
Tier 1 Capital Ratio

16.95%
Total Capital Ratio

8% (Growth)
Deposits

3.16%
Net Interest Margin

85%
Loans to Deposits Ratio

30%
CASA Ratio

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.

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.

REFOCUSING

on our strength to enable agile strategies geared for continued progress while empowering our employees with safer and flexible work processes.

UNION BANK

Chairman's Message

"At Union Bank we have kept our business agile and managed to adjust quickly to assess scenarios and enable proactive remedies throughout the past year. We continue to extend financial support and customer relief programmes with prudence while sharing our knowledge with our customers and innovating where novel solutions are deemed essential."

Dear shareholders, customers and partners,

2020 - A year of resilience and reshaping
We are living during a challenging time for our communities and our economies. The predicaments around the COVID-19 pandemic have extended beyond a health crisis and has left no one untouched. The virus is not only claiming human lives - it is subjecting individuals, countries and the global economic order to extraordinary stress. But these challenges only reinforce your Bank's resolve to continue working towards its vision of making its stakeholders more resilient to the changing landscape.

Over 25 years, Union Bank has grown with the financial strength, stability and expertise that have enabled us to support our stakeholders through many challenges, and today this is no different. We have an experienced team of corporate management supported by a committed team of staff members, along with solid business continuity and risk management processes to keep our organisation functioning without disrupting stakeholder expectations, while also ensuring the health and safety of our employees and their families.

The impact of COVID-19 has taught us much about how quickly the world can change and has demonstrated our ability as individuals, communities and businesses to collaborate, adapt and find new ways forward in unforgiving circumstances. At Union Bank, we have kept our business agile and managed to adjust quickly to assess scenarios and enable proactive remedies throughout the past year. We continue to extend financial support and customer relief programmes with prudence while sharing our knowledge with our customers and innovating where novel solutions are deemed essential. With our robust infrastructure and agile working capabilities, we have and will continue to devote ample resources to help our customers and partners navigate the current circumstances.

In the year 2020, Union Bank crossed the significant milestone of completing 25 years of service to the nation. The year tested the grit and foundations of the Bank in many ways and the Bank emerged strong amidst challenges. While operational performance suffered amidst the slowdown of economic activity, the Bank continued to focus on cost optimisations, effective resource and productivity management as well as prudent portfolio management to overcome these tough conditions.

Although the monetary policy of the Central Bank continued to be eased throughout the year supplemented by policy rate cuts, the demand for private credit still remained low owing to the challenging market conditions. The overall impact of import restrictions were reflected on the decline of trade related fee income. The low investor confidence and rupee fluctuations were other contributing factors to a rather stagnant economy and the resultant impact on the Bank's operational performance.

While the performance of the entire Banking sector was affected by the impacts of the COVID-19 pandemic, you will be pleased to note that your Bank has effectively withstood a difficult year to produce returns while maintaining healthy liquidity levels; notwithstanding continuous relief and support extended to identified customer groups. Although our asset books have been impacted by the lowered appetite for credit that persisted throughout the year, the Bank has been unwavering in its resolve to maintain a healthy liquid and capital position. Union Bank stands confident with an industry leading capital position alongside significant financial flexibility that effectively help mitigate the pandemic induced economic impacts. Your Bank will continue to manage its capital position with the prudence that current volatility calls for.

We are pleased that as a Bank and an essential service to the community, over the past year we have been able to effectively make a positive contribution during this crisis, thanks to our deep understanding of risk management, the strong customer relationships nurtured over the years and our robust capital strength.

2021 – A year to refocus, readjust and reinforce our strategic priorities

Looking ahead, the breadth and depth of our operation and our ability to provide a comprehensive range of financial services would play key roles in the road to recovery and catching up on the lost opportunities of the previous year. We will engage with our customers continuously keeping in mind that there has never been a more pressing need to help our customers and partners to navigate swiftly, to rethink and reconfigure their businesses for a changed world.

At Union Bank we will focus on a renewed business strategy that will assure progress and monetisation in identified key growth aspects. We will continue on our pursuit to 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 and keeping a close watch on avenues for cost optimisation.

We will continue to regard our staff as our richest asset and will do our utmost to support them in their daily endeavours of keeping the operations alive amidst challenges and limitations posed by the evolving phases of the pandemic. Providing our staff with a safe and healthy environment to work in, while assuring job security and rewards will remain key management priorities amidst a challenging backdrop.

We will invest in further enhancing on our technological infrastructure to thrive in the new normal which is heavily reliant on digital capabilities. We will enhance our focus to go digital, be digital and enable digital in the lives of our customers and partners in a view to be in-sync with the changing customer preferences and inclinations.

Union Bank will continue to leverage on its strengths of a sound capital base, an inimitable team and the ability for swift execution and adaption of strategies to navigate the Bank in a path of accelerated growth in 2021 and beyond. As the country's economy and our communities weather this pandemic situation, Union Bank will continue to be a strong partner that our stakeholders could rely on.

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

Appreciation

The Bank has received support from multiple stakeholders through the year 2020.

The Central Bank, particularly the Governor and the Deputy Governors, have provided astute counsel which has been greatly beneficial. Customers, amidst the many challenges and limitations of the operating environment, have continued to place their trust in the Bank- strengthening existing relationships and forming new partnerships.

Within the Bank, members of the Board of Directors and the Chairpersons and members of Board Committees, have provided able guidance which has enabled the Bank's fortitude amidst a challenging landscape. We bade farewell to the Deputy Chairman during the year 2020 and it is apt to place on record my sincere gratitude to veteran banker Mr. Priyantha Fernando for his unstinted service to Union Bank as a member of the Board of Directors and especially in his role as Deputy Chairman. I take this opportunity to congratulate Mr. Sabry Ghouse on his appointment as the Deputy Chairman and look forward to his continued support in steering the strategic direction of the Bank along with the other Board Directors.

To all institutions, individuals, and well-wishers, I would like to record the Bank's deep appreciation of support provided in numerous ways to navigate amidst a tough environment. 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 2021.

Atul Malik
Chairman

Chief Executive Officer's Message

"The Bank took measures to immediately roll out the financial relief scheme recommended by the Central Bank of Sri Lanka (CBSL) in March 2020, in a bid to help communities to recover from the financial impacts of the pandemic in the short to medium term. The financial relief package recommended by CBSL placed focus on corporate, SME and retail banking customers."

Dear stakeholders,

Enduring a year of unprecedented adversity

2020 has been a year like none other in current times. We are in the midst of a global pandemic that has impacted millions of people, cost hundreds of thousands of lives and caused deep stress on the global and local economies. Amidst this landscape, living the values such as resilience and resolve has never been more important.

Despite the unprecedented challenges experienced, the year that went by was also a time that brought out the best in many people, from the healthcare staff and the tri -forces and Police on the front-lines, to the essential workers keeping the infrastructure running and most importantly our very own team here at Union Bank. I am proud to be leading team Union Bank that rose to the challenge with commitment and resilience, which enabled the Bank to play its vital role as an essential services provider; offering continued banking services and financial assistance to our customers while ensuring the safety of the customers and each other.

Your Bank has displayed immense resilience during the year under review, despite the overwhelming macro-economic environment that impacted not only the performance of the Bank but also affected the banking sector as a whole, not to mention other key industries that keep our island nation's economy intact. Despite the above, the Bank reported a total operating income of Rs. 5,890 Mn within the year under review. Cost optimisation was a key management priority that supported the sustained financial performance of the Bank. Operational efficiencies, productivity improvements, maximising and enhancing digital capabilities were some of the key operatives that drove cost optimisation goals in the year 2020. Net Interest Margins (NIM) compressed under macroeconomic impacts and continued policy rate cuts. Prudent management of portfolios and strategic realignment of facilities were critical to minimise the negative impacts of this. Net Interest Income of the Bank was Rs. 3,870 Mn during the year under review, while the fee income was Rs. 872 Mn and was impacted largely by the import restrictions that mired trade related income along with the numerous fee waivers extended as part of the COVID-19 financial support provided to the affected customers.

Despite external shocks that affected growth, Union Bank recorded a Profit After Tax of Rs. 577 Mn for the year ended 31st December 2020. Union Bank maintained healthy liquidity ratios, with excess liquidity buffers and stood confident of withstanding unprecedented challenges of the year 2020 with the strong foundation afforded by its robust capital base. The Bank has a strong foundation to continue this firm fortitude into the year 2021, while operating in the 'new normal'.

Supporting people through the pandemic

The effects of the COVID-19 pandemic left no one untouched and as an essential services provider and more importantly as a financial partner, Union Bank stepped up to support its customers, employees and partners to navigate through this difficult time.

While being deeply appreciative of the work carried out by local authorities to control the spread of this pandemic in the country, the Bank strived to play its part first by complying with all the guidelines issued by the authorities and secondly by contributing to the economic recovery of its customers affected by COVID-19. As an essential services provider during this time of uncertainty, the team at Union Bank has been doing its best to keep the services up and running while also ensuring the safety of staff and customers which were given utmost priority. A number of arrangements were made at the Head Office and branch premises to ensure that stringent levels of hygiene and safety are practiced safeguarding our customers and staff. The branch managers and relationship managers have consistently kept in touch with the customers to ensure that they are well informed on the relief measures and are able to avail the facilities being offered.

The Bank took measures to immediately roll out the financial relief scheme recommended by the Central Bank of Sri Lanka (CBSL) in March 2020, in a bid to help communities to recover from the financial impacts of the pandemic in the short to medium term. The financial relief package recommended by CBSL placed focus on corporate, SME and retail banking customers. As an immediate measure, the Bank requested impacted borrowers in self-employed and business segments to apply for loan moratoriums and relief schemes. Dedicated web portals were set up by the Bank to accommodate relief requests from corporate, SME and retail banking customers from 1st April onwards.

Under the recommend relief scheme, self-employed personnel, foreign currency earners (both individuals and businesses), small and medium enterprises in the Agriculture, Manufacturing, Services, Construction and Trading sectors and large and medium sized corporates in Tourism, direct and indirect export related businesses including Apparel, Plantation, IT, Logistics and selected other industries were eligible for loan repayment moratoria of capital and interest from Union Bank up to 6 months. Furthermore, with the intent of providing immediate relief to SMEs and small-scale traders, etc. charges on cheque returns and stop payments were waived until 30th September 2020 while the validity period for issued cheques below Rs.500,000/- of value were extended until 15th May. In line with the CBSL directions, Pawning interest rate was reduced to 10%. p.a. with effect from August 2020. As part of its relief efforts for affected customers, around 58% of the Bank's SME portfolio value had been accommodated under different moratorium schemes.

For the benefit of impacted retail banking customers, the Bank announced immediate extensions for credit card dues in the month of March and April along with a two-month extension for all personal borrowings such as loans and leases. Other relief measures to retail banking customers included a three-month debt moratorium for all personal loans of value less than Rs. 1 million. In addition, the maximum interest rate applicable for credit card transactions up to 50,000/- was reduced to 15% p.a and the minimum payment was reduced to 2% from 4%, while late payment fees were waived for all credit cards and loans until 30th September 2020.

In addition to the above, a significant number of impacted customers were granted debt relief schemes outside the CBSL defined criteria, in-line with the Bank's internal credit policy guidelines. Amongst the schemes that were considered for such moratoria are Loans and Leases, Overdrafts, Pawning and Trade Finance facilities. Further, eligible non-performing borrowers who had requested for relief schemes, were also provided with customised re-schedulements, inclusive of waivers on accrued interest whilst further recovery action was withheld temporarily.

Union Bank remained committed to support Corporate and SME Banking customers with working capital loans at low-interest rates to revive their business operations; while extending its continuous support to ensure timely processing of salaries, remittances and international trade transactions in a bid to support business owners to keep their enterprises progressing amidst a challenging landscape. Union Bank's Corporate Banking customers were proactively approached with customised financial solutions to help reinforce their strategic remodeling efforts post-lockdown. The Bank's SME Banking efforts were focused on supporting customers to re-ignite their businesses and livelihoods while channeling the CBSL backed funding schemes to enable SME business revival in-line with the national vision for economic recovery. During the period under review, the Bank has granted working capital loans under Central Bank's 'Saubhagya' concessionary credit scheme to SMEs in sectors that were adversely affected by the pandemic. These measures have substantially helped affected entrepreneurs to re-strategise and recommence business activities amidst subdued economic conditions.

Following the outbreak of the second wave in October 2020, identified moratoria of affected customers across Corporate, SME and Retail segments were further extended to ensure resilience amidst continuous contraction of business activity in identified sectors.

Despite limitations and challenges and amidst lockdowns, curfews and regional isolation procedures imposed from time to time to curtail the spread of the virus, Union Bank continued to provide its customers with uninterrupted banking convenience

Chief Executive Officer's Message

"Leveraging on existing customer relationships to explore cross-sell opportunities and exploring internal collaboration and upsell opportunities will be a significant part of our growth strategy. The focus on strategic growth segments, prudent portfolio expansion and inclusive banking approaches would define the path for Union Bank's progress in the coming year."

via strategically located branches that have remained open. The Bank's network of on-site and off-site ATMs island-wide, supplemented by over 4500 ATMs connected via the LankaPay Common ATM Switch have been instrumental in providing easy access to customer accounts at times of emergency. The Bank's Online Banking portal and Mobile Banking app were further enhanced to facilitate a wide range of banking transactions for users enabling contactless banking from the safety of their homes.

In keeping with its corporate ethos to create a better tomorrow for the community, Union Bank continued its commitment to support and empower the Bank's customers impacted by the COVID-19 pandemic and will continue to steer them along the path of recovery in the year 2021 and beyond.

Looking ahead towards 2021 and beyond

The year 2021 will be a continuation of the strategic pursuit for creating and protecting value for our stakeholders while ensuring the safety and well-being of our customers and staff members.

Our readjusted strategic goals for 2021 place focus on playing to our core strengths, with focused approaches on selected segments while creating shared value to our customers and other stakeholders alike.

While pursuing the growth targets, continuously supporting customers and helping them navigate through these uncharted waters will remain a key management priority. Focus on short to medium term retail lending, credit cards and continuing to build the current and savings portfolios will take precedence in the year 2021 and beyond. Corporate Banking customers of the Bank will continue to be served with customised facilities and packages that would match the unique financial requirements of the specific industries represented. The Bank will remain committed to partnering the growth of SMEs and this sector identified as the growth engine of the economy, remains a key focus within the strategic agenda of the Bank. Leveraging on existing customer relationships to explore cross-sell opportunities and exploring internal collaboration and upsell opportunities will be a significant part of our growth strategy. The focus on strategic growth segments, prudent portfolio expansion and inclusive banking approaches would define the path for Union Bank's progress in the coming year.

The Bank will place significant emphasis on its digital footprint in the year 2021 and beyond with a vision to become an integrated digital financial solutions provider. To this end, the Bank will continue to invest in a number of strategically prioritised digitisation initiatives including the enhancements to its Mobile app and Online Banking propositions. In line with CBSL's vision for rapid digitalisation of payments and financial services, Union Bank will continue to actively adopt new technologies, collaborate with digital partners and promote digitalisation in various areas of its business with the objectives of enhancing customer experience, generating new business opportunities and improving productivity and efficiency. To this end, improving IT capabilities and infrastructure, enhancing process efficiencies through automation as well as capitalising on digital channels with customer convenience at the forefront will lead the way amongst the Bank's key investments in the year 2021 and beyond.

Supporting the Union Bank team to excel within a safe and secure work environment will continue to be an overarching management priority. Adhering to health and safety practices recommended by authorities and continuation of agile business continuity protocols will be deemed a strategic necessity when navigating through the numerous challenges of the new normal.

Appreciation

The tempestuous journey in the year 2020 would not have been possible without the support of our stakeholders, especially our valued customers who have continued to place their confidence in us and sustained their strong relationships with us.

I wish to take this opportunity to place on record my commiseration to our customers, staff and other stakeholders that may have been personally affected by the COVID-19 pandemic, while remembering with gratitude that it is only by an essence of togetherness and unity that these difficulties could be overcome.

I extend my sincere gratitude to the leadership team, management and staff members at all levels for their resilience and commitment during the past year, which enabled the Bank to play its vital role as an essential services provider; offering continued banking services and assistance to our customers while withstanding their own personal challenges.

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

Indrajit Wickramasinghe
Director/Chief Executive Officer

READJUSTING

strategic priorities to better align our offerings with shifting customer inclinations, while aiding their progress through expert financial counsel and enhanced banking convenience.

UNION BANK

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
- 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 Cash, Tom, 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

Sri Lanka experienced yet another challenging year in 2020, as the COVID-19 pandemic brought economic activity to a halt for most of the year. The country came under added pressure to meet its foreign debt obligations as US$ 1 Bn worth of Sovereign Debt was set to mature in October. In November, the government presented its inaugural budget with a heavier focus on import substitution policies to enable the controlling of the Balance of Payments (BOP) deficit at manageable levels.

The year began with optimistic projections by the CBSL for GDP growth to double to 4.5% following subdued economic growth in 2019. Yet, the impacts of the COVID-19 pandemic resulted in a contraction of economic growth in the first half of the year, lowering the latest estimates of growth by the CBSL for 2020 to -3.9%. The largest sector-wise slowdown in economic activity during the first nine months of 2020 came from the industrial sector with a decline of 9.5%. This stemmed largely due to a halt in production activities with lockdown restrictions being imposed in light of the COVID-19 pandemic. The Agriculture sector was the least affected, experiencing a decline of 2.5%, while growth in the services sector fell to -2.6%, arising from the large decline in the Accommodation, Food and Beverage service activities subcategories as the airport closed to tourists since March.

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 4.2% Year-on-Year (YoY) growth in December, maintaining its annual average at 4.6%, an increase from the 4.3% annual average growth recorded in 2019, with the NCPI recording a 6.3% annual average growth by November 2020 as per the 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 2021, supported by Central Bank policy.

Throughout the year, the Central Bank persisted with an accommodative monetary policy stance in a bid to support the economy amidst slow GDP growth and falling credit growth. It enacted a series of policy rate cuts reducing the Standing Deposit Facility Rate (SDFR) and the Standard Lending Facility Rate (SLFR) by 250 basis points for the full year in order to support the revival of the domestic economy and bring down lending rates. Similarly, the Statutory Reserve Ratio (SRR) was brought down by a cumulative 300 bps during the year to stand at 2.0% at the end of the year. To further support the revival of the economy, the Central Bank in August revised caps on interest rates on certain credit products including credit cards, pre-arranged temporary overdrafts and pawning facilities. As a result of these efforts, credit to the private sector grew throughout the year, with YOY growth rising to 6.2% in November (latest available data), compared to the 4.5% growth at the end of 2019.

Despite the effects of the COVID-19 pandemic on the economic activities and the exports of the country, due to the restrictions imposed on non-essential goods imports, the trade deficit fell by 24.8% to US$ 4.8 bn during the first ten months of the year compared to the US$ 6.5 bn recorded in the same period of 2019.

Notwithstanding the positive impact on the trade balance, the overall Balance of Payments (BOP) balance recorded a considerable deficit of US$ 2.1 Bn during the first ten months of the year compared to the US$ 667 Mn surplus recorded in the corresponding period in 2019. The high deficit was mainly driven by a fall in tourist earnings due to the closure of airports as a result of the COVID-19 pandemic, which fell by almost 70% during the first 11 months of the year compared to the same period in 2019. Workers' remittance inflows however rose by 3.9% during the same period. Gross official reserves were estimated at US$ 5.6 Bn as at end-November 2020, ending considerably lower from the US$ 7.6 Bn recorded as at end of 2019.

The LKR depreciated rapidly at the end of the first quarter, with the currency breeching the Rs. 200 mark in April. However, the currency stabilised later on in the year, as a result from macro-prudential regulations undertaken by the Central Bank. As a result, the LKR recorded a 2.7% depreciation against the US dollar as at end of the year 2020.

The stock market took a nose-dive during the first five months of the year with the ASPI falling 28.3% up to May, as the market halted its activity due to the effects of the pandemic and related lockdowns. However, as these measures relaxed, the index soon recovered to record a 10.5% rise for the full year, the highest annual increase the index has seen since 2014.

Looking ahead, the future economic prospects of Sri Lanka are largely dependent on how successful the country would be in mitigating the medical and economic impacts of the COVID-19 pandemic with a vaccination being rolled out globally and how quickly tourist arrivals could resume. It is also exposed to developments in global markets which could determine the level of foreign inflows the country is set to receive including Foreign Direct Investments and foreign financing. One of the biggest concerns faced by the economy in 2021 will be its debt sustainability. However, with the expected economic revival and global investors' interest in high yield risky assets in addition to the potential for more bilateral support, fears of a sovereign debt default remain subdued.

Global Economic Overview

In its World Economic Outlook released in October 2020, the IMF expects global growth to contract by 4.4% in 2020 as a result of the downdraft from periodic resurgence of COVID-19 across the globe and stalled re-openings of economies in the second half of the year. While global growth is projected to increase to 5.2% in 2021, the IMF noted that the recovery is likely to be characterised by persistent social distancing until health risks are addressed and that countries may have to again tighten mitigation measures depending on the spread of the virus. Their baseline projection assumes that social distancing will continue into 2021 but will subsequently fade over time as vaccine coverage expands and therapies improve.

China continues to be the only economy in the world to show positive growth as its GDP is predicted to expand by 1.9% in 2020.

Due to recovering from the pandemic faster than expected, IMF predicts China's growth to accelerate by 8.2% in 2021. As a result of the early grip China has had on containing the effects of the virus, the IMF expects the proportion of worldwide growth contributed by China to increase from 26.8% in 2021 to 27.7% in 2025, which is more than 15 and 17 percentage points higher respectively than the US's share of expected global output.

Even though the pandemic reversed the outlook of the capital flows to emerging markets, due to massive policy support from major central banks such as the US Federal Reserve (Fed) and the Bank of Japan, flows to EMs have shown a rebound.

From a peak reached early in the year, the emerging-markets currency index weakened over 7.0% to hit a low in late March. It has since recovered with around a 3.0% gain on bets of a quick economic rebound and more stimulus even as US-China relations deteriorate. While MSCI's EM currencies index had gained by the end of 2020, a bulk of its strength had come from Asian units. EMEA currencies had underperformed their Asian peers, as the rapid spread of the virus, loose monetary policy and geopolitical tensions made them less attractive.

With the onset of the pandemic, the US Federal Reserve voted to hold interest rates at 0%-0.25% and is committed to keeping rates at current levels until the economy recovers. The goal is to boost the economy, battered by the coronavirus pandemic. The US Federal Reserve noted that economic activity and employment have continued to recover but remain well below their levels at the beginning of the year, adding that it seeks to achieve maximum employment and inflation at the rate of 2.0% over the longer run.

Having plummeted in April, oil prices have partially rebounded in response to a steep drop in production, particularly among OPEC and its partners. While consumption has risen from its lows in the second quarter of 2020, it remains well below its pre-pandemic level. According to the World Bank, the pandemic is expected to have a lasting impact on oil consumption, with demand only likely to fully recover by 2023. Oil prices are forecast to rise to an average of $44 a barrel in 2021 from an annual average of $39.68 a barrel in 2020, as the gradual rise in demand coincides with an easing of supply restraint among OPEC+.

Banking Sector Overview

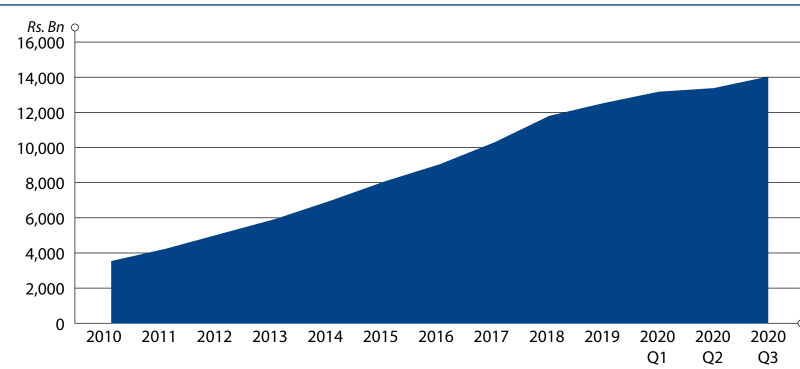
The impact of the negative economic environment brought on by the COVID-19 pandemic on the banking sector performance was particularly reflected by higher impairment charges and a contraction in interest income in 2020. However, regulatory measures introduced by the Central Bank to better manage the adverse economic impact enabled banks to operate with sufficient capital and liquidity ratios during the period. One of the main measures introduced by the CBSL was the granting of a six-month debt moratorium to provide relief to affected businesses and individuals in March 2020. Following the second COVID-19 outbreak in October, the moratoriums were permitted to be extended by a further six months.

Along with policy measures introduced by the government such as the restriction on non-essential imports, the CBSL also implemented several monetary policy relaxation measures to support the economy. Accordingly, the Standing Deposit Facility Rate (SDFR) and The Standing Lending Facility Rate (SLFR) were reduced by a total of 250 basis points each over the first seven months of the year. This led to the Average Weighted Prime Lending Rate (AWPLR weekly) to reduce by over 400 basis points in 2020 to stand at 5.81% in the last week of December 2020. To further facilitate an environment of increased liquidity, the Statutory Reserve Ratio (SRR) was reduced to 2%, a 300 basis point reduction over the year. The CBSL also imposed maximum interest rates on specific lending products including pawning, credit cards and housing loans.

Despite the Unfavourable Economic Environment, Asset and Deposit Growth Improved During the Year

Total assets topped Rs. 14 Tn as at the third quarter of 2020, with strong asset growth recorded for the first 9 months of 2020, at 12.0%, in comparison to the much lower growth of 3.1% recorded in the corresponding period in 2019. YoY gross loan growth of the banking sector improved to 13.8% as at September 2020 from 5.6% as at end 2019, driven by growth in loans to government and State-Owned Enterprises. YoY growth in credit to the private sector which dropped to 4.2% in July 2020 improved to 6.2% by November (November 2019 – 4.2%) amidst excess market liquidity arising from expansionary monetary policy measures undertaken and low market lending rates.

Total Assets of the Banking Sector



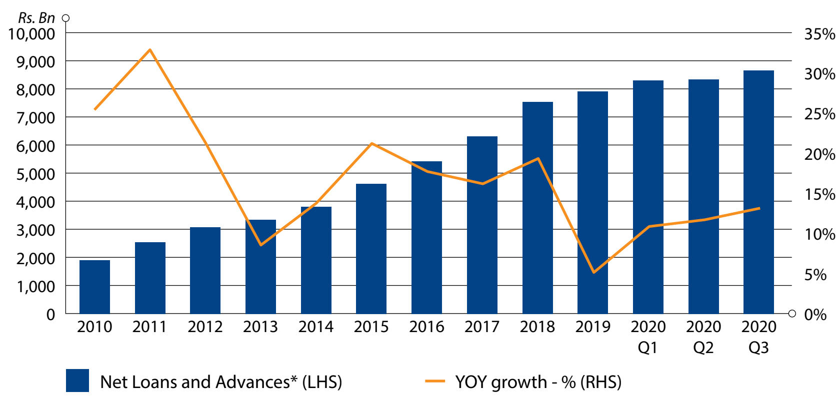
[Source: CBSL]

The growth in deposits (18% YoY as at September) stemmed from an increase in the low-cost deposit base, with the CASA ratio increasing to 33.4% as at end September 2020 in comparison to 31.6% recorded in September 2019. Total borrowings amounted to Rs. 1.7 Tn at September 2020, rising by 28 Bn over the first 9 months of 2020. In comparison, there was a decline in borrowings of Rs. 143 Bn over the first 9 months of 2019. The increase in borrowings in 2020 was driven by increases in both Rupee and foreign currency borrowings.

Lending Concentrated in Certain Key Sectors Including Consumption, Despite The Impact of COVID-19

73% of total loans and advances of the banking sector was extended to the key sectors consisting of consumption, trade, manufacturing, infrastructure agriculture and construction, increasing from a share of 67% in September 2019. By end September, the concentration of credit to the main sectors was fragmented as follows: Consumption - 17.6%, Construction - 16.1%, Wholesale and Retail Trade - 12.6%, Infrastructure – 9.6%, Manufacturing - 9.5%, Agriculture – 7.7%. Overall, net loans and advances of the banking sector stood at Rs. 8.7 Tn in September 2020 (2019 December – Rs. 7.9 Tn).

Net Loans and Advances*



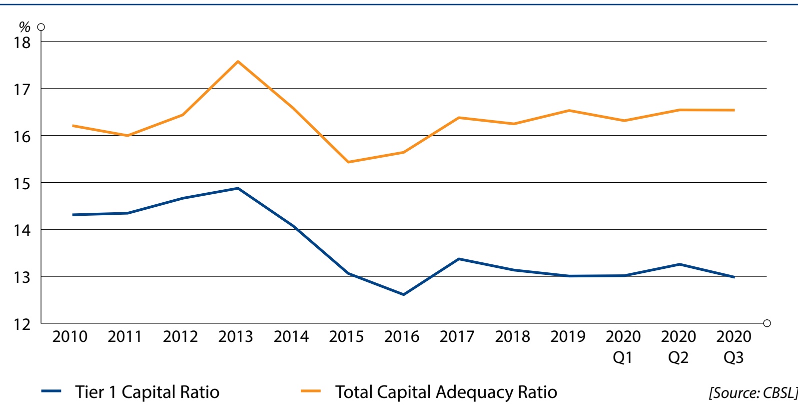
*Loans and Advances net of interest in suspense and total provisions *[Source: CBSL]*

> "Total assets topped Rs. 14 Tn as at the third quarter of 2020, with strong asset growth recorded for the first 9 months of 2020, at 12.0%, in comparison to the much lower growth of 3.1% recorded in the corresponding period in 2019"

The Banking Sector Continued to Operate Above the Minimum Regulatory Capital Requirements During the Year

The banking sector continued to operate with adequate capital and liquidity ratios during the period from January to September 2020. In 2020, the CBSL allowed banks to draw down their Capital Conservation Buffers and also imposed restrictions on dividend payments and profit repatriations with the expectation of improving capital ratios during the year. As at September 2020, the banking sector operated with a Tier 1 capital ratio of 13% and a total capital ratio of 16.5%, comfortably above the Basel III minimum requirements. Further, the lowering of the Statutory Reserve Requirement helped banks to remain compliant with the minimum Statutory Liquid Assets Ratio.

Capital Adequacy Ratios



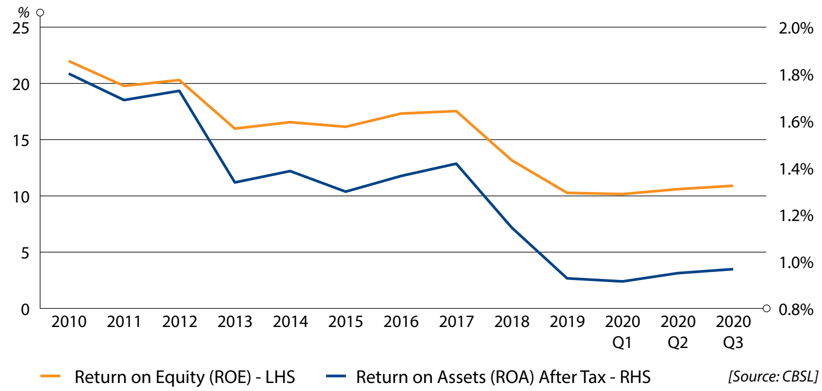
[Source: CBSL]

The Banking Sector Profits before Taxes were Impacted by Higher Impairment Charges and Lower Interest Income

Sector Profits Before Tax stood at Rs. 160 Bn as at September 2020, recording a contraction of 11% YoY. This drop in profits came amidst substantially higher impairment costs (57% growth YoY) and a decline in interest income (contraction of 4% YoY) stemming from heightened credit risks due to the COVID-19 pandemic and the low interest rate environment. However, favourable changes to tax policy which took place at the end of 2019, including the removal of the Debt Repayment Levy and Nation Building Tax enabled Profit after Tax to record a growth of 15% YoY. Profits were further supported by a growth in non–interest income, alongside gains recorded from trading in government securities amidst downward movements in interest rates and growth in foreign exchange income.

Reflecting the adverse impact of the COVID-19 pandemic, ROA before tax dropped to 1.3% in 3Q20 from 1.5% in September 2019. ROA after tax however, rose marginally to 1% from 0.9%. ROE rose to 10.9% from 10.5%.

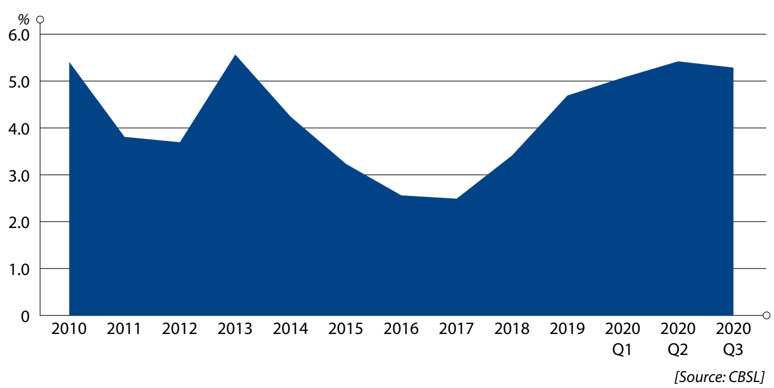
Return on Equity and Return on Assets after Tax



NPLs Increased During the Year Against the Subdued Business Environment

NPLs continued to rise in the first two quarters of 2020, coming down only marginally in the third quarter. As at September 2020, The Gross NPL ratio of the banking sector stood at 5.3%, showing an increase from the 4.7% recorded as at December 2019. The upward trend in NPLs came alongside several sectors experiencing subdued business performance. Although the related accounting treatment for moratoriums in light of COVID-19 has relatively stabilised the NPL ratios across the duration of the moratoriums, the true impact on asset quality is expected to be realised upon the expiration of the moratoriums in 2021. The agriculture, trade, tourism and construction sectors recorded NPL ratios above the banking sector average as at September 2020.

Gross Non Performing Loans Ratio



New Developments and Outlook for the Sector

Following the COVID-19 outbreak, an expansion in digitalised banking solutions and mobile payment systems was observed during the first half of 2020. Although digitalisation has been at the forefront of initiatives the banking sector has been looking to expand upon, this year has seen a faster drive for digitalisation solutions as a result of restrictions and social distancing measures put in place, improving overall cost efficiency. These digitalisation initiatives are likely to remain even after the COVID-19 pandemic has subsided.

While NPL ratios are likely to see an uptick in 2021 with the expiration of moratoriums, credit growth is expected to pick up in line with the expected rebound in economic activity, supporting banking sector profitability in 2021.

The Central Bank, in its roadmap for 2021 has also outlined plans for consolidation of the financial sector as well as plans to implement other regulatory measures including guidelines related to technology risk management and crisis preparedness in order to further strengthen the banking sector in the coming year.

Financial Performance Review

Despite a robust start in the first quarter of 2020, Union Bank's core banking growth compressed since mid-March, owing to the unprecedented challenges brought about by the COVID-19 pandemic. The onset of the second wave of the pandemic in October, further impacted the resuscitation momentum to some extent. However, the Bank remained resilient amidst sector shocks that prevailed due to the volatile macroeconomic landscape that continued throughout the year under review. The Bank focused on continued operational efficiencies including prudent cost management initiatives and portfolio preservation to manage the bottom line in a challenging environment.

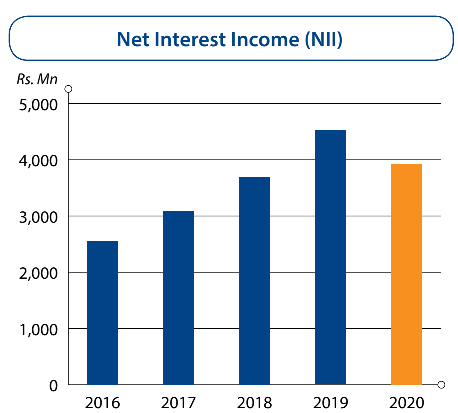
Whilst the COVID-19 outbreak weakened the country's outlook substantially and affected the overall business landscape, the Central Bank of Sri Lanka (CBSL) implemented several monetary policy relaxation measures to support the economy. Accordingly, the Standing Deposit Facility Rate (SDFR) and The Standing Lending Facility Rate (SLFR) were reduced by a total of 250 basis points each, during the first seven months of the year. This led to a reduction of the Average Weighted Prime Lending Rate (AWPLR weekly) by over 400 basis points in 2020 to stand at 5.81% in the last week of December 2020. To further enable an environment of increased liquidity, the Statutory Reserve Ratio (SRR) was reduced to 2%, with a 300-basis point reduction over the year. Consequently, lending rates in the industry recorded historic low levels in the year 2020.

Despite mounting challenges that impacted the Banking industry at large, Union Bank remained steadfast in its commitment to extend COVID-19 related financial relief to its customers while navigating in the new normal with prudence and continuing to offer its services ensuring the health and safety of its staff and customers.

In line with CBSL directives, Union Bank implemented a downward revision of interest rates on its various lending products including credit cards. The Bank took measures to provide loans at concessionary rates for Working Capital requirements of SMEs and exporters by participating in the CBSL credit schemes including the Saubhagya COVID-19 Renaissance Facility. The Bank extended moratoriums of capital and interest to affected borrowers in line with the CBSL recommended COVID-19 financial relief package criteria. In addition, a significant number of affected customers were granted debt relief schemes outside the CBSL defined criteria, in–line with the Bank's internal credit policy guidelines. Amongst the schemes that were considered for moratoria were loans and leases, overdrafts, pawning and trade finance facilities. Also, in the year under review, non-performing borrowers who had requested for relief schemes were also provided customised re-schedulements, inclusive of waivers on accrued interest whilst withholding further recovery action.

The macroeconomic pressures impacted overall loan growth while the slowdown in economic activity, the low interest environment and the decline of yields from surplus liquid assets, collectively restricted the growth of fund-based income of the Bank during the year under review.

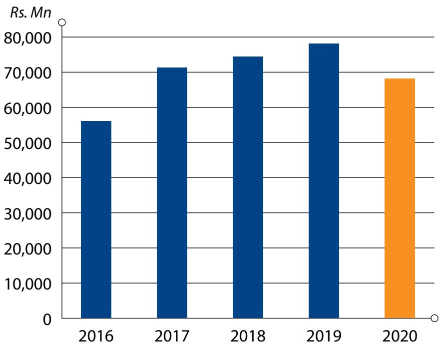
Amidst a challenging backdrop, Union Bank increased its liquidity buffers on a prudent basis and was able to maintain a strong excess liquidity position. The Bank's robust liquidity position and stability were further affirmed by Fitch ratings in the 2020 ratings release which confirmed the current rating of the Bank.

Financial Indicator	Performance
	The Net Interest Income (NII) of the Bank declined by Rs. 609 Mn to Rs. 3,870 Mn in 2020, which translated to a YoY decline of 13.6%. Net interest Margin (NIM) of the Bank dropped from 3.6% in 2019 to 3.2% in 2020. As mentioned above, the Bank facilitated moratoria on capital and interest payments for the loans of affected customers as per the CBSL directives along with other debt relief schemes to support affected customers in accordance with the Bank's internal credit policies. Moreover, the most recent CBSL directive issued in November 2020 stated to consider a 60 days' loan extension given as a concessionary moratorium period and to apply an interest rate up to a maximum of 7% for the said debt moratorium period on all credit facilities being repaid on an Equal Monthly Instalments (EMI) basis. It further reduced the NII over the comparative year. In addition, the monetory policy easing measures discussed above resulted in a reduction of the AWPLR in excess of 400bps which also significantly contributed to the overall drop in the NII. NIM for the current period would have been 3.4% if the returns from investment in units were considered. Returns from investment in units were Rs. 321 Mn and was recorded as capital gains under net fair value gains/losses from financial instruments at fair value through profit and loss.

Management Discussion and Analysis

Financial Indicator	Performance

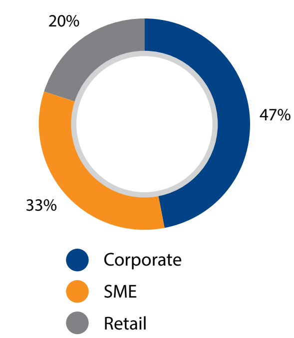
Loans & Advances



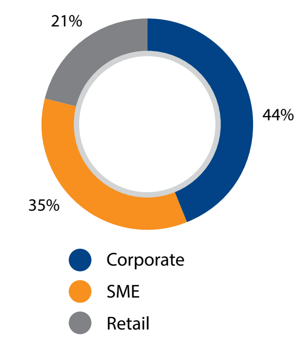
The Bank's loans and advances stood at Rs. 67,518 Mn and recorded a decline of Rs. 9,841 Mn, a 12.7% contraction in comparison to the previous year, thus reflecting the subdued credit growth that prevailed in the market during the year under review.

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

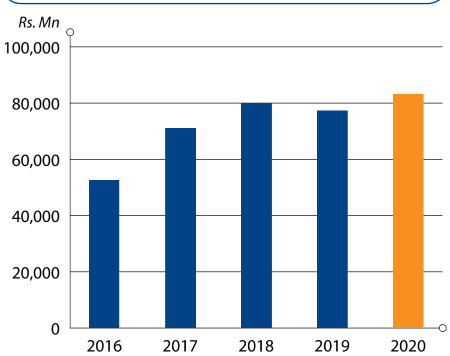
Loan Mix 2019



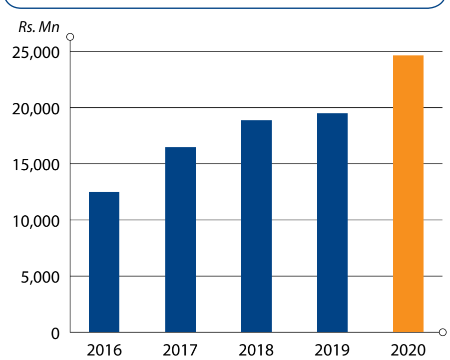
Loan Mix 2020



Deposit Base



CASA



The deposits base of the Bank stood at Rs. 82,384 Mn as at year-end and recorded a growth of 7.6%.

The Bank's strategic focus for low-cost deposits was maintained with greater focus on growing the savings portfolio. This was supported by focused strategic initiatives for CASA growth implemented by the Retail Banking business.

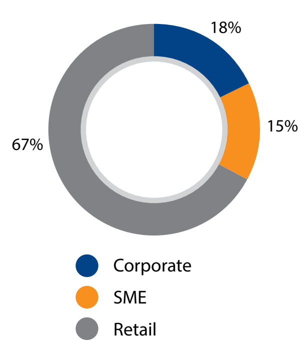
To stay resilient amidst a challenging environment, the Bank increased its liquidity buffers prudently, and maintained a strong excess liquidity position amidst mounting challenges.

Union Bank BizDirect continued to offer the Bank's Corporate and SME customers the much-needed liquidity management efficiency while facilitating them with prudent and convenient cash management expertise. Due to a growing inclination for digital solutions over traditional banking methods, many new customers were on-boarded for Union Bank BizDirect in both Corporate and SME segments during the period under review, thus contributing to the Bank's CASA growth in 2020.

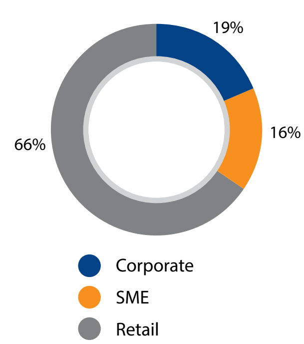
The overall CASA portfolio reflected an excellent growth of 26.8% as at December 2020.

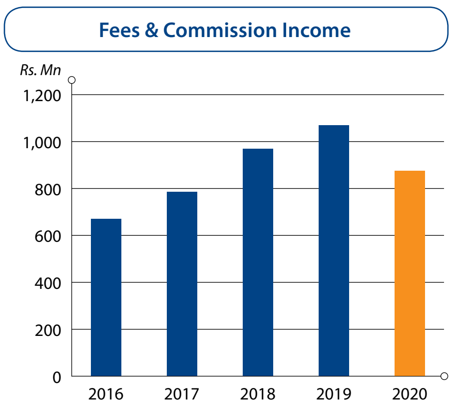
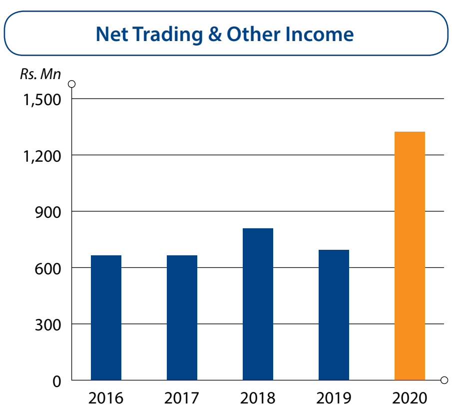
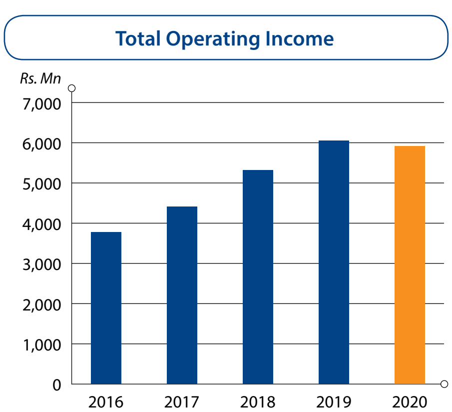
Consequently, the CASA Mix of the Bank improved to 30% in 2020 from 25% in 2019.

Deposits Mix 2019



Deposits Mix 2020



Financial Indicator	Performance
	The fee and commission income of the Bank declined by Rs. 197 Mn to Rs. 873 Mn in 2020, which translated to a YoY drop of 18.4%. The fee income was significantly impacted by the numerous relief measures extended to customers under the CBSL recommended financial relief schemes which included fee waivers, while trade related income was impacted due to import restrictions. The decline in loan related fees was mainly due to a decrease in processing fees for credit facilities and documentation fees on retail loans, reflecting the sluggish economic environment and lacklustre credit growth. Guarantee fees and trade and commission fees dipped in response to the slow economic growth. Late payment fee waivers and other fee waivers provided in line with the CBSL guidelines aimed at supporting the customers affected by the pandemic, alongside a decline in economic activity, caused a further reduction of the overall fee income.
	Net trading and other income were Rs. 1,318 Mn and recorded an increase of 92.0% over the previous year. The Treasury performed exceptionally well within the year 2020, recording impressive capital gains with a significant YoY increase of 84.2%. Income from investments in units increased to Rs. 321 Mn from Rs. 227 Mn in 2019. Other Operating Income of the Bank increased by Rs. 162 Mn to Rs. 174 Mn. The main contributor to this was the Foreign Exchange income and the increase was backed by a growth in customer transactions, depreciation of the currency and the reduction of swaps during the year. The Bank has no trading equities and has not invested in any equity funds as at Balance Sheet Date.
	The total operating income dropped by 2.2% to record an income of Rs. 5,890 Mn. The decline was mainly attributable to the drop in NII.

Management Discussion and Analysis

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<tr><th>Financial Indicator</th><th>Performance</th></tr>
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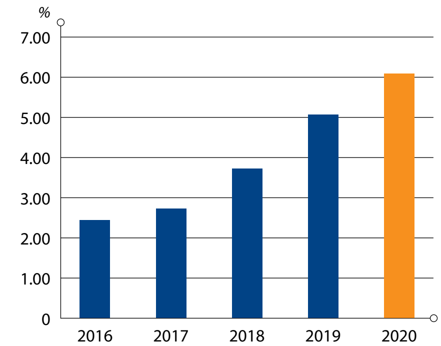
Non-performing Loans Ratio (NPL)



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Owing to external pressures and continuous deterioration of macro-economic conditions since March 2020, the gross NPL ratio of the Bank was 6.05% by end of the reporting period compared to 5.03% as of last year.

The absolute NPL increase was only Rs. 230 Mn. However, the reduction in the denominator due to the reduction in the overall loans portfolio caused the ratio to deteriorate by 102 basis points over the previous year.

The Bank's prudent approaches towards managing portfolio quality proved favourable in containing NPLs even within a weakened economic landscape.

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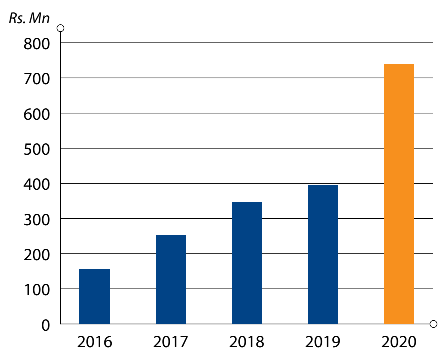
Impairment and Credit Quality



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Impairment charge of the year was Rs. 736 Mn and reported a growth of Rs. 345 Mn which was an 88.5% increase YoY.

While the Bank's actual credit losses were low, the Bank recorded significant provisions through management overlays to account for the deteriorating environment.
The entire modification loss on account of COVID-19 moratoriums was recorded under the impairment charge as per the non-substantial modification method which is in line with the Sri Lanka Accounting Standard – 9 (SLFRS 9).

In addition, the Bank identified three sectors as risk elevated industries. Based on the individual facility level risk assessments performed, additional impairment was charged to the customers of the above sectors by shifting stages.

Economic Factor adjustments have been made by considering the deterioration in the macro environment and the impact of the country rating downgrade has been accounted in the treasury impairment model.

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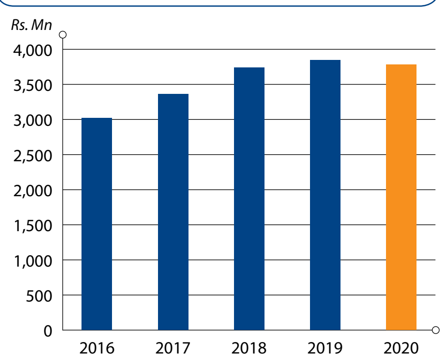
Operating Expenses



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The total operating expenses were prudently managed through bank-wide cost management initiatives and was reported as Rs. 3,772 Mn, which was a YoY decrease of 1.5%.

Staff costs of the Bank was Rs. 1,902 Mn and reported only a 1.0% increase YoY. The head count of the Bank as at year end was 1275.

Depreciation and amortisation and right-of-use assets increased by 4.4% YoY to Rs. 665 Mn owing to increases from the amortisation of computer software and depreciation of right-of-use assets.

Drop in other expenses by 8.0% YoY was due to heightened operational efficiencies.

The cost to income ratio of the Bank was 64%.

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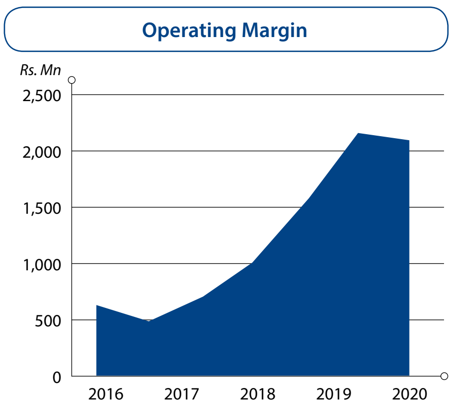
</table>

Financial Indicator	Performance



The operating margin decreased to Rs. 2,118 Mn and recorded a decline of 3.3% YoY. This was due to the decrease of revenue by 2.2% as against the drop in costs by 1.5%.

Excluding the 60-day moratorium impact, the total operating income would have increased by 0.3% and consequently the operating margin would have increased by 3.4%.

Share of profit of equity accounted investees, net of tax

Share of loss of equity accounted investees was Rs. 29 Mn. In the previous year, a one-off gain was reported from UB Finance amounting to Rs. 127 Mn due to tax reversals. The subsidiary profits too got impacted with the macro-economic challenges of the year under review.

Financial Services VAT, NBT and Corporate Tax

Total taxes for the year was Rs. 777 Mn which was a drop of Rs. 417 Mn or 34.9% in comparison to the previous year. A part of the reduction was due to the elimination of the Debt Repayment Levy (DRL) and Nation Building Tax (NBT) with effect from 01st January 2020 and 01st of December 2019 respectively. The reduction in PBT too contributed to the drop in taxes.

Profit for the year & Other Comprehensive Income

Profit for the year was Rs. 577 Mn compared to Rs. 710 Mn recorded in 2019 and was a decline of 18.8% over the previous period.

The decline was mainly due to the one-off gain that was recorded under UB Finance in 2019. Excluding the profit/loss attributable due to the Bank's share of ownership in its subsidiaries, the Bank only profit was recorded as Rs. 605 Mn which is in-line with the previous year.

Other comprehensive income for the year was Rs. 183 Mn.

Total comprehensive income for the Bank was Rs. 759 Mn.

Liquidity

The Bank maintained a very healthy Liquid Asset Ratio throughout the year.

Liquid Asset Ratio (%)	2020	2019	2018
Year End	32.9	23.0	21.7
Maximum	33.1	24.4	23.3
Minimum	22.4	21.1	20.5
Average	28.3	22.0	21.4

Management Discussion and Analysis

<table>
<tr><th>Financial Indicator</th><th>Performance</th></tr>
<tr><td>Capital Adequacy Ratio</td><td>The Bank maintained a robust Capital Adequacy Ratio throughout the year reporting 16.95% total capital ratio as at year end, well above regulatory requirement levels.
<table>
<tr><th>Capital Adequacy Ratio (%)</th><th>2020</th><th>2019</th></tr>
<tr><td>Common Equity Tier 1 Capital Ratio
(Minimum Requirement - 2020- 6.5% & 2019 -7.0%)</td><td>16.66</td><td>16.61</td></tr>
<tr><td>Tier 1 Capital Ratio
(Minimum Requirement- 2020 - 8.0% & 2019 -8.5%)</td><td>16.66</td><td>16.61</td></tr>
<tr><td>Total Capital Ratio
(Minimum Requirement- 2020 - 12.0% & 2019 - 12.5%)</td><td>16.95</td><td>16.75</td></tr>
</table></td></tr>
<tr><td>ROA, ROE & NAVPS</td><td>
<table>
<tr><th></th><th>2020</th><th>2019</th></tr>
<tr><td>ROA (before all taxes)</td><td>1.11%</td><td>1.54%</td></tr>
<tr><td>ROA (post taxes)</td><td>0.47%</td><td>0.57%</td></tr>
<tr><td>ROE (before all taxes)</td><td>7.60%</td><td>11.16%</td></tr>
<tr><td>ROE (post taxes)</td><td>3.24%</td><td>4.16%</td></tr>
<tr><td>NAVPS (Rs.)</td><td>16.70</td><td>16.16</td></tr>
</table></td></tr>
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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 page 63 and 64.

Group profit after all taxes showed a decline of 22.6% to record Rs. 623 Mn in the year under review.

Total assets of the group were reported as Rs. 129.6 Mn. The Bank accounts for 95% of the Balance Sheet of the Group and hence the Group performance is mainly propelled by the Bank.

Report on Business Performance

Union Bank reported resilient business performance despite the unprecedented macro-economic challenges that continued to weigh down on the economy and the banking sector during 2020.

As elaborated in the macro-economic review of this report, the social and economic impacts of the COVID-19 pandemic were further intensified by political and economic volatilities and were further triggered by currency fluctuations and lower business confidence that prevailed during the year under review. Weakened economic performance, lessened trading activity, rising impairment costs, allowance of customer debt relief schemes, etc. resulted in an overall adverse impact on the banking sector, compelling banks to focus on cost optimisation and prudent portfolio management.

Amidst a calamitous macro-economic backdrop, Union Bank focused on sustained growth and strived for revenue optimisation through prudent portfolio management. The Bank's key business performance and the strategic enablement by its support functions have been summarised in the report herein.

Corporate Banking

The economic uncertainties, global recessionary patterns and import restrictions affected the performance of Union Bank's Corporate Banking unit during the year under review.

As a result of these volatilities, the Balance Sheet of the Corporate Banking function contracted in the year under review while the unit continued to implement focused lending strategies and prioritised portfolio quality management. The Bank recognised the implications of COVID-19 and diligently focused on the management and mitigation of risks to ensure a quality asset book. This was reflected by the NPL ratio of the Corporate Banking portfolio. The Bank duly adhered to the CBSL directive of extending capital and interest moratoriums on loans to customers from identified sectors. In addition to the regulator mandated concessions, the Bank took measures to extend other customised repayment terms to assist identified corporate customers during a challenging and turbulent year.

Reduced demand for credit and debt relief extended to customers amid a low interest rate environment added pressure on the Net Interest Margins. However, intent focus on customer-wise profitability and revenue was a key success factor for maintaining a satisfactory business performance within the Corporate Banking unit. The Corporate Banking function was ably supported by the Union Bank 'BizDirect;' automated cash management platform, given the customer inclination towards a more digitised banking approach. The dedication and commitment of an excellent team of relationship managers supported by stringent risk management processes ensured a resilient performance for the function during the year under review.

Prospects 2021

The Corporate Banking function of Union Bank will focus on driving efficiencies while building a resilient portfolio amidst a low interest rate regime. Having recognised the importance of supporting its customers as they navigate through unprecedented challenges, the Corporate Banking unit will ensure business viability and seek to be a strategic financial partner to its customers with a well-balanced approach of personalised assistance and digitised convenience. In cognisance of customer inclinations towards digitised banking options that ensure contactless transactions, the Corporate Banking proposition will seek to offer automated banking convenience, including greater accessibility to its customers with the Union Bank BizDirect solution. The Corporate Banking function will look beyond the calamitous results of the pandemic and operate in the new normal, ensuring the safety of its staff and customers while building efficiencies that will deliver long term sustainability for the business and the customers in the year 2021 and beyond.

SME Banking

The Small and Medium Enterprises (SME) sector was severely affected by the challenges that prevailed throughout 2020, due to its inherent vulnerabilities to external shocks. In the face of many challenges, the Banking sector yet again faced 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. CBSL's mandated debt relief schemes placed a key focus on this segment.

Union Bank's SME banking operation remained focused on upholding the business operations of its existing customers, while providing them prudent financial support to sustain against the macro-economic challenges that specifically affected selected sectors with the COVID-19 outbreak in the country since March 2020.

Constant engagement with customers at branch level to understand their pain points and assisting them through customised financial solutions remained a priority for the Bank during this challenging time. Union Bank supported over 1,500 SME banking customers affected by the pandemic by accommodating capital and interest moratoriums to the value of Rs. 13 Bn as per CBSL directives as well as, under customised debt deferring procedures initiated by the Bank. The Bank also participated in all three stages of the 'Saubhagya COVID-19 Renaissance' refinance and interest subsidised lending scheme initiated by CBSL, and extended over Rs. 1.4 Bn towards identified SME businesses within the second and third quarters of the year 2020.

Despite numerous challenges, Union Bank's SME banking function booked over Rs. 2.5 Bn worth of new facilities, extending much-needed financial support to key industries during the year under review. The main contribution to the portfolio expansion came from term loans. The Bank focused on selective SME asset book growth within the first quarter of the year while more emphasis was placed on prudent portfolio management and supporting affected businesses to overcome pandemic-related challenges during the remainder of the year.

Deposits within the SME banking function grew by 15.6% to Rs. 12,716 Mn reporting a healthy CASA mix of 35%. The new and enhanced Union Bank BizDirect cash management solution acted as a key enabler in mobilising deposits and CASA within the segment while also adding value as an automated banking proposition that suited the customer inclinations at a time where contactless banking was an essential component for maintaining greater customer confidence.

Process improvements played a critical role in a year with unprecedented challenges and a thorough streamlining of processes resulted in an improved Turnaround Time (TAT) of the credit underwriting and approval of facilities. Prudent steps were taken to improve efficiency and to ensure safety of stakeholders using digital aids in canvassing, underwriting, and managing the SME portfolio to overcome the challenges posed by the COVID-19 pandemic. In keeping with the customer trends and preferences, the Bank initiated tech-based solutions to create value and deliver further convenience to SME customers.

Interest margins and revenues weakened amidst a low-interest regime while fee and commission income was adversely impacted by lacklustre market activities and regulations imposed, led by the import restrictions and related losses in trade income. Despite market conditions, the SME Banking function continued to uphold its business objectives owing to prudent management strategies and the commitment of a dedicated team of SME Banking experts, strategically deployed across the Bank's network island-wide.

Prospects 2021

In the year 2021 and beyond, the SME Banking proposition of the Bank will be furthered for envisioned business expansion with focus on short term working capital loan facilities structured for strategically identified sectors. The key business performance dynamics will include higher fee income growth and low cost funding contrivances while greater emphasis will be placed on profitable portfolio growth by way of secured facilities. Increased penetration of the Union Bank BizDirect cash management solution within the SME customer base is envisioned to bring in greater efficiencies through value addition to customers while attracting CASA and contributing to fee income growth. The closer follow ups on recoveries and centralised monitoring of loan portfolios will be a key management priority especially within the SME segment, to manage portfolio quality while supporting the SME customers to maintain a healthy credit profile.

Cash Management Services

During the period under review, the Bank's CMS proposition was relaunched with enhanced features and 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 cash management excellence, the state-of-the-art solution Union Bank BizDirect was awarded the prestigious 'Best Cash Management Bank in Sri Lanka' title at the Asian Banker Transaction Finance Awards 2020.

The award recognised the achievements of Union Bank BizDirect in terms of market share and revenue as well as product and operational excellence displayed against the competitor products in the market.

In 2014, Union Bank was the first Sri Lankan bank to launch an automated cash management system. Just over five years after its initial launch, in February 2020 the Bank rolled out its further enhanced and updated BizDirect+ platform, with a view to support Corporate and SME business segments to reach the next level of success. The Bank's investment in enhancing its BizDirect system was a clear indication of its continued commitment towards the progress of businesses and especially the SME sector which is identified as a nationally significant sector.

Union Bank's revolutionary cash management system BizDirect aims to change the heavily cash-dependent transaction management landscape in the country by providing total control of liquidity management to business owners through automations and customisations that help them make timely management decisions based on cash flows. BizDirect proved its worth especially during the island wide lockdown that prevailed for months, by enabling timely payment solutions through automation and distant cash management capabilities. The solution is designed as a customisable and affordable management tool, which provides efficient cash management capabilities to a wider client spectrum ranging from SMEs to large corporates and conglomerates. Union Bank BizDirect is also offered as a value added service that further enriches the banking experience of Union Bank's existing corporate and SME banking clients while driving the growth of Current and Savings balances along with fee income across these strategic business units. In the year under review, the cash management unit of the Bank contributed to the Bank's overall fee and commission income.

Prospects 2021

The way of doing business has been transformed globally, due to consequences of the COVID-19 pandemic. Tech-based, virtual business solutions have had a major role to play in creating versatile business possibilities within the new normal. In this backdrop, Union Bank BizDirect with its new and improved features is fully geared and well positioned to provide its users the impetus to operate efficiently and diligently amidst unprecedented challenges within the operating environment. Union Bank will intensify its focused market penetration strategy of introducing the BizDirect solution to more Corporates and SMEs in the ensuing year, thus expanding its customer base across diverse industries island-wide. Within this expansion strategy, a special focus will be placed on small businesses that lack proper record keeping and are seeking affordable cash management processes for their success and growth. Union Bank BizDirect will be introduced to SMEs as a business aid to systematically track collections and payments and automating routine transactions, to empower small businesses with greater freedom to focus on their business growth. The gamut of value additions from BizDirect is envisioned to free-up management time that can be focused on the growth of businesses – be it a SME or a large corporate, and to help them rearrange liquidity management processes to enable growth that has been shackled by the pandemic and resultant economic impacts.

Retail Banking

Retail Liabilities

Amidst challenges and limitations of the external environment that prevailed, the retail liabilities of Union Bank grew by 5.6% YoY recording a volume growth of Rs. 2,786 Mn in savings, deposits and investments. The overall liability growth was focused on managing liquidity and margins due to low asset growth caused by unfavourable market conditions. Despite external factors, the Current and Savings balances (CASA) of Retail Banking stood at Rs. 11,471 Mn by end of 2020 while the Fixed Deposits stood at 41,402 Mn as at year end 2020. A focused CASA acquisition strategy ensured a portfolio consolidation and an overall improvement of customer concentration that augurs well for long-term profitability of the portfolio. The branch network and the liability sales teams contributed to the above new customer acquisitions and volume growth, in a bid to improve the CASA mix of the retail liabilities portfolio of the Bank. However, ancillary CASA inflows were largely impacted due to island-wide and regional lock-downs due to the pandemic, which in turn adversely impacted retail fee income.

The number of Union Bank Debit Cards issued, grew in tandem with the Bank's savings accounts growth, making significant contributions to the fee income of the Bank. The Bank strived to maintain superior levels of service on operational and customer service aspects on its payment platforms, clearing functions and digital banking services ensuring undisrupted services to its customers despite the numerous challenges caused by the pandemic throughout the year.

Retail Assets

The strategic focus of the Bank for 2020 placed significant weight on the expansion of its mortgage backed retail loans portfolio represented by Union Bank Home Loans and Union Bank Loan against Property. Accordingly, within the first quarter of the year under review, the Bank heightened its focus on expanding its mortgage backed loans portfolios and on making the schemes even more attractive for customers by enhancing the product features as well as value additions.

Due to the COVID-19 outbreak and its impact on customers, from the beginning of the 2nd quarter of the year, the Bank shifted its focus to offering customers relief packages in line with guidelines issued by the CBSL which included debt moratoria up to six months for retail loans. In addition to debt moratoria of capital and interest payments to its retail loan customers, the Bank offered tailored loan restructuring options to customers based on a discretionary internal credit assessment of the financial position of each individual customer due to pandemic related economic pressures. A dedicated web portal was set up to support customers during this time of need and to channel their requests and queries directly to the credit assessment teams to ensure an efficient process in managing the large volumes of customer queries and debt relief applications. As such, a sizeable portion of the of the retail assets portfolio was accommodated under various credit relief and restructuring plans within the year under review.

Owing to the unfavourable market conditions and its economic impacts on Retail Banking customers, the unsecured lending portfolio was managed with prudence. Unsecured personal lending was curtailed amidst stringent credit assessment procedures to ensure a cautious expansion as a responsible lender while managing the quality of this portfolio. The lending rates saw a downward revision within the year and the revised interest rates were made applicable on new loan bookings to prudently manage revenues and portfolio profitability while passing down the benefit of revised interest rates to customers.

Credit Cards

Union Bank credit cards continued to grow robustly making notable gains despite the numerous challenges of the year 2020.

Credit cards remained a key focus area for the Bank and the product penetration and acquisition efforts were aggressively pursued, despite the unprecedented operating environment that prevailed from March 2020 onwards. Despite the credit cards industry remaining extremely competitive, and even amidst numerous challenges and restraints of the year, Union Bank's credit card portfolio continued to grow in the year 2020. The notable portfolio growth, aided by a strong acquisition focus and lifestyle offers that triggered higher customer spend patterns contributed to the revenue growth of the credit cards business unit, which made significant contributions to the overall revenue of the Bank.

Union Bank delivered a gamut of attractive offers to its card holders that resonated with the brand promise of offering 'an extended experience' while the unique credit cards features and solutions ensured that the proposition was in par with industry standards and competitor offerings. In anticipation of emerging customer needs and inclinations during the pandemic, Union Bank Credit Cards placed special focus on offering discounts and value additions across the 'essential goods and services' category through merchant partnerships, thus enabling card holders to purchase daily essentials and have them delivered to their doorstep at a discounted price while ensuring their health and safety during these uncertain times. Union Bank Credit Cards led the market with apt lifestyle offers, which enabled card holders to have access to a wide range of shopping and entertainment options from the comfort and safety of their homes.

The Bank continued to enhance its credit cards proposition in the year 2020, by introducing new features including the launch of extended settlement plans up to 60 months. Further in 2020, the Bank streamlined its process for the Balance Transfer option to card holders of other banks and enabled the 24-month balance transfer plan at an attractive interest rate, giving potential clients the opportunity to switch to Union Bank and consolidate their existing credit card debt.

Union Bank Credit and Debit Cards, are fully compliant with the 'Visa Tap & Go' feature that enables card holders to simply tap their cards in front of the POS terminal to safely perform point of sales transactions without coming in to contact with the cashier or sales staff at merchant outlets. The Bank promoted this feature amongst its card holders intently during the year to educate them on this safer alternative to using traditional payment methods for their purchases.

In light of the challenges faced by card holders due to the economic pressures caused by the COVID-19 pandemic, the Bank took steps to immediately roll out the relief schemes mandated by the CBSL from April 2020 onwards. Accordingly, the maximum interest rate applicable for credit card transactions up to 50,000/- was reduced to 15% p.a and the minimum payment was reduced to 2% from 4% which was applicable before. Late payment fees were waived for all credit cards and loans until 30th September 2020. Delinquencies and Non Preforming ratios were prudently managed in order to maintain a healthy portfolio. The efficient management of NPAs was a reflection of strong underwriting capabilities especially while operating under extremely stressed market conditions.

The focus on secured cards segment was heightened as a prudent measure to grow the credit cards portfolio within a vulnerable operating environment. Continuous customer engagement was a key element in ensuring portfolio growth while a dedicated credit cards sales team spearheaded the new acquisitions, ably supported by the island wide network of 67 branches.

Union Bank was the first Bank in the country to be compliant with the Payment Card Industry Data Security Standard (PCIDSS) which is the benchmark standard accepted across the world, set to safeguard client sensitive information such as credit card details which reduce possible credit card frauds. The Bank successfully completed the annual renewal process for the certification for 2020 which serves as a testimony to the Bank's commitment in ensuring that its customers enjoy an added layer of safety from potential credit card related data losses.

New features such as credit card activation, transaction history view and credit card statement download were added to the gamut of the credit cards self-servicing options on the Bank's mobile app during the year under review. Considering the key role played by Union Bank's Contact Centre in managing card holder experiences, the Bank continues to invest in this area to ensure that the agents possess necessary skills and knowledge to deliver the expected levels of service quality to card holders of the Bank.

Value Added Services

Bancassuarance

Union Bank entered in to a long-term exclusive Bancassurance agreement with Union Assurance PLC in October 2018 to offer life insurance products to the Bank's customers via multiple channels and the arrangement played a pivotal role in generating business, especially during the year 2020.

The strategic partnership with one of the top life insurers in the country provides the Bank's customers the added advantage of managing their insurance needs under one roof. Under a fresh initiative, Union Bank customers can also avail health insurance, lifestyle protection and retirement planning in addition to the financial products and services facilitated through the branch, with personalised assistance by well-trained Bancassurance staff of Union Assurance stationed at Union Bank branches.

The Bank also maintains Bancassurance partnerships with multiple general insurance service providers to offer general insurance products to its customers. The general insurance proposition facilitates additional insurance services such as Fire Insurance, Travel Insurance and Motor Insurance solutions delivering a comprehensive range of Bancassurance services to the Bank's customers under one roof.

Business performance in 2020 was impacted due to the COVID-19 pandemic as collection of premiums and managing lapsed policy ratios came under stress amidst tough economic conditions that impacted the personal financial circumstances of customers.

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 branch network. The Bank's inward remittance volumes were affected congruent to the decline in national inward remittance volumes due to the economic impacts of the global pandemic. The impact of the currency fluctuation and depreciation of the Rupee during the second half further affected inflows. In the face of health risks, localised promotion activity which is a key initiator for the remittance business were deferred and measured promotions were conducted on digital media targeting selected expatriate geographies to sustain business flow amidst challenges.

Alternate Channels

Online & Mobile Banking

In light of the growing customer inclinations towards digital channels, Union Bank enabled online registrations for on-boarding to the Bank's internet and mobile banking services in a bid to provide undisrupted banking service access to customers during the pandemic lockdown. The overall online registration improved to 29% of total on-boardings. Online and mobile service registrations through the branch network also recorded an impressive growth during the year under review.

Union Bank is currently working on enhancing its mobile app with JustPay and Lanka QR payments to enable convenient, cashless transactions to its customers. In addition, Union Bank is in the process of expanding its utility payment spectrum that will enable the Mobile application and the Online Banking service to become a focal customer touch point providing seamless, convenient access to a range of banking and payment services 24/7 to add further value to the Bank's customers.

ATM Network

Union Bank continued to provide island-wide account access to its customers through its 115 strong ATM network including off-site ATMs. The Bank continued its ATM modification project during the year 2020, enhancing the ambience and outlook of ATMs and equipping them for a better transactional experience for customers. The 'Off-us' transactions at remote ATMs were over 70% which is a testimony for the value added by the network to provide easy account access to customers and non-customers alike.

Customer Experience Management

Contact Centre

During the year under review, the Bank further invested in the expansion of the contact centre by adding more space and enhancing its infrastructure in order to provide better convenience to customers along with unparalleled service standards. The Contact Centre acted as one of the most critical customer touch points during the pandemic lockdown and was able to successfully assist customers with their numerous requests and queries. The Contact Centre also plays a strategic role in the new digital customer on-boarding process for online banking, mobile banking and e-statement services thus supporting the business lines to better streamline the processes for efficient outcomes.

The Contact Centre was one of the key information centres during the year specially in relation to disseminating important information in relation to customer relief programmes and information on branch opening hours which were revised on a daily basis due to the volatilities caused by the pandemic. In view of the significant role played by the unit, the Bank further strengthened the Contact Center transaction monitoring process by providing access to VISA Risk Management (VRM) system which minimises the risk of missing suspicious transactions and assist in safeguarding customers against potential losses.

Service Quality Management

The Service Quality Management unit of the Bank handles customer grievances and service related issues centrally and ensures that disputes are managed in a timely manner. Within the year under review, the department realigned its service standards including Service Level Agreements (SLAs) and Turnaround Times (TATs) established for retail banking processes in order to manage the impact as a result of the effects of the COVID-19 pandemic situation. The unit pro-actively intervened and managed both internal and external customer issues especially during the pandemic lockdown period while continuously providing end to end solutions to ensure highest levels of customer service and experience. In order to assure the best service standards, the department continuously works closely with all service delivery points ensuring that they are well informed of the Bank's direction and strategy for supporting customers based on the directions for relief measures provided by CBSL and the correct information is disseminated to customers at all times.

Prospects 2021

Union Bank will focus on measured portfolio growth with great emphasis on CASA growth to manage long term Retail Banking portfolio profitability while contributing to the overall liquidity requirements of the Bank.

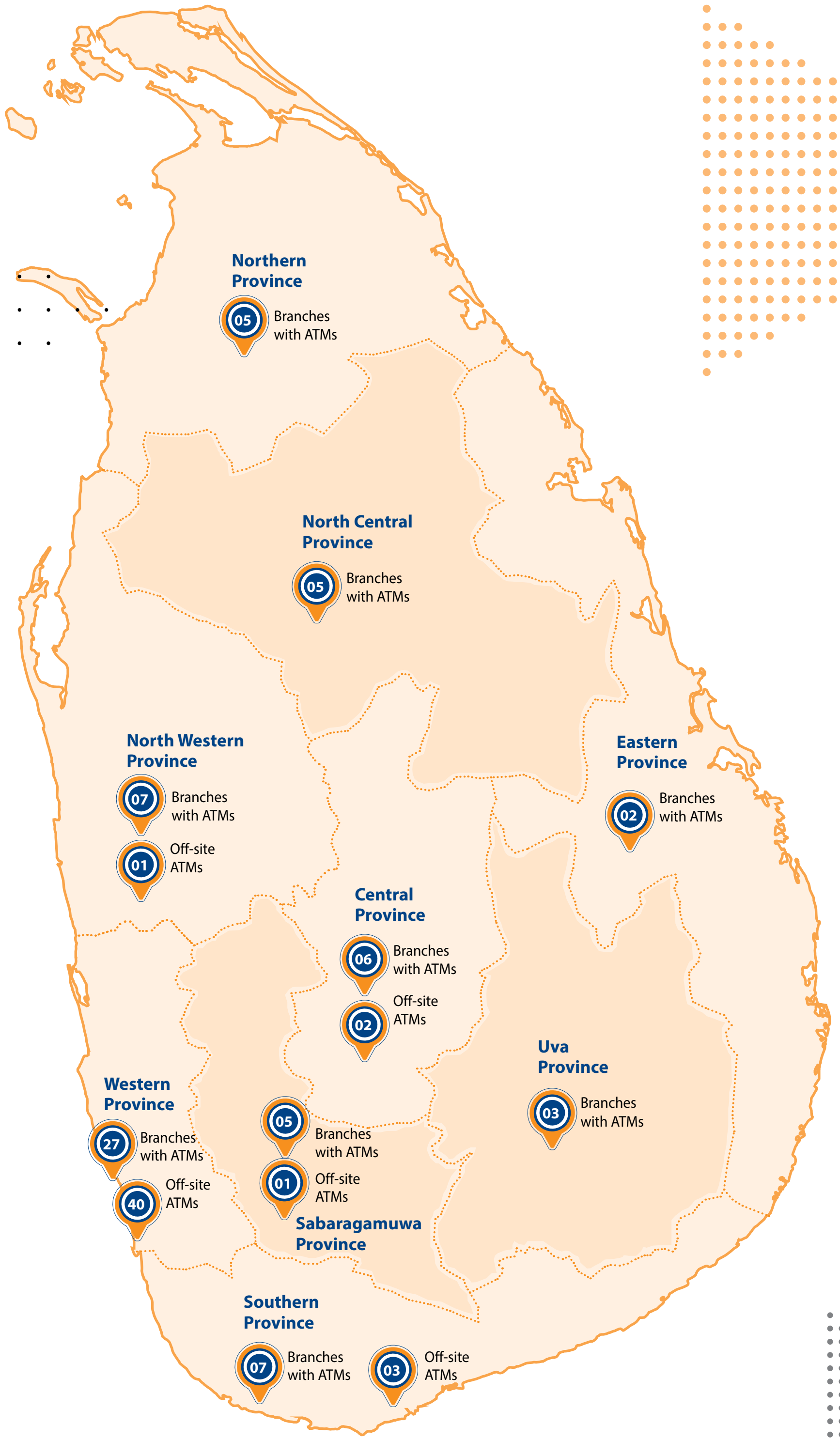
The Bank will continue to follow a focused lending strategy that will target selected customer groups and in a bid to manage the risks posed by the post-pandemic economy while placing greater emphasis on portfolio profitability and quality.

While continuing 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 Bank will invest further in enhancing the mobile banking app to serve customers with more versatile payment solutions digitally, in tandem with the growing customer needs and preferences. The ATM switch upgrade will be continued through the year 2021 to provide greater convenience via the Bank’s island-wide ATM network.

The Cards business remains a key strategic area for Union Bank's Retail Banking segment and will continue to position Union Bank's Credit Cards as one of the key lifestyle propositions with a vision to build on the current growth success of the portfolio to create a stronger business proposition in 2021. The Bank continues to be on the lookout for new products and value propositions to stay competitive and ensure that the clients are offered industry leading banking solutions. Further, the Bank is envisioning alternative finance solutions such as Renegotiation and Refinance models for credit card clients to further ease their credit card burdens in the face of post-pandemic economic stress. Adding further convenience for card holders, more self-service features for credit cards will be enabled on Union Bank’s mobile banking app including bonus point redemption, converting transactions to instalment plans and controlling international spends etc. at the click of a button, in the ensuing year.

Management Discussion and Analysis

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. Horowpathana
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. Kandaliyadda Paluwa, 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, Pannipitiya
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. Templer's Road, Mount Lavinia

Southern Province
42. Kurundugahahetekma, 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

The Bank's Treasury Division performed well during the year 2020. The year witnessed unprecedented effects of the COVID-19 pandemic with a countrywide lockdown that impacted economic activity coupled with notable volatility in financial markets both locally and globally. Amidst adversities, the Treasury recorded a revenue growth of 97.5%. The key focus areas for the year included Trading in Government Debt securities, Asset and Liability mismatches on both corporate and government debt, Sales and Purchases of foreign exchange along with Trading and Currency Note repatriation.

The Bank's Treasury Department consists of the Inter-bank desk, Corporate Sales desk and Fixed Income desk which also operates the primary dealer unit. The Bank ceased its primary dealer operations effective 01 May 2020 with the objective to further align the Bank's operations to its robust business model. This was purely a business decision that was taken with the support of The Board of Directors during a business review in 2019. The three desks work diligently, attentively and with maximum coordination in order to capitalise on the market opportunities and face challenges. During the reporting year, the Fixed Income Desk contributed outstandingly by way of capital gains or trading income to the Bank's bottom line. An overall trading income of Rs. 808 Mn was achieved during the year 2020. The Government Debt securities portfolio stood at LKR 32 Bn as at 31 December 2020.

Prospects 2021

The Treasury continues to be agile and sensitive to evolving realities in the financial markets both in the local and global arena. The Bank will remain optimistic regarding the short to medium term growth prospects of the country resulting from the anticipated stabilisation of macroeconomic fundamentals due to the pandemic, recovery of private credit, strengthening retail demand after the recent pandemic lockdowns and inflow of foreign direct investments to Equity and Government Debt markets. The Bank's Treasury will continue to place strategic importance on strengthening contributions from its core businesses, namely trading in Government Securities and Foreign Exchange, Bank notes repatriation, and Planned Investments in the year 2021. Furthermore, the Bank will focus on low cost funding opportunities and new business relationships by way of partnerships with both local and foreign funding agencies and Banks.

Operations

The operations department of the Bank intensified its focus on process streamlining, efficiency enhancement and prudent cost management while re-aligning to support the business performance of the Bank within a year of unprecedented challenges.

Under process automation initiatives, elimination of the manual VAT invoices preparation was a key highlight of the year and the newly re-formatted VAT invoices are now being generated from the respective processing systems. A project on automating the Bank Guarantee cancellation process was also completed within the year under review. In addition, the documents retrieval process was revisited and the automation of this process is scheduled to be completed by the year 2021.

Process improvements were carried out to support efficient workflows across the Bank's functions as such the internal document management system was further enhanced during the year 2020 while the bill settlement processes were also reviewed and revised to be in line with the Bank's revised focus of advocating digital payments to suppliers in place of the conventional cheque payment procedure.

The operations department facilitated the necessary support to the business units in deploying COVID-19 related customer relief schemes efficiently. This included the processing of debt moratoriums, managing re-schedulements and restructuring of loans and ensuring a swift process for granting Saubhagya loans to affected customers.

Previously outsourced processes related to credit cards data entry were brought under the card operations department in line with the post-COVID strategic refocus while driving cost savings through centralisation. Numerous processes including Inputs for KIT accounts, Scanning and authorisation of Mandates, Activators, and other documents were centralised at Customer on Boarding Operations (COBO) achieving better efficiencies.

Trade Operations continuously focused on enhancing the data capturing process for regulatory reporting and the Business Foreign Currency Account Transactions Reporting has been automated and the work re-aligned with the regulatory Reporting team at Process Control Operations (PCO). Further development work is being done on other regulatory reporting processes. A training program titled 'Introduction to International Trade' was conducted for the Bank staff at the Bank's training centre as well as online to improve their knowledge on the subject while a specialised Trade Finance training was provided for a selected team of Credit Officers.

Expansion of the office premises for the Retail Assets Sales Team in Rajagiriya, renovation of the Vavuniya Branch and the renovation work of twenty off site ATMs were all completed during the year under the supervision of the Premises Team of the Operations department. The team is also working on the installation of an alert system to monitor the air conditioning level in the main server room to ensure minimum server disruptions in the future.

Procurement savings of Rs. 238.5 Mn were recorded through recurring items and a saving of Rs. 38.5 Mn was reported through efficient rental negotiations along with other cost savings, payment relief and extensions afforded to the Bank, through supplier relationship management and thorough monitoring processes to ably support the Bank's strategic focus of cost optimisation.

In line with the Bank's intent to digitalise its processes to a greater extent, numerous digitalisation initiatives were conducted throughout the year. Issuance of customer deal confirmations for Treasury Transactions as downloadable PDF forms via email, digitisation of the credit card and digital banking application forms via the Bank's corporate website, and moving the credit card processing to a work-flow solution are a few key highlighted achievements of the year under review. Issuance of digital soft copies of account statements and TT transfers, etc. were some other examples for digitalisation initiatives that ensured cost savings for the Bank and faster service to customers.

Prospects 2021

Looking towards the year 2021, the operations department of Union Bank will continue to improve efficiencies that will in turn enhance the business performance while ensuring improved throughput. Accordingly, outsourcing of customer security documents storage, retrieval and management processes is being studied to explore opportunities to improve the process and address the challenges faced due to space constraints.

The Bank will also seek to introduce a centralised surveillance monitoring and data retrieval process of branches and offsite ATMs along with alert systems from the respective DVRs to ensure more comprehensive monitoring capabilities for the Bank in the future.

The Bank will also explore more opportunities to introduce new workflows in multiple processes to improve Turnaround Times and efficiency along with the introduction of robotic process automations in repetitive, monotonous processes thus releasing staff to focus on more productive business processes.

Information Technology

As per the three-year IT strategic road map implemented in 2019, the Information Technology department of the Bank was restructured in the year 2020, further strengthening its capabilities to support organisational objectives. The addition of the Digital Transformation Unit within the IT department was a key highlight of the year and the unit is envisioned to formulate internal and external customer digital transformation initiatives of the Bank to meet the Bank's strategic intent on expanding its digital footprint.

Owing to the revolutionary changes effected to the working environment by the COVID-19 pandemic, the IT department supported the emerging needs of the workforce by setting up a work-from-home infrastructure thus enabling them with secure, remote working capabilities.

Several digital collaboration tools were implemented during the year for allowing swift internal collaborations. Functional enhancements to the mobile banking and digital banking propositions were implemented during the year under review, in a bid to accommodate the business needs arising from the changing customer inclinations and preferences. The IT department was also a major contributor towards ensuring the PCIDSS recertification that affirms the enhanced security standards of the Cards portfolio of the Bank.

A major enhancement of the BizDirect Cash Management solution was also completed with the support of the IT department during the year under review. The new and improved BizDirect solution boasts of Intuitive UI that is simple and powerful, with a responsive design that caters to different form factors including Mobile, Tablets and Desktops.

In addition, it includes analytical Widgets, MIS and reporting capabilities. It also consists of supporting document upload during fund transfers, multilingual support for corporate frontend display (static), CEFT payments, reconfigured and corrected pricing and billing module, multi-level approval matrix and definition of slab-wise authorisation rules on basis of amount.

Prospects 2021

To accommodate and empower the enhancements envisioned on the IT Roadmap for Union Bank, the Bank has designed an enterprise IT architecture Blue print that would enhance the current IT infrastructure landscape. Accordingly, Primary and Disaster Recovery data centres will be upgraded with having enhancements to network infrastructure, hardware, backup solutions, security infrastructure, enterprise storage and monitoring in the ensuing year. Implementation of these solutions will upgrade the Bank's IT infrastructure to the latest technologies such as Software Defined Network (SDN) and Application Centric Infrastructure (ACI).

The unit will focus on completing ongoing Digital Transformation initiatives including the enablement of Digital Customer on boarding on the Mobile Banking App and Website, enabling LankaQR payments through the Mobile app, Just Pay integration, implementation of payments multiple payment platforms on the mobile app as well as an initiative to implement Missed Call Banking within the ensuing year.

Marketing Communications

Marketing communications of Union Bank were strategically steered to maintain continuous engagement with the Bank's stakeholders amidst a challenging environment.

The year began with preparations for the Bank's 25th anniversary celebration and several initiatives were implemented Bank-wide to create awareness for this key milestone which was inaugurated with religious ceremonies to evoke blessings including an all-night pirith ceremony and an alms-giving at the Bank's head office premises. A communication campaign was implemented across several platforms including social media. The Bank also symbolically rang the market opening bell at the Colombo Stock Exchange (CSE) to mark its 25th anniversary milestone. Customers were offered a range of benefits including discounts up to 25% off on credit cards and special benefits on a range of products.

Re-aligning to the new norm and adapting to the changes in consumer behaviour, the focus of marketing communications were placed mainly on digital and social media platforms during the year under review. Creating awareness and communicating to customers on the guidelines and relief schemes implemented by CBSL as a result of the pandemic situation, was also an integral role of marketing communications during the year. The Bank set up a dynamic and dedicated trilingual web portal as one of the main communication platforms in this regard, to serve customers promptly during this time of need. Re-aligning to the business perspectives in the new normal and in-line with the Bank's strategic direction, product related marketing communications were focused primarily on credit cards and digital banking, for the retail sector and cash management solution for SME and Corporate sectors.

Due to limitations on traditional customer touch points, the digital touch points namely, the corporate website and social media platforms of the Bank played a key role in maintaining continuous dialogue with the Bank's stakeholders while supporting the customer service quality management teams to deliver efficiently on customer expectations.

Re-branding of the off-site ATMs of the Bank continued in the year under review to further enhance the outlook of the ATMs in a bid to deliver a better banking experience to customers.

Marketing communications were successfully re-aligned to address the customer needs of the new normal, a status quo that challenged most of the traditional mediums of communication, whilst making digital, the integral platform for customer dialogue and transactions.

Prospects 2021

In the year 2021 and beyond marketing communications of the Bank will be further strengthened to consolidate the positioning of Union Bank as a rapidly progressing bank that is geared to partner the growth of individuals, SMEs and corporates of the country. The emphasis on digital communications will be furthered with a goal to become an industry trend-setter in this sphere. In the ensuing year, marketing communications 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 BizDirect cash management solution.

25 YEARS

of Transformational Growth

In the year 2020, Union Bank celebrated 25 years of banking operations in Sri Lanka. The Bank carried out a series of events to fittingly celebrate this significant milestone.

RINGING THE BELL AT CSE

Union Bank symbolically rang the market opening bell at the Colombo Stock Exchange (CSE) on 3rd March 2020, to mark its 25th anniversary. The CSE bell ringing ceremony is a customary tradition followed by listed companies to celebrate corporate milestones.

SPREADING THE WORD

A corporate communications and PR campaign was rolled out across several media platforms and social media to celebrate the 25th year milestone of the Bank.

25% SAVINGS

The Bank offered its customers 25% savings on a range of banking products and services including credit cards, fee waivers on loans and digital platforms to mark the 25th anniversary.

RELIGIOUS EVENTS

A series of religious events were held at the Bank's head office premises to mark the inauguration of Union Bank's 25th anniversary. An all-night pirith ceremony, followed by Christian, Hindu and Islam ceremonies were held to evoke blessings on customers and staff of Union Bank as well as on the country and its people.

REINFORCING

livelihoods of our customers to help them withstand pandemic-induced calamities while supporting the rebuilding efforts of the nation through empathetic engagements.

UNION BANK

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.

In anticipation of changing consumer dynamics amid challenges posed by the COVID-19 pandemic, the Bank further enhanced its mobile banking platform during the year under review by enabling online registration to make the facility more accessible to customers. Effecting downward interest rate revision of selected credit facilities, exemption of selected categories of fees and charges, offering repayment extensions and strategic restructuring for selected credit facilities were some of the other proactive approaches adopted to provide customers with much needed relief and support through product re-engineering to withstand the impacts of the COVID-19 pandemic during the year under review.

In addition, 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 corporate website also serves as an interactive platform where visitors can direct their queries on products, services and other concerns.

Further, in compliance of 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.

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.

- Website, social media and intranet 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.

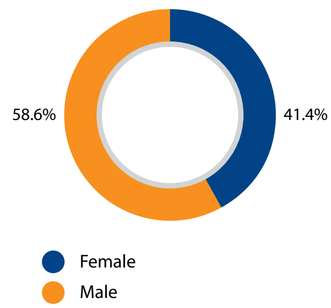
Human Resources

Our People Strategy (GRI 102-41/403-1/406-1)

Talent has always been our top priority and our vision is to be a human workplace where we put our people first. As a caring organisation, during the COVID–19 pandemic, the Bank took a solid stance to show employees how critical it is to embrace humanity and to be understanding and caring. During this unprecedented period of challenges, it was observed that health and well-being, financial stability and job security have become the top concerns of our employees and therefore prompt action was taken to reassure and manage staff members with a sense of composure and responsibility to ensure that their health and wellbeing was prioritised. In doing so, we believe that we could continue to foster a healthy work culture that brings the best out of our people and help deliver outstanding results. Due to the transparent and open culture at the Bank it's worthy to note that 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. In 2020, the Bank had zero incidents of discrimination.

Employee Profile Based on Gender As at 31st December 2020

(GRI 102-8)



The total Bank employee count as at 31st December 2020 was 1,275. The growth was 124 new employment opportunities during the year reviewed. Of the 1,275 employees, 954 were permanent employees with 187 being trainees and 134 being fixed term contract employees. The Bank does not currently employ any part time employees.

Based on Employment Type and Gender – As at 31st December 2020
(GRI 102-7/102-8)

Employment Type	Gender				Total	%
	Female	%	Male	%		
Contract	41	7.8	93	12.4	134	10.5
Permanent	396	75.0	558	74.7	954	74.8
Trainee	91	17.2	96	12.9	187	14.7
Grand Total	528	41.4	747	58.6	1275	100.0

Employee Profile Based on Employment Type and Province (GRI 102-8)

Province	Employment Type							
	Contract	%	Permanent	%	Trainee	%	Grand Total	%
Central Province	3	2.2	38	4.0	6	3.2	47	3.7
Eastern Province	0	0.0	10	1.0	3	1.6	13	1.0
North Central Province	1	0.7	19	2.0	11	5.9	31	2.4
North Western Province	4	3.0	48	5.0	8	4.3	60	4.7
Nothern Province	2	1.5	32	3.4	8	4.3	42	3.3
Sabaragamuwa Province	1	0.7	23	2.4	7	3.7	31	2.4
Southern Province	5	3.7	48	5.0	12	6.4	65	5.1
Uva Province	1	0.7	12	1.3	5	2.7	18	1.4
Western Province	117	87.3	724	75.9	127	67.9	968	75.9
Grand Total	134	10.5	954	74.8	187	14.7	1275	100.0

Social and Environment Report

Employee profile based on age, grade and gender – as at December 2020 (GRI 405-1)

Age	Corporate Management		Chief Manager		Senior Manager and Manager		Assistant Manager		Fixed Term Contract		Non Executive and Trainee		Management Trainee	Minor Staff	Grand Total
	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Male	Male	
>55		1 (7.1%)							2 (4.9%)	4 (4.4%)		1 (0.3%)			8 (0.6 %)
18-24									20 (48.8%)	56 (61.5%)	139 (40.9%)	140 (36.4%)			355 (27.8%)
29-25					2 (3.8%)		12 (14.1%)	18 (15.9%)	16 (39%)	27 (29.7%)	113 (33.2%)	158 (41%)	1 (100%)		347 (27.3%)
34-30					11 (21.2%)	25 (20.3%)	37 (43.5%)	50 (44.2%)	2 (4.9%)	2 (2.2%)	65 (19.1%)	61 (15.8%)			253 (19.8%)
35-39	1 (14.3%)			2 (11.8%)	17 (32.7%)	37 (30.1%)	23 (27.1%)	34 (30.1%)	1 (2.4%)	1 (1.1%)	16 (4.7%)	21 (5.5%)			153 (12%)
40-44	1 (14.3%)	6 (42.9%)		5 (29.4%)	13 (25%)	29 (23.6%)	5 (5.9 %)	6 (5.3%)			4 (1.2%)	2 (0.5%)		1 (33.3%)	72 (5.6%)
45-49	3 (42.8%)	4 (28.6 %)	3 (100%)	6 (35.3%)	4 (7.7%)	23 (18.7%)	5 (5.9%)	5 (4.5%)			2 (0.6%)	2 (0.5%)		2 (66.7%)	59 (4.7%)
50-54	2 (28.6%)	3 (21.4 %)		4 (23.5%)	5 (9.6%)	9 (7.3%)	3 (3.5%)			1 (1.1%)	1 (0.3%)				28 (2.2%)
Grand Total	7 (0.5%)	14 (1.1%)	3 (0.2%)	17 (1.3%)	52 (4.1%)	123 (9.6%)	85 (6.7%)	113 (8.9%)	41 (3.2%)	91 (7.1 %)	340 (26.7%)	385 (30.2%)	1 (0.1%)	3 (0.2%)	1,275 (100%)

HR Initiatives for 2020

Learning and Development (GRI 403-5)

A comprehensive Learning and Development Plan was designed for 2020 based on the annual Training Needs Analysis carried out in January 2020. The plan focused on three main areas namely Soft Skills Development, Operational Efficiency and Compliance.
A blend of in-house and external training offerings commenced in January itself. A total of 512 staff were trained clocking 5193 hours by end of March 2020.

The Learning and Development Centre conducted 44 In-house programmes including a general training programme covering occupational health and safety related topics, 4 e–learning courses and 9 webinars covering 153% of our employees during the year resulting in an average of 129 training hours per employee. The partnerships with external training institutes continued with 164 employees attending 30 programmes.

With the countrywide lockdown from mid-March, the Bank took prompt action to explore new methods of keeping the staff engaged in learning activities.

While nominating staff for external webinars that were relevant, a new e- learning plan was designed and launched by 1st June 2020. The concept of remote learning was very new to the staff and hence the design of the e–learning plan was important. It had to have the right appeal for staff to be motivated to engage in enhancing their knowledge by themselves. Since the millennials are more tech savvy and current with using applications, the new plan focused on operational courses for the junior staff of the Bank. The idea was to get the juniors on board first, to show case their success stories to motivate other staff to embrace the new learning methodology. The e-learning courses were offered through the Bank's Learning Management System and through extensive use of MS Forms for all communications and the assessment tests. The feedback for e-learning was very positive with most of the learners requesting for similar courses.

Annual refresher course on Anti Money Laundering and Countering Financing of Terrorism is made mandatory for the entire staff of the Bank. The Bank recorded the fastest time of completion of this course in the month of August. The colourful graphics and designs, competitions and public recognition for high scorers, in the new e-learning environment was a motivator for the staff to study and complete the assessment test in record time.

The e-learning method for engaging and educating staff on various topics continued till end of December 2020. This also helped to manage the impact of COVID-19 on learning and development activities that the Bank experienced during this period.

Average Training Hours per Employee – (GRI 404-1)

Employee Category	Total Training Hours	Average Hours
Trainee	35660	193
BA/ SBA	41711	136
Officer	26669	115
Management Trainee	164	82
Assistant Manager	22317	113
Manager	13607	112
Senior Manager	5917	110
Chief Manager	2379	119
Top Management	22	1
Grand Total	148445	130

(Above is excluding FTC staff and support staff)

Gender-Wise Training Hours Details – (GRI 404-1)

Gender	Total Training Hours	Average Hours
Female	67352	138
Male	81093	124
Grand Total	148445	130

(Above is excluding FTC staff and support staff)

Programmes for Upgrading Employee Skills and Transition – (GRI 404-2)

Program	Program	No. of Training Hours	Total No. of Participants	Duration of the program
Training on Staying Motivated for Operations Staff	2	584	73	8hrs
"RAPID" - A Certificate Course in SME Credit Evaluation	1	696	18	40/ 16hrs
Training on Treasury Functions	1	75	25	3hrs
Hands-on training session for RAPID phase 02	9	162	18	9hrs
Call Centre Refresher training	2	232	29	8hrs
Credit Cards Product Training	1	48	24	2hrs
First-aid Training	2	424	53	8hrs
Training on Operations for Branch Staff	1	592	37	16hrs
Personal & Professional Development for Sales Staff	1	320	40	8hrs
Induction for TBAs/ Call Centre Staff	1	864	27	32hrs
Induction for Sales Staff	1	248	31	8hrs
Grand Total	22	4245	375	

Performance Management (GRI 404-3)

Union Bank's performance management framework is designed to nurture a performance driven culture across the organisation, for all employees. The performance of all revenue generating roles are monitored on a monthly basis by the respective business heads.

Management is consistently working to develop their employees, establish clear goals, and offer consistent feedback throughout the year to ensure any under performance is detected and corrected early. Significant contributions are also highlighted and recognised in order to motivate and retain the high performers, and to develop leaders from within.

In addition, a comprehensive target setting and an evaluation process is carried out annually through the Bank's electronic performance management system.

No. of employees eligible for Annual year-end review 2020

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

Gender Wise Breakdown

Gender	Count	
Female	389	41%
Male	563	59%
Grand Total	952	

** Employees in permanent cadre as at 30th September in each year will be eligible for annual performance reviews.*

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 during all performance cycles 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.

Social and Environment Report

Compared to 2019, there is a notable 8% increase in the number of permanent cadre employees eligible for annual performance reviews in 2020. In 2020 the annual bonus payments were significantly differentiated based on the employee performance rating further strengthening the Bank's pay for performance principles and motivating the high performers. In addition to the above variable bonus scheme, the following benefits are offered to all full–time 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
Medical checkup for staff 40 years and above	√	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
Outstation 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 20/25 years of service	√	x	√
Birthday half-a-day leave	√	√	√
Paternity leave	√	√	√
Compassionate leave	√	√	√

Ratio of Basic Salary and Remuneration of Women to Men (GRI 405-2)

Grade	Male	Female
Key Management Personnel	1	0.82
Chief Manager	1	0.94
Senior Manager	1	0.86
Manager	1	0.91
Assistant Manager	1	0.96
Officer	1	1.01
Senior Banking Assistant	1	1.04
Banking Assistant	1	1.02
Management Trainee	1	1.33
Fixed Contract	1	0.83
Trainee	1	1.02
Support Staff	1	0
Intern	1	0

Staff Promotion Process

Commencing this year, the promotion process has been revised to improve the number of promotion opportunities for staff. The new process has paved the path for staff to be recognised when their role/responsibilities or technical expertise improves. As per the revised process staff can now apply for promotions as and when a vacancy arises in the organisation. Through a vacancy based and internal resourcing led promotion process, vacancies will be internally advertised and interested staff would apply. The most suitable candidate will be identified based on past performance and potential assessment.

Going forward, external recruitments will be limited to instances where necessary skills are not available internally or to back fill roles at the entry level as internal staff movement increases. Further, staff could also be recommended for promotions by the line manager based on increase in job responsibilities and during 2020, turnover amongst permanent staff has been relatively low compared to the previous years.

Staff Recruitments – as at 31st December 2020 (GRI 401-1)

Province	Age Category					Grand Total
	<30		30-50		50>	
	Female	Male	Female	Male		
Central Province	2 (5.9%)	0 (0.0%)	0 (0.0%)	2 (18.2%)	-	4 (3.2 %)
Eastern Province	3 (8.8%)	0 (0.0%)	0 (0.0%)	0 (0.0%)	-	3 (2.4%)
North Central Province	1 (2.9%)	4 (5.3 %)	0 (0.0%)	0 (0.0%)	-	5 (4%)
North Western Province	0 (0.0%)	1 (1.3%)	0 (0.0%)	0 (0.0%)	-	1 (0.8%)
Nothern Province	1 (2.9%)	0 (0.0%)	0 (0.0%)	0 (0.0%)	-	1 (0.8 %)
Sabaragamuwa Province	0 (0.0%)	1 (1.3%)	0 (0.0%)	1 (9.1%)	-	2 (1.6%)
Southern Province	1 (2.9 %)	2 (2.7%)	0 (0.0%)	1 (9.1%)	-	4 (3.2%)
Western Province	26 (76.5%)	67(89.3%	4 (100%)	7 (63.6%)	-	104 (83.9%)
Grand Total	34 (27.4%)	75 (60.5%)	4 (3.2 %)	11 (8.9%)	-	124 (100%)

Staff Resignations – as at 31st December 2020 (GRI 401-1)

Province	Age Category						Total
	< 30		30 - 50		>50		
	Female	Male	Female	Male	Female	Male	
Central Province	1 (2.2%)	2 (2.0%)	2 (10.0%)	-	-	-	5 (2.7%)
Eastern Province	-	1 (1.0%)	-	-	-	-	1 (0.5%)
North Central Province	1 (2.2%)	-	1 (5.0%)	-	-	-	2 (1.1%)
North Western Province	-	2 (2.0%)	-	2 (10.0%)	-	-	4 (2.2%)
Northern Province	3 (6.5%)	3 (3.0%)	-	-	-	-	6 (3.2%)
Sabaragamuwa Province	2 (4.3%)	-	-	2 (10.0%)	-	-	4 (2.2%)
Southern Province	1 (2.2%)	6 (6.1%)	3 (15.0%)	2 (10.0%)	-	-	12 (6.5%)
Uva Province	1 (2.2%)	1 (1.0%)	-	-	-	-	2 (1.1%)
Western Province	37 (80.4%)	84 (84.9%)	14 (70.0%)	14 (70.0%)	-	-	149 (80.5%)
Grand Total	46 (24.9%)	99 (53.5%)	20 (10.8%)	20 (10.8%)	-	-	185 (100.0%)

Action taken by HR in managing COVID-19
At the outset of the COVID-19 outbreak in the country, the Bank was prepared to face the VUCA (volatile, uncertain, complex and ambiguous) environment by adopting feasible and flexible staffing strategies and focusing on the safety and wellbeing of all employees and customers. The Bank has been successful in managing people and supporting them to cope with the stress, unforeseeable future, and to continue work on-site and remotely to ensure continuity of business operations.

A) Staffing Strategies (GRI 408-1/409-1)
With curfew being imposed in March 2020;
Staffing strategies were developed by identifying core/key functions and assigning staff with critical job roles to work from home (WFH). Staff assigned for remote working were provided with laptops, secured internet access and remote access through VPN connectivity to minimise the disruption to routine work, whilst ensuring data security.

Social and Environment Report

For certain functions where staff presence was required and WFH was not possible due to the nature of the jobs and the system access requirements, staff were assigned to the DR site as a backup and the remaining staff were requested to report to work on a roster basis to minimise their exposure.

To minimise the exposure to the external environment, staff employed at Head Office and Piliyandala Disaster Recovery (DR) sites were provided with shuttle facilities (transport facilities) as well as lunch during the pandemic period. Branch staff were allocated based on rosters as a precautionary measure.

Depending on the development of the situation, HR reviewed the number of staff operating from the DR site and work from home to minimise the staff brought in from curfew imposed areas.

Depending on the severity of the conditions, strategies were developed to assign 35%, 50% and 65% of the total staff strength of each department to physically report back to work to carry out routine and critical tasks. The Bank does not have any risks of running operations and dealing with suppliers involved in incidents of child or forced labour.

B) Health and Wellbeing of Staff

(GRI 403-2/403-3/403-4/403-6/403-7/403-9)

Employees in high risk categories with special medical conditions such as pregnant staff, staff that have undergone organ transplants, and staff that are undergoing treatment for severe illnesses were identified and they were assigned on work from home arrangements until the situation stabilises.

Information was collated to understand and identify the staff members with family members who are employed in industries that are vulnerable to COVID-19 infections such as medical, airline, shipping, hospitality, armed forces etc., and the census was used in developing work place strategies to minimise the risk of exposure to other staff.

A comprehensive health and safety guidelines at workplace during COVID-19 pandemic was developed by HR highlighting the point of escalations and reporting requirements, General precautions when entering the Bank premises, conducting the meetings, customer and branch visits etc. for the staff to be guided with.

A comprehensive matrix was developed by HR based on level of contacts and actions to be taken upon interactions with a suspected COVID-19 positive patient for each level of interaction.

Staff members were constantly advised and encouraged to take a degree of responsibility for their own health and safety. The Bank provided the employees with face masks, hand sanitiser, disposable gloves and face shields (for front line customer facing staff at branches) to ensure the safety of employees.

An official escalation process was established for staff to share information on COVID-19 related cases and if they develop flu like symptoms.

Health conditions of the employees were thoroughly monitored, and for employees that reported flu like symptoms, a mandatory 5-working day period was allocated to stay back from work with pay until fully recovered, to minimise the exposure to staff.

Furthermore, staff interactions with suspected COVID-19 cases were separately tracked, and constant follow ups were conducted on a daily basis and depending on the level of exposure staff were assigned on 14 days self-isolation period to minimise the risk of exposure.

All policies and procedures have been put in place to ensure well-being and a secure work environment to our staff. Standard safety measures such as periodic fire alarm checks, training of fire wardens, conducting of fire drills etc, further ensures a safe work environment. Hence, there were no hazards or work related injuries been identified during the year under review.

C) Other Support Mechanisms

Employees were provided with additional leave categories of work from home, quarantine leave and pandemic leave to reduce large number of absenteeism records, and staff were also allowed to utilise their respective leave balances for the year wherever possible. Employees were requested to update their contact details and residential addresses to ensure details of all staff are up to-date.

When on boarding new recruits, a thorough checking was conducted and employee declaration was obtained confirming the whereabouts of the new recruits during a 14-day period prior to commencing employment.

Prospects 2021

The year 2020 was fraught with change and has even shaken the strongest organisations. Flexibility has become an essential virtue as the HR function re-evaluates goals and performance metrics in a disruptive year. The changes 2020 brought are setting up next year to be another of transformation. For Union Bank, one of the major lessons learned during the year under review is that companies that don't transform will get left behind by those that do. As an organisation that puts people first, Union Bank has learnt if we help employees support their personal lives, not only do they have better lives, but they perform at a higher level as well. Understanding industry shifts is crucial to keeping pace with the rapid developments taking place, especially in light of the pandemic. To that end, the Bank believes that 2021 would be an important year where HR would focus on driving business transformation and shaping the future of work.

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.

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.

Membership in Associations (GRI 102-13)

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

- Sri Lanka Banks' Association (Guarantee) Limited
- 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
- 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)

Union Bank has entrenched environmental and social principles into its sourcing and procurement activities. The Bank-wide, responsible supply chain management framework is based on ascertaining, evaluating, and monitoring vendor practices in the areas of human and employee rights, the environment, health and safety and anti-corruption, in line with its assurance to proper practices. The Bank's aims to diminish undesirable ecological and social effects of goods and services the Bank purchases, and engages with vendors to promote accountable practices. A main constituent of the Bank's practice is observance of its procurement policy guidelines and practices which it expects the vendors and service providers to follow. The policy and practices describe the Bank's expected standards towards vendors, service providers and their subcontractors regarding legal amenability, ecological protection, prevention of minor and forced labor, non-discrimination, compensation and reasonable payments, hours of work, liberty of association, fair treatment, health and safety and anti-corruption issues and a whistle blowing process to support and safeguard employees.

The Bank's procedure comprises an impact assessment of newly-sourced goods and services, which considers probable undesirable ecological and social impacts along the lifespan of a product or a service and all purchased goods and services are categorised accordingly.

The Bank's procurement practices continue to be centrally managed by the Administration department and are overseen by the Procurement Committee. The Bank is driven by its approach to mature its supplier management structure in line with the international best practices while confirming pre-emptive management of strategic supplier partners and acceptable risk management. The Bank continues to reinforce its supply chain based on the following principles.

- Robust compliance
- Stringent risk management
- Improving systems, controls, and processes
- Sustainable sourcing

The Bank has a varied supplier base, including suppliers of the important system platforms on which the Bank operates. As the Bank has its branch network spread across the island, it also sources small items from local vendors for localised consumption of goods and services. The Bank has made tactical relationships with eminent Sri Lankan companies and few global companies as well. This supports the Bank to expand business platforms and places the foundation for a maintainable future.

The Bank conducts annual reviews and risk management practices to ensure vendor redundancy/Business Continuity Planning (BCP) for critical partnerships and service providers.

On the part of its responsibility to a greener environment, the Bank carries out its activities in an environment friendly manner. During the year 2020, the Bank used 4,967 packets of A4 paper, and recycled 6,125 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 continue to be;

1) Maximising economy, timeliness and quality in procurement resulting in the best value proposition for the Bank.
2) Adhering to prescribed standards, specifications, rules, regulations, and good governance.
3) Providing fair, transparent, equal, and maximum opportunity for eligible interested parties to participate in procurement.
4) Expeditious execution of work and delivery of goods and services.
5) Ensuring fairness, transparency and consistency in the evaluation and selection procedure; and
6) Retaining confidentiality of information provided by bidders.

Revisions were done to the following areas of the policy.

- Price limit increases and related delegated authority
- Technical Evaluation Committee (TEC) conditions and processes
- Supplier registration process
- Threshold values for different methods of procurement

The Bank works with different types of suppliers and priority is given to local suppliers for ease of business, improved supervision and management. More than 95% of the Bank's suppliers are based in Sri Lanka and only 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 have been no significant changes to the supply chain operations during the period.

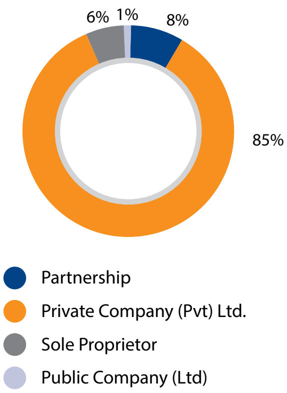
The supplier registration process is governed by the Board-approved Procurement Policy.

Registration of suppliers is called once in two years by publishing an advertisement which calls for suppliers to be registered under twenty six (26) categories. Suppliers who wish to be registered under multiple categories are required to submit separate applications for each category. Procurement processes are conducted through a quotation or tender 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 the tender/quotes process to registered suppliers, the Bank foresees to establish long-standing, equal and favourable business partnerships.

The following is an analysis of 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 221 registered local suppliers belong to different types of entities and the concentration of categories are as follows; 188 of the Bank's suppliers are private limited companies while 30 suppliers would be categorised as small and medium enterprises and the remaining as public liability companies.



A summary of the procurement related spend is shown below.

Value of total procurement (LKR Mn)	2017	2018	2019	2020
Local	116.5	73.9	118.6	56.5
	46%	57%	100%	12%
Foreign	136.5	54.8	-	425.6
	54%	43%	-	88%

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 behaviour, anti-trust, and monopoly practices.	No incidents recorded during the year 2020 under review
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 areas	
Incidents of non-compliance concerning product and service information and labeling	

The year under review was one of the most challenging periods not only for the Non-Banking Financial Institutions (NBFI) but for other industries, economy and the country. With the COVID-19 pandemic breaking out in waves during 2020, UB Finance' s business inevitably faced its resulting impacts throughout the year where severe impacts were felt on the Company's operations and the bottom line. Despite challenges, UB Finance continued to steer through with resilience and reiterated its commitment to support its customers by providing sustainable solutions to navigate during this difficult time.

The focus during the year was to identify innovative solutions and business delivery methods that would enable UB Finance to remain relevant in a challenging environment. The Company continued to focus on innovation, coupled with a strong governance and internal controls model that ensured the financial stability of the Company. Its strong foundation, lean operating structure, cost conscious culture and the dedicated team together played key roles in helping to steer UB Finance forward amidst challenges.

During the year, the Company restructured and strengthened its product portfolios to support the changing needs of customers while further enhancing its recovery/legal operations to sustain against deteriorating market conditions. UB Finance further focused on consolidating its business operations by re-engineering identified workflows, processes and systems, thereby eliminating unproductive expenditures to streamline the cost structures while improving quality standards.

Considerable effort was also focused on improving the core banking system of the Company. These changes and improvements have further reduced costs and increased turnaround times across the board. It has also relieved second layer staff of routine activities, thereby enabling them to engage in alternative value-added services and contribute to the strength of the Company.

Technology enhancements coupled with focus on alternative marketing communication platforms enabled the Company to expand its digital footprint through numerous channels and services, reaching out to new, millennial customers and reach new market territories, hence opening up new opportunities for UB Finance to increase its customer base, widen its reach and broaden its footprint in the industry.

UB Finance continued to follow its strategy of leveraging on its core competencies and strengths and over the years has increased the investment made in its human resources with focus on apt recruitments, training and development, and lucrative performance incentive schemes. The Company holds it team of staff members in high esteem, and the UB Finance team displayed its courageous, spirited and fearless nature in their endeavours during the pandemic while rising to the challenge of navigating the operations of the Company towards a positive trajectory during a challenging year.

Risk management, compliance and corporate governance have been the firm back bone of the Company that has enabled UB Finance to achieve well-structured growth over the years. During the year under review, many steps were taken to expand and strengthen this structure and align these processes with the parent, Union Bank which actively participates in matters of governance through its shareholding in the Company.

Also in 2020, ICRA Lanka Limited reaffirmed the issuer rating of (SL) BB with a negative outlook in recognition of the Company's resilient standing against a turbulent market.

UB Finance's Gold Loans continued to gain momentum during the year under review. A notable growth of 78% in the Gold Loans contributed to this year's performance. This came as a result of the Company's focused efforts to expand this product portfolio during the year when UB Finance extended its gold loan facility across the island. The Company also ensured necessary infrastructure, including a well-trained sales team and continuous promotional campaigns to propel the Gold Loan proposition of UB Finance.

2021 Outlook

UB Finance remains optimistic about the future of Sri Lanka as a commercial, financial and transshipment hub and is geared with innovative products and technological platforms to leverage on and support this economic growth. The Company's principal shareholder has taken steps to ensure that all capital thresholds set by CBSL are met in the upcoming financial year, thus enabling UB Finance to capitalise on the market growth prospects in the coming year and beyond.

Subsidiary Update

Key Highlights

- Uninterrupted operations amidst lockdowns
- National Equity Fund outperforms ASPI by over 400bps
- Flagship NAMAL High Yield Fund continues to deliver strong returns

Resilient Operations Amidst a Challenging Year

2020 was an unprecedented year for businesses across markets and regions. Market closures and lockdowns resulted in challenging operating conditions curtailing the usual mode of operations for the NAMAL team. The dedication of the team and their ability to perform amongst the challenges of working from home ensured that the organisation continued to deliver strong returns to clients, whilst ensuring that all client needs were met in a timely and efficient manner.

National Equity Fund Outperforms the ASPI by Over 40%

The National Equity Fund generated a growth of 14.96% during 2020 compared to a growth of 10.52% of the All Share Price Index (ASPI) and a decline of 10.18% of the S&P SL20 index. This was an outperformance of 443 basis points by the NEF compared to the ASPI for the year and was noteworthy in the backdrop of tough macro-economic conditions as well as operational challenges brought about through the pandemic. Whilst the markets were slow during the first three quarters of the year and recorded a steep decline immediately post reopening from the pandemic induced closure, the latter part of the year recorded significant investor interest and participation. This was mainly due to the low interest rate regime that prevailed and was also aided by the strong recovery of the economy during the 3rd quarter of 2020. Foreigners were net sellers during the year, causing an outflow of Rs. 51.3 Bn from the equity markets during 2020. The NAMAL Growth Fund closed with a growth of 10.19%.

The National Equity Fund, the first mutual fund in the country, has delivered 11.94% compounded annualised return to investors in its 29 years of existence. The NAMAL Growth Fund which has been in existence for 23 years has reported a 12.48% annualised return.

Flagship Fixed Income Fund Generates Strong Returns

2020 witnessed a declining trend in interest rates aided by the continuation of deposit rate caps and several rate cuts by the Central Bank of Sri Lanka. The dovish stand taken by almost all central banks globally in the wake of COVID-19, as well as historically low domestic credit growth resulted in a sustained low-rate regime during the latter part of the year. The benchmark 1-year TB yields depreciated by 342 basis points to 5.03% by the year end while NDBIB-CRISL 91-day T bill index reported a return of 6.65% during the year. NAMAL High Yield Fund generated a 9.32% return for its investors during the year and recorded a notable growth in AUM.

Growth in Total AUM of Continuing Funds Despite Challenging Economic Conditions

Despite of the challenging conditions resulting from COVID-19 which was prevalent during the 2020 the company achieved an AUM growth of 29% for the year. The main contributor towards this growth was the NAMAL High Yield Fund which closed the year with an AUM of Rs. 4.5 billion. Equity Fund AUM was boosted during the year by the positive performance of the equity markets and recorded a growth of 12.3% for the year. Unit Trust AUM was in excess of Rs. 7 Bn by the end of 2020, with equity unit trust AUM surpassing 2.5 Bn and fixed income unit trust AUM surpassing 4.5 Bn.

COVID-19 Induced Market Disruptions Impact Earnings

The asset management fees for the full year 2020 stood at Rs. 60.6 Mn (down 4.7% YoY). Income from equity unit trusts declined by 19.2% YoY to Rs. 36.9 Mn while income from fixed income unit trusts recorded a growth of 34.1% YoY to Rs. 18.1 Mn. Total income for the year declined to Rs. 70.1 Mn from 77.3 Mn in the previous year while total overheads declined to Rs. 66.8 Mn for the year from Rs. 69.7 Mn in the previous year. PBT for 12 months ending December 2020 stood at Rs. 2.3 Mn in comparison to Rs. 5.5 Mn during 2019.

Unit Trust Business to be Supported by New Products

The positive momentum in the equity markets will put the NAMAL equity funds in focus during 2021 and will continue to be an important element in the strategy for 2021. The prevalent low interest rate regime will create significant interest for equity and will create attractive opportunities for capital appreciation. NAMAL's money market unit trust, the NAMAL High Yield Fund will provide investors with a low-risk appetite, an avenue to maximise their returns in light of the low interest rate regime across the financial sector. We believe significant opportunity exists in the newly introduced Real Estate Investment Trust (REIT) structures and will focus on providing opportunities for our investors in this space. This together with private wealth management focus will enable NAMAL to provide today's discerning investors with opportunities to maximise returns across multiple asset classes. We are optimistic that NAMAL will deliver strong returns to its shareholders through opportunities created via products catering to multiple asset classes.

Investor Relations

Transparency and timely disclosure of information are essential elements of a robust corporate governance framework as they provide the base for informed decision making by shareholders, stakeholders and potential investors in relation to capital allocation, corporate transactions and financial performance monitoring.

Therefore, the Bank strives to carry out information disclosure in a proactive and timely manner at all times. 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.

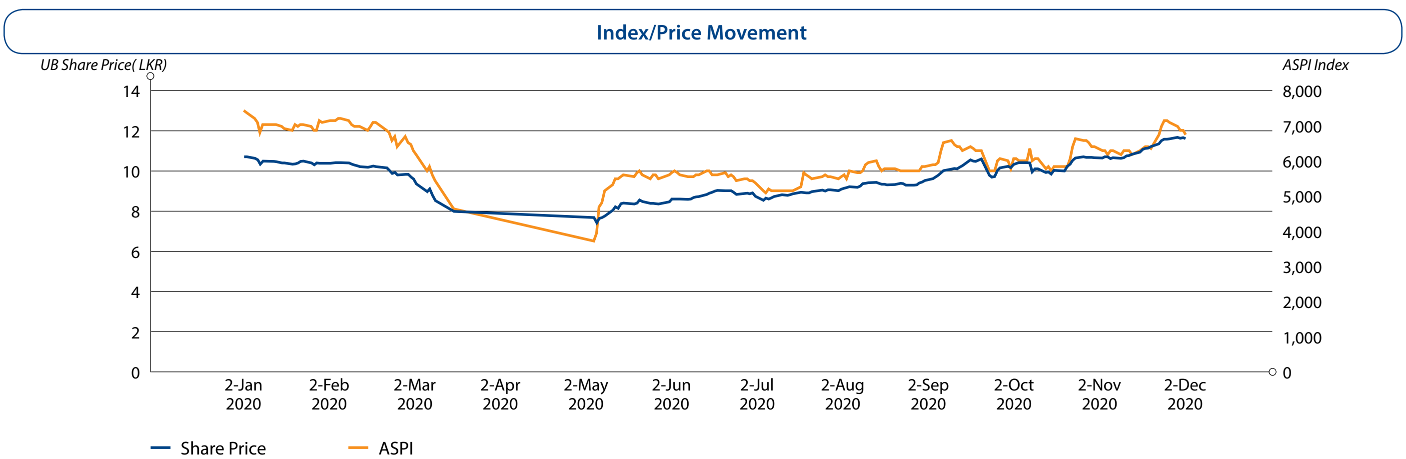
The Bank also actively engages in constructive dialogue with shareholders, investors, securities analysts and other concerned parties, and uses the opinions received and other feedback as a reference for its management to improve its corporate value. Through such information disclosure and communication,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

This section of the Annual Report deals with the mandatory disclosures that the Bank is required to make in line with applicable rules and regulations and also 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 2020



3. Share Information

There were 30,187 shareholders as at 31 December 2020 (2019 – 30,693) distributed as follows,

3.1 Shareholder Distribution

	31 December 2020				31 December 2019			
Share Range	**No. of Shareholders**	**%**	**No. of Shares**	**%**	**No. of Shareholders**	**%**	**No. of Shares**	**%**
1-1000	26,408	87.48	3,839,387	0.35	26,849	87.48	3,909,187	0.36
1001-10000	2,751	9.11	9,862,813	0.91	2,781	9.06	9,951,348	0.92
10001-100000	851	2.82	24,604,857	2.27	881	2.87	25,979,817	2.40
100001-1000000	144	0.48	38,793,236	3.58	148	0.48	41,958,310	3.87
1000001-10000000	26	0.09	82,651,227	7.63	28	0.09	93,519,882	8.63
10000001-& Above	7	0.02	923,806,818	85.26	6	0.02	908,239,794	83.82
Total	30,187	100.00	1,083,558,338	100.00	30,693	100.00	1,083,558,338	100.00

3.2 Analysis of Shareholders

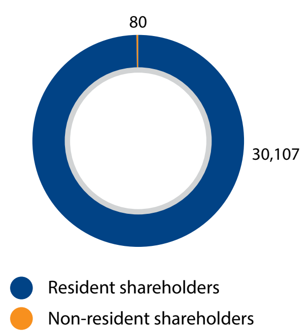
Resident/Non-Resident

	31 December 2020			31 December 2019		
	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%
Resident shareholders	30,107	218,929,285	20.20	30,609	219,675,684	20.28
Non-resident shareholders	80	864,629,053	79.80	84	863,882,654	79.72

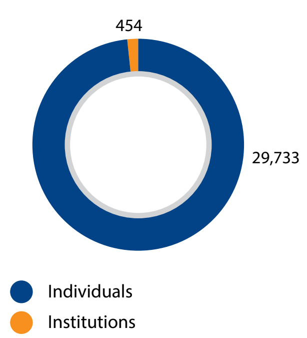
Individuals/Institutions

	31 December 2020			31 December 2019		
	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%
Individuals	29,733	150,870,780	13.92	30,208	145,364,924	13.43
Institutions	454	932,687,558	86.08	485	938,193,414	86.57

No. of Shareholders



No. of Shareholders



4. Share Trading

4.1 Market

	2020	2019	2018	2017	2016
No. of transactions	3,070,021	1,197,205	885,657	981,977	1,056,849
No. of shares traded	21,348,728,655	9,855,016,003	6,000,737,306	8,468,273,611	7,195,805,445
Value of shares traded (Rs. Mn)	396,881	171,407	200,069	220,591	176,935

4.2 Bank

	2020	2019	2018	2017	2016
No. of transactions	17,337	13,483	10,033	6,871	9,282
No. of shares traded	115,528,897	89,799,303	33,088,913	29,756,713	31,611,520
Shares traded as a % of total shares in issue	10.66	8.29	3.03	2.73	2.90
Average daily turnover (Rs. Mn)	6.00	4.60	1.78	1.81	2.22
Value of shares traded (Rs. Mn)	1,254	1,118	428	435	533

Investor Relations

5. Top 20 Shareholders, Market Capitalisation and Minimum Public Holding as at 31 December 2020

5.1 Top 20 Shareholders

No.	Shareholder name	31 December 2020		31 December 2019	
		No. of Shares	Ratio (%)	No. of Shares	Ratio (%)
1	Culture Financial Holdings Ltd	767,558,888	70.84	767,458,888	70.83
2	Vista Knowledge Pte Ltd	64,677,973	5.97	64,677,973	5.97
3	Associated Electrical Corporation Ltd	29,237,387	2.70	29,237,387	2.70
4	Mr. A.I. Lovell	24,371,269	2.25	24,371,269	2.25
5	Dr. T. Senthilverl	21,504,826	1.98	-	-
6	Mr. D.A.J. Warnakulasuriya	19,842,730	1.83	19,842,730	1.83
7	Mr. C.P.A. Wijeyesekera	18,375,314	1.70	18,375,314	1.70
8	Ashyaki Holdings (Pvt) Ltd	7,792,806	0.72	7,792,806	0.72
9	Mr. S.P. Khattar	7,323,365	0.68	7,323,365	0.68
10	Anverally International (Pvt) Limited	4,749,287	0.44	4,749,287	0.44
11	Commercial Agencies (Ceylon) Ltd	4,050,833	0.37	4,050,833	0.37
12	Ajita De Zoysa & Company Limited	4,050,832	0.37	4,050,832	0.37
13	Mr. A.I.T. Hettiarachchi	3,848,735	0.36	3,848,735	0.36
14	Malik Devapriya Samarawickrama	3,370,434	0.31	7,031,016	0.65
15	Deutsche Bank AG-National Equity Fund	2,726,849	0.25	4,726,849	0.44
16	Rananjaya Holdings (Private) Limited	2,548,852	0.24	-	-
17	Senthilverl Holdings (Pvt) Ltd	2,333,408	0.22	-	-
18	Mr. N.A. Samarakoon	2,155,165	0.20	-	-
19	Mrs. T. Gunawardena	1,849,000	0.17	-	-
20	Mr. B.P. Obeyesekere	1,541,935	0.14	-	-
		993,909,888	91.74	987,566,531	91.17
	Total No. of shares registered	1,083,558,338	100.00	1,083,558,338	100.00
	Total No. of shares unregistered	-	-	-	-
	Total No. of shares issued	1,083,558,338	100.00	1,083,558,338	100.00
	Shares held by Directors	-	-	-	-
	Shares held by Institutions	932,687,558	86.08	938,193,414	86.57
	Balance held by Public	150,870,780	13.92	145,364,924	13.42
	Total No. of shares issued	1,083,558,338	100.00	1,083,558,338	100.00
Shares held by Public		315,859,650	29.15	315,959,650	29.16
Shares held by Directors and Related Parties		767,698,688	70.85	767,598,688	70.84
Total No. of shares issued		1,083,558,338	100.00	1,083,558,338	100.00

5.2 Market Capitalisation and Minimum Public Holding (GRI 102-7)

	31 December 2020
Market Capitalisation (Rs.)	12,677,632,554.60
Public Holding percentage	29.15%
Float adjusted market capitalisation	3,695,557,907.23
No. of shareholders representing public holding	30,178
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 2020 complied with option 4 of rule 7.13.1(a) of the Listing Rules of the CSE.

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

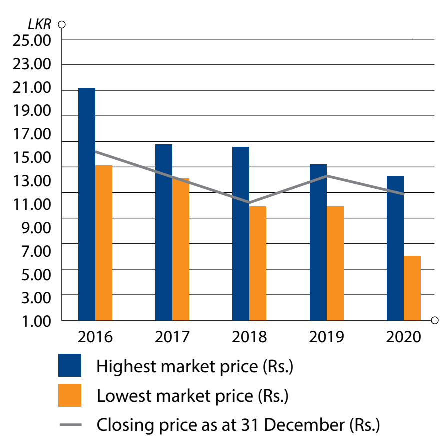
7.1 Value Creation for Shareholders

	2020	2019	Change %
Net asset value per share (Rs.)	16.70	16.16	0.54
Group earnings per share - Basic (Rs.)	0.58	0.70	(0.12)
Market price per share as at 31 December (Rs.) closing	11.70	13.30	(1.60)

7.2 Market Value

	2020	2019	2018	2017	2016
Lowest market price (Rs)	6.50	10.70	10.70	13.10	14.20
Highest market price (Rs)	13.30	14.30	15.80	16.00	20.80
Closing price as at 31 December (Rs)	11.70	13.30	11.00	13.20	15.40

Market Price Details Union Bank



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 2020.

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 72 to 86.

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 Bank that occurred during the year 2020 which require disclosure.

11. Credit Ratings

Fitch – BBB- (lka)
ICRA – (SL) BBB

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 position of Directors during the financial year	Annual Report of the Board of Directors on the Affairs of the Bank	122
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	160 120
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'	68
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'	69
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	69 124
7.6 (vi)	Information pertaining to material foreseeable risk factors	Item 9 of the 'Investor Relations'	69
7.6 (vii)	Details of material issues pertaining to employees and industrial relations	Item 10 of the 'Investor Relations'	69
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 34 to the Financial Statements on 'Property, Plant & Equipment' and 'Right of use Assets'	215-218
7.6 (ix)	Number of shares representing the stated capital as at the end of the financial year	Note 42 to the Financial Statements on 'Stated Capital'	226
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'	66
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 Item 6 and 7 of the Investor Relations	3 156 69
	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
	Changes in credit ratings	Item 11 of the Investor Relations	70
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 34 to the Financial Statements on 'Property, Plant & Equipment' and 'Right of use Assets'	215-218

Rule No.	Disclosure Requirement	Section Reference	Page/s
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 44 to the Financial Statements.	227-228
	The number of options granted each category of Employees during the financial year.	Annual Report of the Board of Directors on Affairs of the Bank.	120-126
	Total number of options vested but not exercised by each category of Employees 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.		
	Options cancelled during the financial year and the reasons for such cancellation.		
	The exercise price.		
	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.		
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	120-126
		Corporate Governance Report	87-94
		Profiles of the Board of Directors	136-138
		Report of the Board Audit Committee	112-114
		Report of the Human Resources and Remuneration Committee	118
		Notes to the Financial Statements.	160
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 2020.	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

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 banks' 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.

In the wake of the COVID-19 pandemic, Risk management becomes especially important to retain customer trust and ensure the stability of the financial system. Assessing the short-, medium- and long-term impacts on different areas and defining a strategic response focusing on changes to risk management methodologies, processes and systems are key to support operational resilience of the Bank. Given the prevailing situation, the strategic direction of the Risk Management function would be towards managing the pressure on possible deteriorations in credit quality through evaluating and supporting the credit restructuring while managing cash flows which can be achieved through widening the close monitoring scope and supporting the Bank wide recovery efforts. In the meantime, Risk Management would support in reforecasting the liquidity position and management while managing the FX risks within the limit monitoring mechanism. Further, the management of the elevated operational risks of alternative channels and network security is also supposed to be aided.

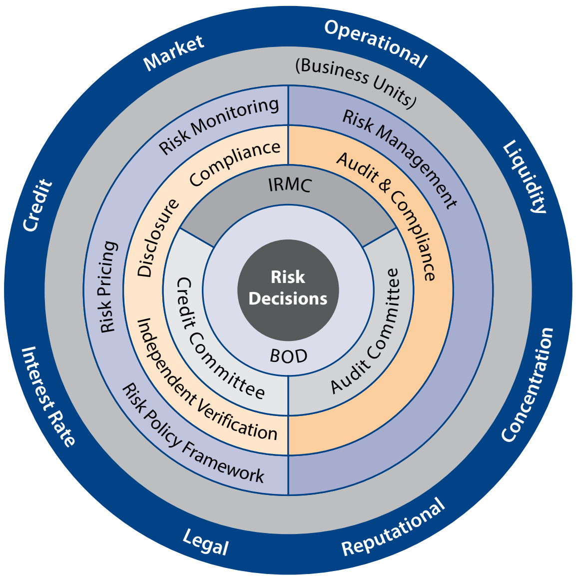
The IRMC reviews policies, procedures, processors and a wide spectrum of risks to facilitate the continuous growth of the Bank's performance.

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 Page 115-116 (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 Page 112-114 (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 Defense 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 acts 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.



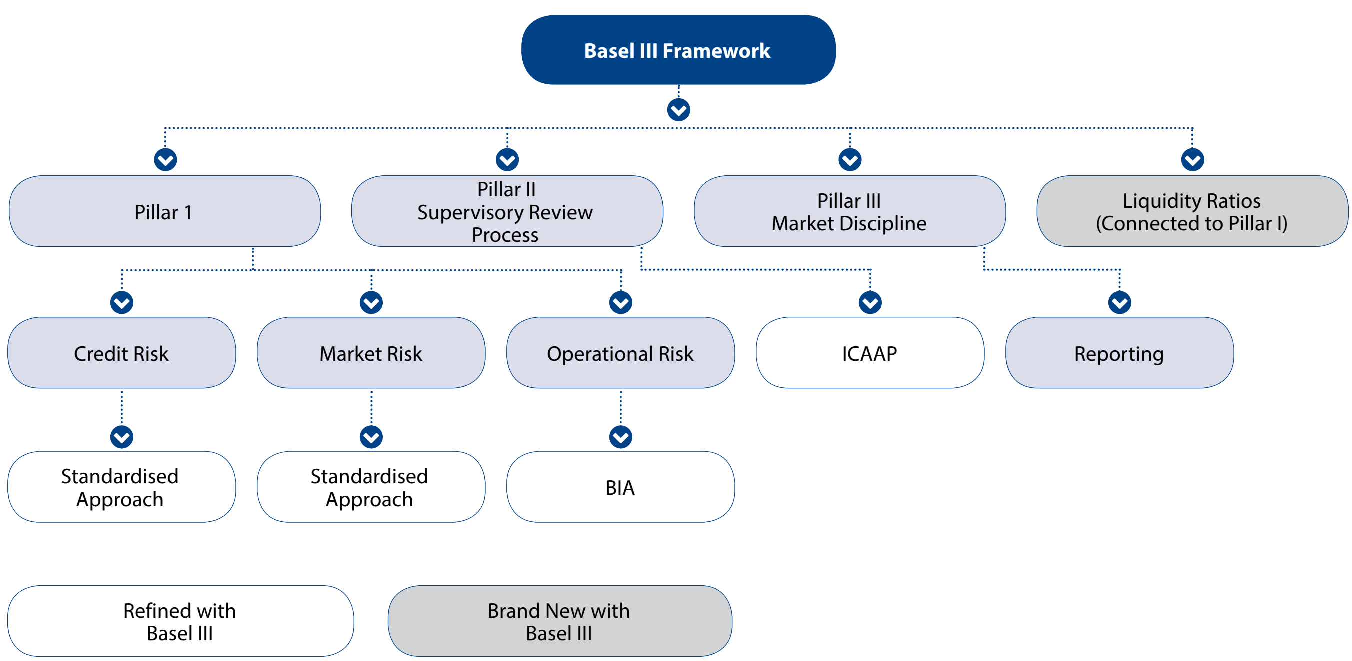
Three Lines of Defense

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 competencies. 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 & Implementation



Risk Management

Under the new consultative paper issued by CBSL for implementation of Basel III minimum capital requirements, the 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 standardise 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 uses Standardised Approach under credit risk.	The Bank/Group has 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 its 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. with 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

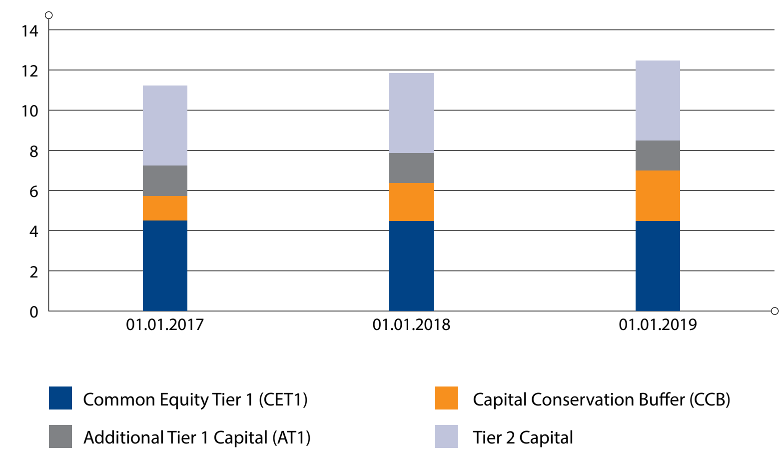
As directed by the regulator the Bank has fallen in line with the requirement of sharing the Liquidity Coverage Ratio (LCR) with the Central Bank of Sri Lanka (CBSL). The Bank has confidently met the set limits and is comfortable in embracing the phased developments of the future requirements of the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

Minimum capital adequacy ratios as a percentage of RWA



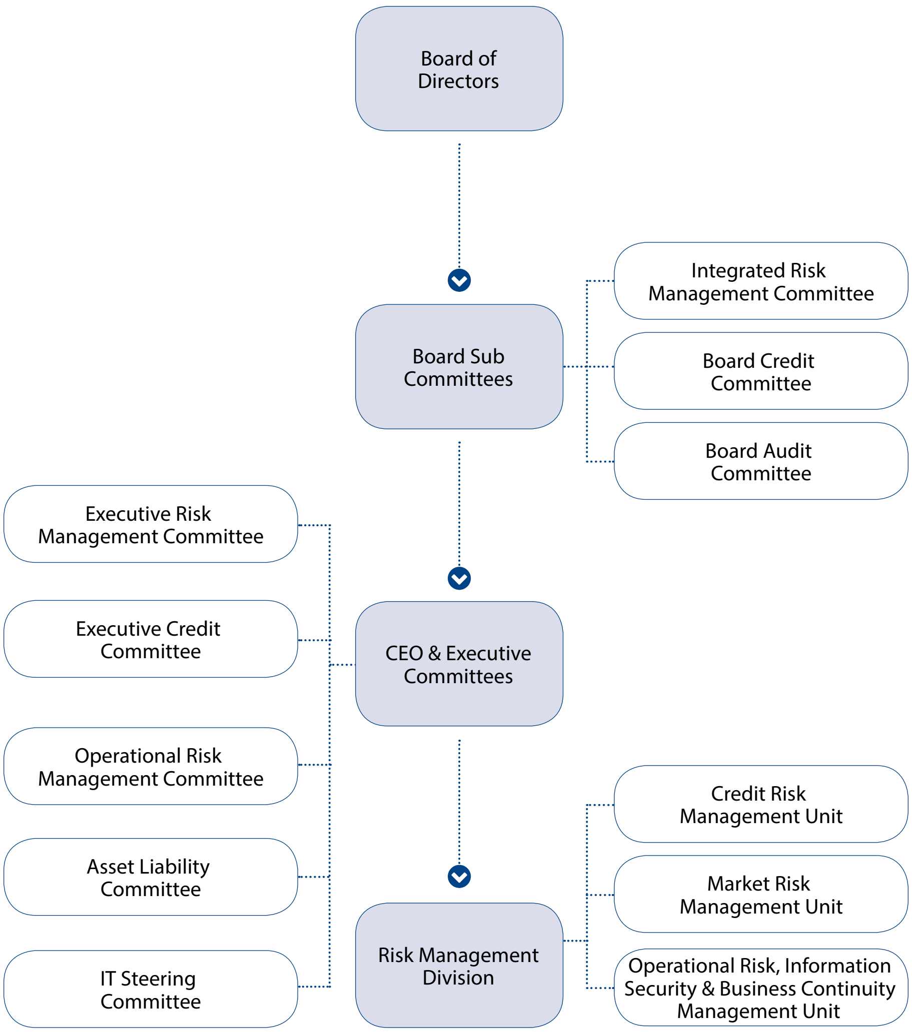
Commencing from January 2017, as required the Bank was comfortably in a position to meet the new capital requirement as prescribed in this consultation paper.

Capital Adequacy Position

As at 31 December	2020 (Rs.'000)	2019(Rs.'000)
1. Capital Adequacy Ratios		
1.1 Core Capital Ratio		
Eligible Core Capital (Eligible Tier 1)	15,415,491	15,286,211
Total risk-weighted Amount	92,537,255	92,045,633
Core Capital (Tier 1) Ratio,%	16.66	16.61
1.2 Total Capital Ratio		
Capital Base	15,680,987	15,413,097
Total risk-weighted Amount	92,537,255	92,045,633
Total Capital Ratio,%	16.95	16.75
2. Computation of Risk Weighted Assets - RWA		
Credit Risk		
RWA of On balance sheet assets	63,740,907	71,535,791
RWA of Off balance sheet assets	7,218,082	6,813,103
Total RWA for Credit Risk	70,958,990	78,348,894
Market Risk		
Capital Charge for Interest Rate Risk	525,658	606,359
Capital Charge for Equity	1,235,357	350,272
Capital Charge for Foreign Exchange & Gold	2,992	2,467
Total Capital Charge for Market Risk	1,764,007	959,098
Total RWA for Market Risk	14,700,057	7,672,787
Operational Risk		
Gross Income		
Year 1	5,103,835	4,068,517
Year 2	5,887,527	5,103,835
Year 3	5,516,337	5,887,527
Average Gross Income	5,502,566	5,019,960
Total Capital Charge for Operational Risk (Average Gross Income x15%)	825,385	752,994
Total RWA for Operational Risk	6,878,208	6,023,952
Total Risk Weighted Assets	92,537,255	92,045,633

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 and credit cards and are also known as schematised loans.

With COVID-19 outbreak affecting the country, Union Bank implemented several measures covering a broad section of customers targeting severely affected industries, both in line with the CBSL directives as well as to customers not falling within these directives but affected, under the Bank's discretion within our credit underwriting guidelines. In addition, CBSL also introduced a Refinance Scheme called 'Saubagya COVID-19 Renaissance Facility', which offered eligible clients with working capital loans at an interest rate of 4% p.a.

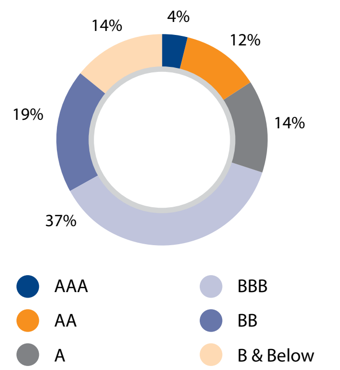
However considering the lockdown situation that prevailed in the country and difficulties faced by the customers in applying to these concessions; the Bank granted a moratorium across the portfolio for 60 days, which was the minimum stipulated in all of the above directions. The immediate measures included the suspension of recovering both interest and capital for a period of 60 days, commencing end March. This concession was granted to all customers irrespective of them specifically requesting such concession.

In addition, on a case-by-case basis, Risk Management has been evaluating and accommodating requests for restructure/ reschedulement of facilities of customers who were not eligible for the concessions granted by CBSL considering prevailing market conditions.

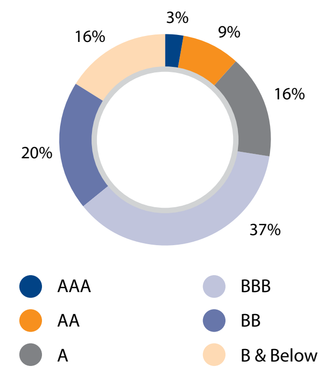
Further, considering the weak macro environment and rising NPLS in the industry, the Bank has initiated a segmentation analysis which classifies potential customers in to different categories. This is applied to assist in creating a risk averse customer base and improving the position of the loan portfolio. 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 proposals 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).

Corporate and SME Rating - Dec 2019



Corporate and SME Rating - Dec 2020



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.

Considering the COVID-19 impact, portfolio monitoring was further enhanced with the widening of the scope to identify watchlist customers for regular monitoring. Accordingly, even customers who have been servicing facilities without arrears previously were added to this list for close monitoring, if such customers were operating in stressed industries.

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
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	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.	Loan disbursement is independent from loan origination. Centralised Credit Administration is responsible for loan sanctioning and housekeeping. Loan Review at Risk Mgt Dept. independently verifies the sanctions according to approval terms.	All loans are reviewed annually or earlier if warranted. Past dues are constantly monitored by the RMs, Branch Managers and the Recoveries dept. 60 to 90 days past dues are watch listed for close monitoring. Various portfolio level MIS are prepared by Risk Mgt Dept. 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.

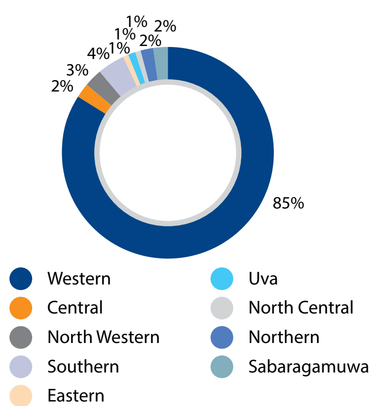
To manage the credit concentration of the book, the Bank has devised the credit model to define various limits on the maximum exposure for different industry segments. Depending on the performance of the specific industries and micro economic conditions that affects the performance of such industries,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

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

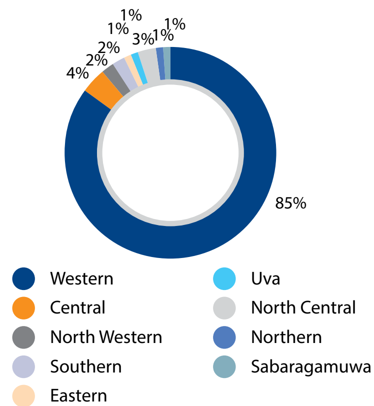
The demand for credit weakened in 2020 due to weaker economic outlook that emerged from COVID-19. Sectors such as tourism, consumption, trading, manufacturing and construction were significantly impacted due to weaker demand, restricted supply resulting in lower or no revenue and reduced spending power due to lower earning or unemployment.

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.

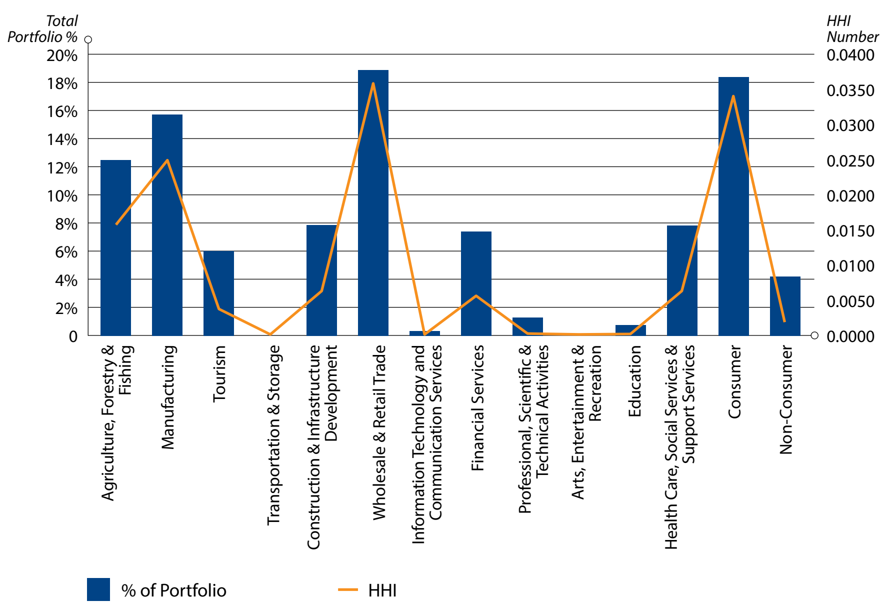
Geographical distribution as at 31.12.2019



Geographical distribution as at 31.12.2020



Economic Sector Concentration December 2020

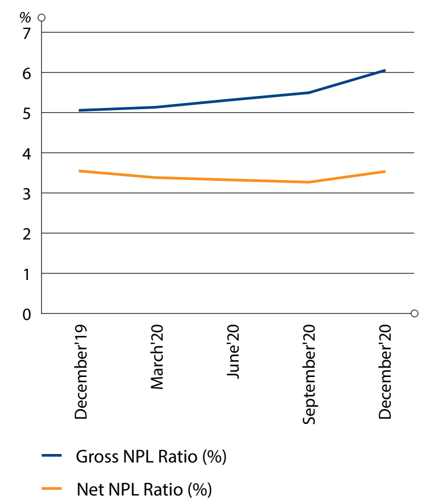


Managing Delinquent Loans

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. Risk Management Department monitors the watch listing of accounts by recommending action plans and close monitoring to prevent such borrowers becoming non-performing.

Recovery activities of the Bank did not take place very aggressively since March 2020 due to the prevailing COVID-19 outbreak. However, the Bank was engaged in managing NP portfolios by assisting customers with regard to reschedulements under CBSL circular no 5 of 2020 dated 27 March 2020, proposing settlement plans, entering in to new terms and settlements etc. There were no new downgrade facilities during March and April 2020 as due dates of performing facilities were extended in line with CBSL instructions. Thus, there was no impact on the total NPA towards the advances portfolio of March and April 2020.

NPL movement (Dec 2019 to Dec 2020)



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.

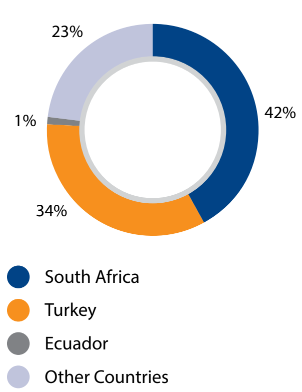
The high valued loans will be reviewed periodically and more frequently when factors indicate a potential for deterioration in credit quality. A minimum of 30%-40% of loan portfolio is reviewed each year to provide a reasonable assurance that all major credit risks post sanctions have been tracked.

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.

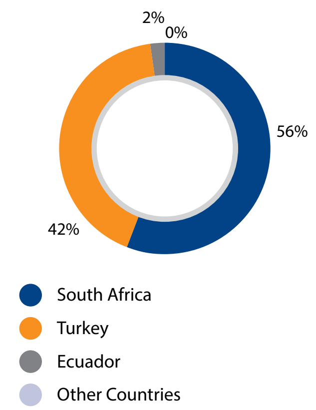
Managing Cross Border Exposures

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.

Country Wise Exposure- Dec 2019



Country Wise Exposure- Dec 2020



Operational Risk

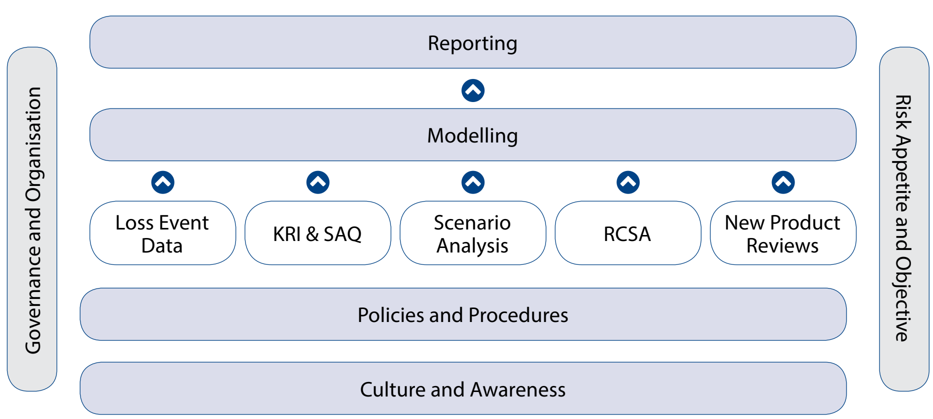
Operational Risk Management Framework: Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The definition includes legal risks but excludes strategic and reputational risks.

The governance of Bank's operational risks follows the three lines of defence 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 interests 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 defense 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.

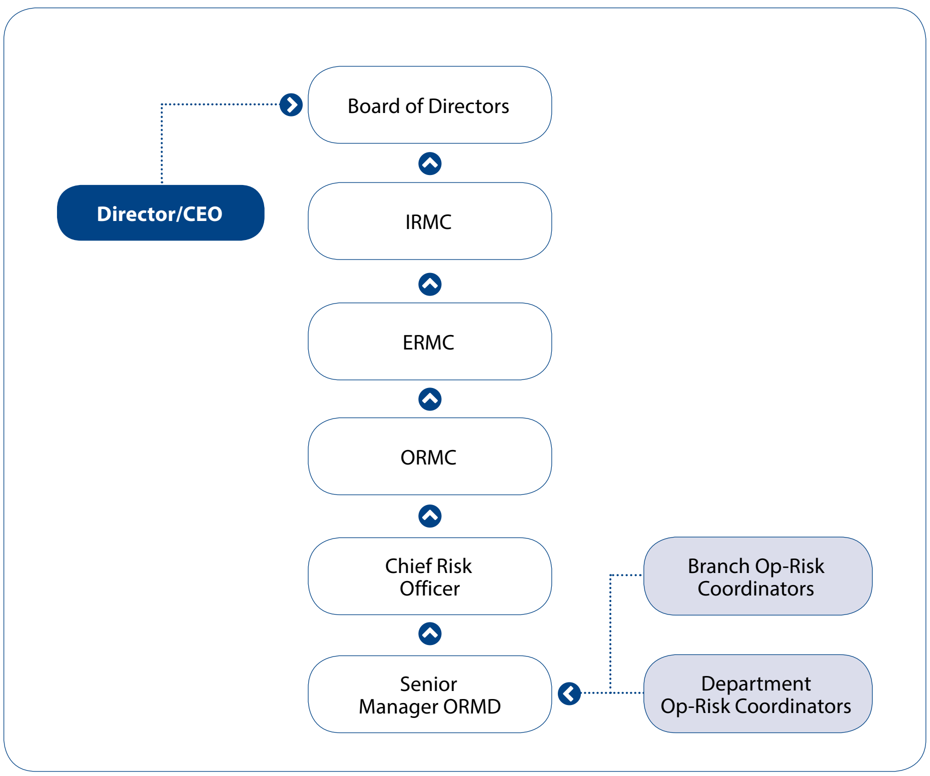
The Bank's Risk Management Department (RMD) is the risk management function for all major risk types of the Bank, including Operational Risk and owns the overarching Operational Risk Management Framework (ORMF).

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 the 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 Governance Structure:
Management of Operational Risk is the primary responsibility of business and support functions that acts as risk owners. They identify and report risk in a timely manner, 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 is overseen by the Board Integrated Risk Management Committee (IRMC).

Operational Risk Management Committee (ORMC) is chaired by the Chief Risk Officer and is 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) 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, the Bank as a risk transfer strategy, has signed up for insurance to cover Fire, Natural Disaster, Theft/Robbery, Fraud 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 LKR 158.27 Mn which is 2.88% 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 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 programme, branches and departments takes the ownership of its own risks and controls and assess the risks that may exist in its area. RCSA programmes 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

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. The 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 mitigants 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 are 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 into 15% is considered as the capital charge.

Information Security Management

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 is 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 programmes to educate 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 lies with IT Security team, which is attached to the IT Department. Internal and external audits are also regularly followed up by Bank's Leadership Team and the Board Audit and 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.

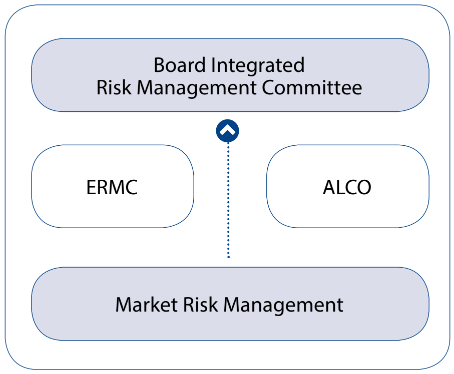
Moreover, ISO has conducted risk assessments of different assets and controlled environments and conducted the Privilege Access reviews.

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 has an enhanced, fully functional Business Recovery facility. This Business Recovery facility has been used as an alternate site during the COVID-19 pandemic, in addition to the work arrangement of operating from the primary site and working from home.

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

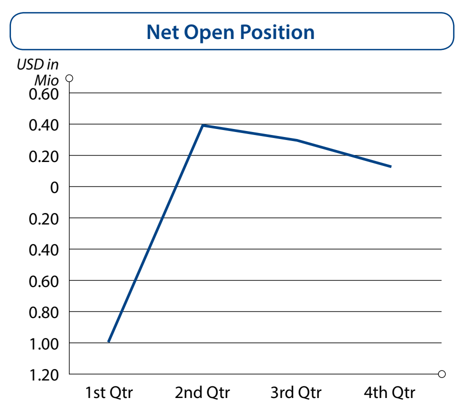
Asset and Liability Management Committee (ALCO) of the Bank, is mainly responsible for managing the Interest Rate Risk, Exchange Rate Risk, and Liquidity Risk and Equity Price Risk. Within the overall Risk Management Framework, both treasury front office and back office functions are monitored by Treasury 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, Country Limit, Forward FX mismatch limit 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 that USD/LKR exchange rates under went in the recent past.



Stress Test on Net open Position

NOP as at 31.12.2020 in USD	126,831					
Spot Rate	188.04					
LKR Eqv	23,849,494.29					
Scenarios	*Upward Movement*			*Downward Movement*		
Shock Levels	5%	10%	15%	-5%	-10%	-15%
Stressed Fx Spot Rate	197.44	206.85	216.25	178.64	169.24	159.84
Gain/Loss after stressed in LKR'000	1,192	2,385	3,577	(1,192)	(2,385)	(3,577)

Foreign Exchange Position as at 31.12.2020

CURRENCY	On Balance Sheet		Off Balance sheet		Net Position in original currency	FX Rate	Net Position in LCY
	+	-	+	-			
AED	45,144.89	-	-	-	45,144.89	51.20	2,311,222.53
AUD	79,870.62	(5.06)	-	(77,000.00)	2,865.56	144.84	415,045.72
BHD	62.50	-	-	-	62.50	498.72	31,169.88
BND	12.00	-	-	-	12.00	142.14	1,705.66
CAD	-	(4,478.32)	-	-	(4,478.32)	147.50	(660,556.74)
CHF	4,820.00	-	-	-	4,820.00	213.28	1,028,027.94
CNY	5,728.55	-	-	-	5,728.55	28.77	164,822.46
DKK	-	-	-	-	-	31.04	-
EUR	-	(3,278,683.36)	3,295,000.00	-	16,316.64	230.98	3,768,833.29
GBP	-	(1,514,823.19)	1,523,750.00	-	8,926.81	256.58	2,290,467.22
HKD	2,350.00	-	-	-	2,350.00	24.26	57,004.01
JOD	5.00	-	-	-	5.00	265.22	1,326.10
JPY	28,266,710.02	(2,580.09)	-	(28,495,000.00)	(230,870.07)	1.82	(421,037.66)
KWD	60.75	-	-	-	60.75	620.09	37,670.34
MYR	4,612.00	-	-	-	4,612.00	46.76	215,658.27
NOK	-	-	-	-	-	22.03	-
NZD	6,605.16	-	-	-	6,605.16	135.78	896,818.81
OMR	230.00	-	-	-	230.00	488.42	112,336.58
QAR	6,665.00	-	-	-	6,665.00	51.64	344,184.91
SAR	3,602.00	-	-	-	3,602.00	50.12	180,524.01
SEK	500.00	-	-	-	500.00	22.97	11,485.56
SGD	18,284.56	(39.62)	-	(16,500.00)	1,744.94	142.20	248,134.67
THB	3,830.00	-	-	-	3,830.00	6.28	24,046.73
USD	989,250.30	-	-	(921,231.48)	68,018.82	188.04	12,790,372.02
ZAR	20.00	-	-	-	20.00	12.82	256.41

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 whereas 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 will be reported to IRMC. In assessing the liquidity position of the Bank, Advances to deposit ratio, maturity profile of the assets and liabilities, liquidity gap and statutory liquid asset ratio are considered pivotal.

The Bank also 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 ensures the completeness of a comprehensive market risk management framework.

Maturities of Assets & Liabilities

Maturities of Assets & Liabilities (MAL)										Rs.000
UBCs position (Before Stress)										December-20
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**
Total Assets	16,505,061	7,711,597	17,082,492	14,387,021	24,476,776	30,318,320	10,116,388	10,048,221	4,057,037	134,702,913
Cash	2,084,629	-	-	-	-	-	-	-	-	2,084,629
Due from Banks	320,463	-	-	-	-	-	-	722,727	-	1,043,189
Investments-Current	7,767,100	430,134	4,205,235	4,560,669	11,036,150	16,261,114	1,778,040	2,376,404	-	48,414,847
Loans & Advances - Current	3,570,369	5,561,352	9,608,308	6,724,166	9,343,624	13,206,413	8,307,104	6,766,903	-	63,088,240
Bills of Exchange	10,088	19,967	856,929	-	-	-	-	-	-	886,984
Overdrafts	236,630	777,497	2,028,254	3,042,381	6,084,763	-	-	-	-	12,169,525
Loans & Advances	3,323,652	4,763,888	6,723,125	3,681,784	3,258,862	13,206,413	8,307,104	6,766,903	-	50,031,730
Loans & Advances - Non-performing	-	-	-	-	-	-	-	-	2,157,582	2,157,582
Fixed Assets	-	-	-	-	-	-	-	-	1,899,455	1,899,455
Other Assets	2,762,501	1,720,110	3,268,948	3,102,186	4,097,002	850,793	31,244	182,188	-	16,014,972
Total Liabilities	13,664,474	7,444,362	16,170,876	8,319,765	6,769,498	22,217,299	21,587,351	38,529,288	-	134,702,913
Total Capital Fund	-	-	-	-	-	-	-	18,484,360		18,484,360
Total Deposits	960,227	2,212,339	4,411,714	4,947,335	4,610,883	21,911,953	21,500,461	20,044,821	-	80,599,732
Demand Deposits	102,207	335,822	438,029	350,423	525,634	1,019,141	1,019,141	1,019,141	-	4,809,537
Savings Deposits	128,298	421,552	549,850	549,850	1,099,701	6,108,737	6,108,737	4,734,111	-	19,700,837
Time Deposits	726,297	1,350,602	3,402,286	3,698,781	2,941,470	14,217,752	13,804,306	13,725,245	-	53,866,740
Certificates of Deposits	3,425	104,363	21,549	348,280	44,078	566,323	568,277	566,323	-	2,222,619
Borrowings	9,863,809	3,056,830	1,833,163	2,398,258	1,473,291	298,164	86,521	-	-	19,010,034
Other Liabilities	2,840,439	2,175,194	9,925,999	974,172	685,324	7,182	369	108	-	16,608,787
Absolute Gap	2,840,587	267,235	911,616	6,067,256	17,707,279	8,101,021	(11,470,963)	(9,996,707)	4,057,037	18,484,360
Cumulative Gap	2,840,587	3,107,822	4,019,438	10,086,694	27,793,972	35,894,993	24,424,030	14,427,323	18,484,360	

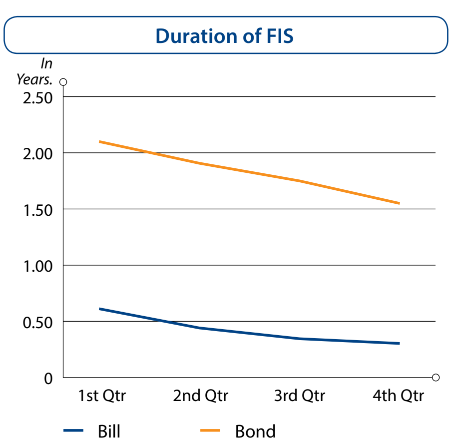
Managing Interest Rate Risk

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 that mainly comprises T-bills, T bonds and Unit trust are 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 daily basis.

Sensitivity Report on Interest Sensitive Assets & Liabilities (SAL)

Sensitivity of Assets & Liabilties (SAL)										Rs.000 December-20
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 in Hand	2,084,629	-	-	-	-	-	-	-	-	2,084,629
Notros	320,463	-	-	-	-	-	-	-	-	320,463
Deposits with CBSL	722,727	-	-	-	-	-	-	-	-	722,727
Investments	1,172,797	3,688,836	9,522,100	4,734,574	3,410,508	7,433,519	12,207,834	1,607,852	1,107,123	44,885,142
Bills of Exchange	-	(2,920,541)	2,831,117	976,408	-	-	-	-	-	886,984
Overdrafts	-	12,169,525	-	-	-	-	-	-	-	12,169,525
Loans & Advances	-	30,478,540	6,412,544	2,366,978	1,460,638	1,531,850	7,297,417	3,691,806	3,706,273	56,946,045
NPL	(4,756,733)	-	-	-	-	-	-	-	-	(4,756,733)
Other Assets	4,499,957	-	-	-	-	-	-	-	-	4,499,957
Fixed Assets	1,899,455	-	-	-	-	-	-	-	-	1,899,455
Total (a)	5,943,294	43,416,361	18,765,760	8,077,959	4,871,146	8,965,369	19,505,251	5,299,657	4,813,396	119,658,193
Outflows										
Demand deposits	4,809,537	-	-	-	-	-	-	-	-	4,809,537
Savings deposits	-	19,700,837	-	-	-	-	-	-	-	19,700,837
Time Deposits	-	9,113,322	14,142,982	15,699,411	6,140,858	6,344,158	2,090,437	335,572	-	53,866,740
Certificates of Deposits	-	457,503	91,466	1,478,270	171,824	15,264	-	8,293	-	2,222,619
Notros	6,240	-	-	-	-	-	-	-	-	6,240
Borrowings	-	11,745,354	3,440,700	2,671,721	294,284	473,291	298,164	86,521	-	19,010,034
Other liabilties	5,087,532	-	-	-	-	-	-	-	-	5,087,532
Shareholders Funds	18,484,360	-	-	-	-	-	-	-	-	18,484,360
Total (b)	28,387,669	41,017,015	17,675,148	19,849,402	6,606,966	6,832,712	2,388,601	30,385	-	123,187,898



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 course of business.

In managing The Bank's 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 compliance with such legal requirements 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.

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 Strategic Risk

Drivers of Reputation Risk

Compliance Risk

Compliance risk is the current and prospective risk to earnings or capital arising from violations of, or nonconformance 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.

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 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. Due to the COVID-19 impact with the instability emanating within the country and external factors such as disruption to supply chains, demand further continuous, and the customers will be severely affected in the immediate to medium term. Considering the above, the Bank assumed the stress scenario NPAs to reflect the possible impact. Going forward the Bank will closely monitor the evolving developments which are highly dynamic, and the stress testing model inputs will also be revised accordingly as the situation evolves.

Corporate Governance

"Good corporate governance remains integral to the way we operate our business. We are committed to operating in a correct, principled and commercially astute manner and staying accountable to our stakeholders"

Chairman's Statement

Dear stakeholders,

It gives me pleasure to present the 2020 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.

We firmly believe that adhering to the highest standards of corporate governance is fundamental to the sustainability of our business. Therefore, the Board is committed to operating in a correct, principled and commercially astute manner and staying accountable to our stakeholders.

The Board is responsible for ensuring that the governance arrangements across the Bank enable them to discharge their oversight and fiduciary duties effectively. To achieve this, we have in place an internal governance structure with defined roles and responsibilities, which enables the Board to balance its role of providing oversight and guidance to the management in strategy implementation, risk management and meeting stakeholder expectations. We continue to review our governance structures to ensure that they support effective decision-making, establish a corporate culture aligned with our purpose, foster sustainable growth and align to evolving best practice.

We have a strong organisational culture entrenched with values that form the cornerstone of our behaviour towards all our stakeholders. These values are embodied in a number of policies we have adopted, including the Staff Ethics and Code of Conduct, Code of Conduct on Share Dealing and Gift Declaration by Employees and Anti-Corruption Policy, and are continually reinforced. Recognising that the Board must lead by example to ensure these values are embedded not just in the boardroom, but are shared and understood throughout the business and form an integral part of interaction with all our stakeholders, the Board remain committed to set the tone for an ethical culture within the organisation.

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.

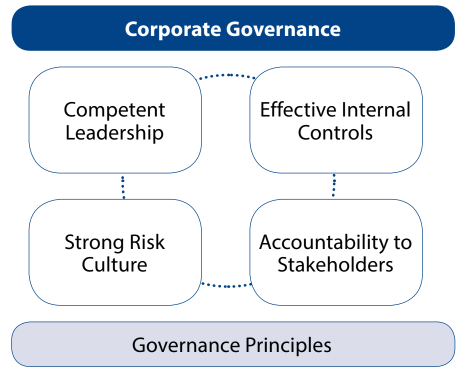
Atul Malik
Chairman
Union Bank of Colombo PLC

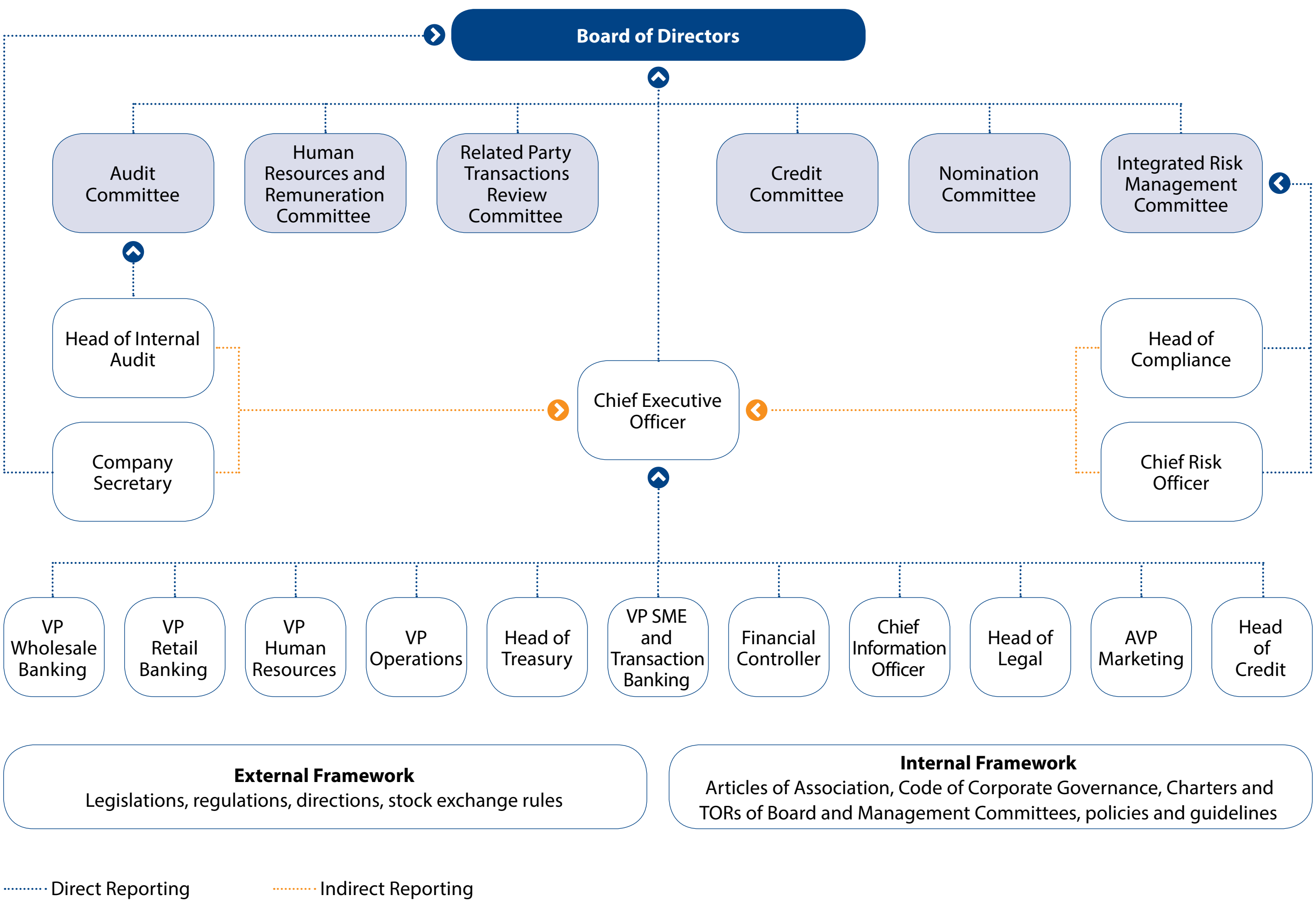
25 February 2021

Corporate Governance

Governance Structure (GRI 102-18)
The governance structure of the Bank is based on the four pillars of competent leadership, effective internal controls, a strong risk culture and accountability to stakeholders. The Board plays a vital 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.





Competent Leadership

Board of Directors

Role and focus

The Board provides entrepreneurial leadership within a framework of prudent and effective controls enabling risks to be assessed and managed whilst setting the Bank's values and standards to meet obligations towards the shareholders and other stakeholders.

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.

The Board's terms of reference are set out in a written charter – The Code of Corporate Governance. This mandate is reviewed periodically to ensure compliance with the provisions of the applicable legislation as well as the Bank's Articles of Association.

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

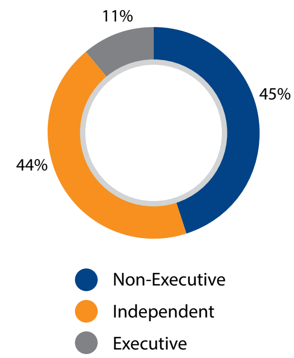
The Board members' collective experience and expertise provide a balanced mix of attributes to fulfill its duties and responsibilities.

The profiles of the Board of Directors including their experience and expertise are set out on pages 136 to 138 of this Report.

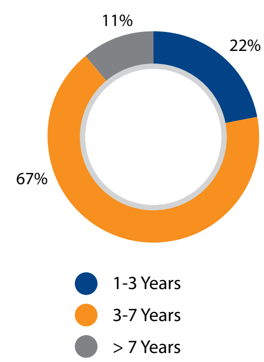
As at 2020 financial year-end, the Board comprised nine members (including the alternate director), eight of whom were non-executive, four independent non-executive and one executive director.

Composition of the Board of Directors

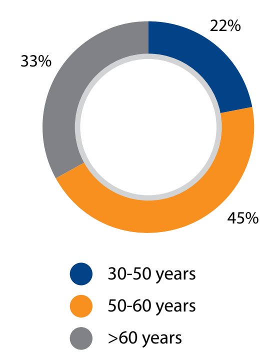
Breakdown by mix



Breakdown by years served



Breakdown by age



Board Meetings

Unless the business exigencies demand the convening of additional special meetings, Board meetings are held on a monthly basis. At each of these meetings, the Board considers 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.

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 to 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 92 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 2020.

Effective engagement with the Board

An ongoing engagement between the Management and the Board exists at the Bank, thereby, enabling directors to obtain information that is required for effective and efficient discharge of their responsibilities. The Financial Controller provides the Board with detailed financial performance reports monthly.

Succession planning and appointments to the Board

The Board plans for its own succession with the assistance of the Nomination Committee. The key considerations that are taken into account by the Board in this process include the following,

- skills, expertise and experience necessary to meet the strategic vision for the business;
- means by which board performance could be enhanced, both at an individual director level and at the composite level;
- skills, expertise and experience currently represented at the Board and skills, expertise and experience not adequately represented at the Board; and
- the process necessary to ensure the selection of a candidate who possesses those qualities.

All appointments to the Board are made on merit while taking into account the board balance and composition, background and experience as well as the overall level of contribution they can offer. The Board also considers the balance and mix of skills, independence and knowledge and the diversity representation on the Board and any other factors relevant to its effectiveness when considering the appointment of any director.

The Nomination Committee is tasked with identifying and recommending suitable candidates for the Board's formal consideration. 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.

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 Key Management Personnel 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

Directors receive a significant bespoke induction with a range of information about the Bank when they first join the Board, 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

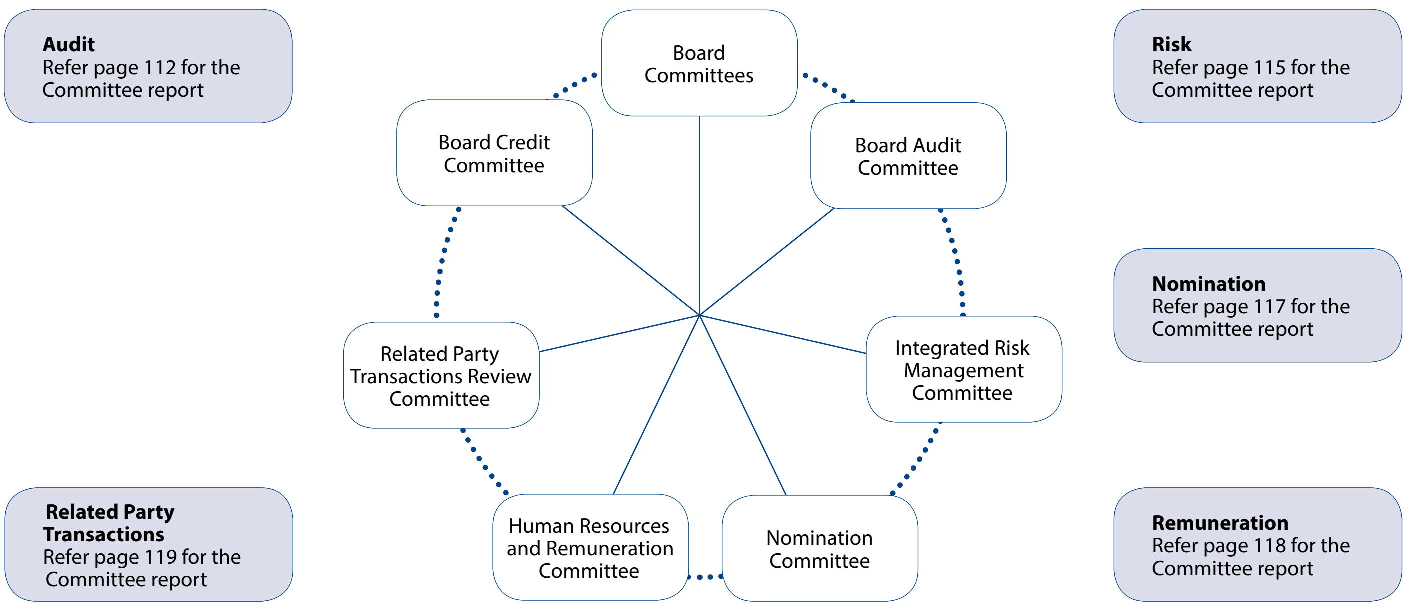
The Corporate Governance Code provides for a comprehensive annual independent self-evaluation process by the Board which enables them to appraise their own performance in order to ensure that their responsibilities are satisfactorily discharged. This process is led by the Chairman with the assistance of the Company Secretary towards the end of the relevant financial year.

The evaluation for 2020 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 delegated certain of its functions to a number of sub-committees as shown in the diagram below. These sub-committees are provided with sufficient resources enabling them to focus on their designated areas of responsibility and ensure independent oversight. However, 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.



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. Trevine Fernandopulle as the Senior Independent 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.

Corporate Governance

Key Governance Roles and Responsibilities

Chairman	Director/Chief Executive Officer	Senior Independent Director
Atul Malik	*Indrajit Wickramasinghe*	*Trevine Fernandopulle*
• 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 Bank's unique culture is embedded and perpetuated. • Development and growth of all 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.

Other Non-Executive Directors	Company Secretary
Sabry Ghouse, Puneet Bhatia, Michael O'Hanlon, Dilshani Wijayawardana, 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. • Maintain 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	09	05	04	07	11	04
Atul Malik	12	-	-	-	-	11	-
Priyantha Fernando*	08	07	04	02	04	-	-
Sabry Ghouse	12	-	-	04	07	11	04
Gaurav Trehan**	03	-	-	00	01	-	-
Puneet Bhatia (or his alternate Sanjeev Mehra)	12	-	-	-	-	-	-
Michael J O'Hanlon	11	08	05	04	06	-	-
Dilshani Wijayawardana	11	09	-	04	07	-	-
Trevine Fernandopulle	12	-	-	04	07	11	04
Indrajit Wickramasinghe	12	-	05	-	-	10	04
Sarath Wikramanayake	12	09	05	-	-	-	04
C. J. P. Siriwardana***	00	00	00	00	00	-	-

*Priyantha Fernando ceased to be a director with effect from 01.11.2020

**Gaurav Trehan ceased to be a director with effect from 20.05.2020

*** C. J. P. Siriwardana who was appointed as a director on 02.11.2020 ceased to be a director with effect from 31.12.2020

Management Committees

In order to ensure that internal operations are managed under the guidance of the Board, several cross-functional committees are formed at the management level. These committees implement the policies and strategies determined by the Board and manage the business and affairs of the Bank with the main objective of improving on sustainable growth.

The day-to-day business and affairs of the Bank is managed by the Chief Executive Officer who is the apex executive. The Chief Executive Officer is responsible and accountable to the Board to recommend the Bank's strategy and its subsequent implementation, to ensure that appropriate internal controls are in place to manage and assess risk and that they are fully complied with.

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.

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 timeously 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 and 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 and Code of Conduct and Anti-Corruption Policy play a pivotal role. The Staff Ethics and 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 Whistleblower Policy also serves as a widespread 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 whistleblower 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.

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 2020 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 2021-2023 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 2021-2023. 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 72-86 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)	Identify and designate key management personnel, as defined in Banking Act Determination No.1 of 2019 on the assessment of fitness and propriety of officers performing executive functions in LCBs.	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.
	(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.

Section	Rule		Level of Compliance
	(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 2020. The Board has a procedure for selection and appointment of Directors, CEO and 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 2020.
	(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.
	(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 2020. Pursuant to recommendations, Messrs Ernst & Young was re-appointed as the Auditors for the financial year 2020 by the shareholders at the Annual General Meeting held on 24 June 2020.
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.

Section	Rule	Level of Compliance
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 seven 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 2020.
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.
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.

Section	Rule	Level of Compliance
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.
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 2020.

Section	Rule	Level of Compliance
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 2020.
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 2020.
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 09 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.
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:	Complied. The Board comprises 04 Independent Non-Executive Directors, which is more than one-third of the total number of Directors. Please refer pages 68 and 122.

Section	Rule	Level of Compliance
	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.	
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 2020.
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 2020 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 2020 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 134-138.
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.
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 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 122.
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.

Section	Rule	Level of Compliance
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 (3)(iii)	A Director or a Chief Executive Officer of a licensed Bank operating in Sri Lanka shall not be appointed as a Director or a Chief Executive Officer of another licensed Bank, operating in Sri Lanka before the expiry of a period of 6 months from the date of cessation of his/her office at the previous Bank.	Complied. No such appointments have been made during the year 2020.
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.
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 122 and 135-137.

Section	Rule	Level of Compliance
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 134, 136 and 137. Directors' interests in contracts with the Bank have been separately disclosed in the Annual Report of 2020. Please refer page 124. 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.
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.

Section	Rule	Level of Compliance
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 112-119.
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. The Chairman of the Audit Committee, Mr. Sarath Wikramanayake was 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 IFRS and the IAS 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.
	(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 2020 at a meeting held with the Auditors in the last quarter of 2020. 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.

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Section	Rule	Level of Compliance
	(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 2020 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 2020; 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.
	(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.

Section	Rule	Level of Compliance
	(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 09 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 112-114 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.
	(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 2020.

Section	Rule	Level of Compliance
	(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 scorecard was used to set the targets for the Key Management Personnel in 2020. Their performance will be assessed in the 1st Quarter 2021 against the set targets. Revision of remuneration in 2021 will be linked to the 2020 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 2020.
	(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 three Non-Executive Directors, CEO and Chief Risk Officer. Other KMPs supervising broad risk categories, i. e. AVP - Financial Controller, 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.

Section	Rule	Level of Compliance
	(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.
	(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.

Section	Rule	Level of Compliance
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).
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.

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Section	Rule	Level of Compliance
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.
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. (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. (c) The External Auditor's certification on the effectiveness of the internal control mechanism reported by the Board of Directors	(a) Please refer page 121. (b) Please refer pages 127-128. (c) Please refer page 129.

Section	Rule	Level of Compliance
	(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 124, 125, 134-138 and 234-235.
	(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 124-125 and 234-236.
	(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 125.
	(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 pages 125-126.
	(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 of four members - three Independent Non-Executive Directors and one Non-Executive Director.

The Committee of the Bank was chaired by Sarath Wikramanayake, a Fellow member of the Institute of Chartered Accountants of Sri Lanka who counts many years of experience in the financial services Industry. Composition of the Audit Committee as at 31 December along with the current status and the attendance:

Name	Status	Eligibility	Attendance	Excused
Mr. Sarath Wikramanayake	Independent Non - Executive Director	9	9	-
Mr. Priyantha Fernando (Retired from the Board w.e.f 1/11/2020)	Independent Non - Executive Director	9	8	1
Ms. Dilshani Wijewardena	Independent Non - Executive Director	9	9	-
Mr. Michael J O'Hanlon	Non - Independent Non - Executive Director	9	8	1
Mr. C. J. P Siriwardena (Resigned from the Board w.e.f 31/12/2020)	Independent Non - Executive Director	1	0	1

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

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 in November, 2020.

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 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.

A 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 changing landscape of the technological developments and have obtained expert advice on the IT Security aspects to ensure safeguarding of threats. We have discussed the Group's relationship with its regulator 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 9 times during the period under review.

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 adjustment 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 Financial Controller provides the Audit Committee a letter of representation attesting the integrity of the quarterly Financial Statements. The Audit Committee reviews the quarterly financial process and has discussions with the management. The Group's financial reporting process for preparing the consolidated Annual Report and Accounts 2020 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.

Response to COVID-19:

The Central Bank of Sri Lanka has taken numerous steps to provide relief measures to assist COVID-19 affected businesses and individuals who are adversely affected by the outbreak. Hence, time to time CBSL has issued a number of circulars and directions to the banks in line with the government's strategic objectives during this crisis. Several schemes were implemented to reduce undue level of stress and to maintain the stability of the banking system. The highest impact on banks is related to the loan portfolios where many borrowers are facing difficulties in repaying their obligations. This has created uncertainty in the outcome for the Banking sector which has been discussed and due attention has been given by the Committee.

Internal Audit Department of Union Bank played a significant role during this time as the unit had undertaken special assignments to monitor the compliance aspect of each guideline issued by CBSL and to monitor the internal controls and infrastructure developments which were done in line with the technological solutions provided, despite challenges. The summarised reports were presented to BAC for their perusal.

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.

The Internal Audit Department has made a significant effort to ensure the Bank's internal controls are not compromised during the outbreak despite several health and safety protocols communicated by the Bank. Thus, the Bank has been operating with limited staff and resources. To support this constraint, IT has issued laptops and dongles to critical staff in the Bank to perform their duties while at home. The Audit division had undertaken comprehensive verification measures to identify the control weaknesses, its associated risk and mitigation action during work from home period to ensure safe internal control environment in the Bank and a subsequent report was issued to BAC for their examination.

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 programs 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

Board Audit Committee Report

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 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 focus;
- Quality of audit services rendered, reports and findings presented by, the External Auditor during the year; and
- Feedback received on the adequacy an of the audit team's resources, the level of independence and skepticism 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 2021 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 whistleblowing 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

25 February 2021

Integrated Risk Management Committee Report

The Integrated Risk Management Committee (IRMC), the apex body which formulates the Risk Appetite of the Bank under the guidance of the Board of Directors, comprised of five members at the end of the year 2020. Three of the members are Non – Executive Directors.

- Mr. P D J Fernando – Chairman/IRMC
  (Independent Non-Executive Director)
  Retired w.e.f. 1st November 2020
- Mr. Michael J O'Hanlon – Interim Chairman
  (Non-Independent Non-Executive Director)
- Mr. Sarath Wikramanayake
  (Independent Non-Executive Director)
- Mr. Indrajit Wickramasinghe
  (CEO-Executive Director)
- Mr. Suhen Vanigasooriya
  (Chief Risk Officer)

Charter of the IRMC

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 IRMC are in conformity with the provisions of the aforementioned Direction. The Bank has adopted an Integrated Risk Management Framework (IRMF) 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 of Directors outlining their 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 IRMC

The IRMC held four meetings on a quarterly basis in the year 2020.

The IRMC is responsible for the implementation of the Risk Strategy of the Bank as laid down by the Board of Directors. The IRMC is vested with the responsibility of approving framework for the efficient functioning of business units and monitoring of risks. The IRMC is in charge of reviewing the risk profile of the Bank within the context determined by the Board. The IRMC 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 IRMC 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 section no.3(6)(v)(g) of Corporate Governance Direction No.11 of 2007 issued by the Central Bank of Sri Lanka, the IRMC submits 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 IRMC

- The Year 2020 had many unforeseen challenges with the COVID-19 pandemic and nationwide lock down resulting in a slow GDP growth, slack in investments, rising indebtedness, concerns over market liquidity and the adverse impact to key service sectors. The IRMC contends that the Bank has proactively reviewed the risk controls together with tightening the policies, procedures and extensive use of risk management tools to better manage the higher levels of risks.
- The Business Continuity Plan (BCP) for the year 2020 was reviewed by the IRMC and thereafter the Contingency Event Reports were submitted to CBSL on a quarterly basis. During the year 2020, The BCP process was put in to test, together with the Pandemic Response Plan. All three work arrangements, namely from Primary site, WFH and isolated working from DR site were enabled and the IRMC reviewed the emergency readiness at the Bank level. Because of The Management's proactive approach, the Bank had minimal BCP issues operating during the COVID stress periods.
- The IRMC noted that 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. Further considering the new normal working arrangements under the pandemic situation, the IRMC reviewed the Information Security Policy/ Cyber Security Policy, Fraud Risk policy, Acceptable Usage Policy, Pandemic Response Plan, and Risk Assessment and Risk Treatment Methodology documents. The IRMC directed the respective units to carry out the review of information Security/Technology Policies and Procedures through third party service providers as well.
- IRMC noted that the Risk Management Department has been working closely with business lines to identify the risk elevated industries, in the current stressed environment. The strategies recommended by the Risk Management Department to be adopted by the different business lines in managing the market dynamics were periodically reviewed by the IRMC.
- The IRMC dedicated time to review the recovery process and further strengthening of same during the last two years. This is mainly in the areas of building human capital and process improvements in managing the pre NPA buckets. During the past two years, the head count of the function has been increased together with the assignment of a new head to the function. The continuous dialog between the frontline and the central recoveries was streamlined.
- As a measure to streamline the capital management framework of the Bank, the capital adequacy position and assessment is reported to the IRMC periodically, together with stress scenarios. This contributes to proactively managing the Bank's capital and ensuring the Bank meets regulatory and internal requirements as per the agreed risk appetite considering the current and future business needs and the risks in its businesses.
- The IRMC provided its feedback on developing the stress testing scenarios giving focused consideration to segments where credit quality deterioration is apparent. While testing the other segments under general stress

assumptions, these riskier segments were reviewed with higher than usual stress conditions. The IRMC supported the continuous realignment of the capital stress testing scenarios throughout the year.

- The Bank has met regulatory deadlines made during the year 2020 and has the ability to reach the required capital base over the next two years. The IRMC was satisfied that Bank has trained staff to monitor and ensure smooth reporting mechanisms.
- The IRMC critically reviewed the liquidity position in line with market dynamics during the year. The Bank has significantly reduced its Loan-to-Deposit Ratio and has closely monitored its non-Rupee liquidity. The importance of setting timelines to bring certain liquidity risk related thresholds to comfortable levels were discussed and agreed with the Management.
- Internal Capital Adequacy Assessment Process (ICAAP) was continuously updated 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 IRMC 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 IRMC reviewed the Compliance Policy, outlining the compliance philosophy of the Bank and roles and responsibilities of the Compliance Department. 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 IRMC 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 IRMC is committed to ensure the long-term risk calibrated growth of the Bank based on its strategic objectives. The Bank's performance in the year 2020 was aligned to its focus on pursuing this strategy based on opportunities and its risk appetite.

Michael J O'Hanlon
Interim Chairman - Integrated Risk Management Committee

25 February 2021

Nomination Committee Report

Composition of the Nomination Committee

The Nomination Committee (“the Committee”) comprises four Non-Executive Directors appointed by the Board of the Bank. The following Directors whose profiles are given on pages 136 to 138 of this Annual Report, currently serve on the Committee.

Name	Directorship Status	Committee Membership Status
Dilshani Wijayawardana	Independent, Non-Executive	Chairperson
Sabry Ghouse	Independent, Non-Executive	Member
Michael O’Hanlon	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 four times during the year 2020. Attendance of the members at each of these meetings is given in the table on page 92 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.

Charter of the Committee

The Committee was established by the Board in compliance with the 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).

The Charter of the Committee ('Charter') sets out the main responsibilities entrusted to the Committee, Committee’s composition and authority and conduct and scheduling of meetings. As part of the annual review process, the Committee reviewed the Charter in September 2020.

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 2020

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. In addition, the Committee also considered the suitability of the new appointments that were made to the Board during the year under consideration and made relevant recommendations thereon. In doing so, the Committee assessed the qualifications, experience, skills and competencies of the Directors vis à vis the needs of the Board in line with the applicable regulatory requirements.

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 Key Management Personnel (KMP) level also remained a key area of focus during the year. Accordingly, the Committee deliberated in depth the succession plan of the Bank and made appropriate recommendations therein so as to ensure the achievement of strategic objectives of the Bank.

In addition, the Committee also reviewed and recommended the adoption of a separate policy and procedure governing the selection and appointment/re-appointment of Directors, which provides the guidelines for the exercise of the Committee’s responsibilities and authority with regard to same.

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

25 February 2021

Human Resources and Remuneration Committee Report

Composition of the Committee

The Human Resources and Remuneration Committee ("the Committee") comprises four 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. Michael O'Hanlon, Mr. Trevine Fernandopulle and Mr. Sabry Ghouse 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 2020

In 2020 the Committee focused on the following areas;

Performance Management - The Committee reviewed the performance of the Key Management Personnel (KMP) of the Bank in 2019 against set goals and targets. Necessary recommendations with regard to increments and bonus payments of KMP's were made for the approval of the Board of Directors. The Committee also set goals and targets of the KMP's for 2020 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.

Impact of Covid-19 – due to the impact of Covid 19 from March onwards, the focus of the Committee and the management team was on business continuity and staff safety. A comprehensive action plan was put in place to ensure all precautionary action was taken to prevent the spread of Covid-19 within the Bank.

Strengthening the Key Management Personnel Team – The committee approved the recruitment and remuneration of the Deputy Chief Information officer at AVP grade to strengthen the IT team and support the Bank's Digital agenda. The committee also approved the promotion and revised remuneration of Chief Manager Finance to the role of Financial Controller at AVP grade.

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 Seven (07) meetings during the year 2020. Attendance of the members at each of these meetings is given in the table on page 92 of this Annual Report.

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

25 February 2021

Related Party Transactions Review Committee Report

Composition of the Committee

The Related Party Transactions Review Committee ("the Committee") 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 136 to 138 of this Annual Report, currently 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 92 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 0f 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 20 of January 2016 and periodically reviewed and updated as appropriate 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 issued by the Colombo Stock Exchange 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 2020

Details of all transactions with the related parties during the year 2020 were reviewed by the Committee and duly reported to the Board with its recommendations. As part of the annual review process, the Committee also reviewed the Policy in May 2020.

Details of related party transactions are disclosed under Note 48 on pages 234 to 236 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 2020 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 125 of this Annual Report.

Sabry Ghouse
Chairman – Related Party Transactions Review Committee

25 February 2021

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 2020 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 25 February 2021. 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 ("Banking Act") 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 4 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.

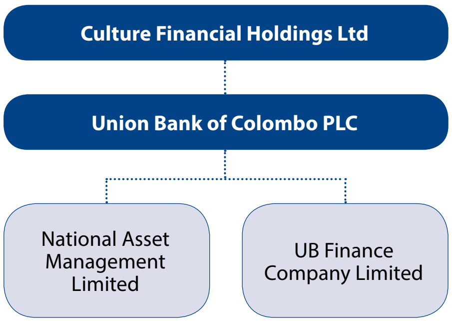
3.2 Subsidiaries

The Bank had two Subsidiaries as at 31 December 2020. 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 30 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.
Board of Directors and CEO as at 31 December 2020	Alexis Indrajit Lovell Indrajit Wickramasinghe Wijenanda Punchi Banda Dambawinne Kapila Nanayakkara Ravi Dassanayake Suren Madanayake Siew Bee Khoo Rusiru Abeyasinghe – Chief Executive Officer/Executive Director	Atul Malik Lisa Gayle Thomas Indrajit Wickramasinghe Chandrakumar Ramachandra Raj Moahan Balendra (alternate to Lisa Thomas) Ransith Karunaratne - Chief Executive Officer/ Executive Director

4. Changes to the Group Structure

During the year 2020, 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 2020 are contained in the Chairman's Message on pages 18 to 19, the Chief Executive Officer's Message on pages 20 to 22 and the Management Discussion and Analysis on pages 26 to 51. 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 18 to 19, the Chief Executive Officer's Message on pages 20 to 22 and the Management Discussion and Analysis on pages 26 to 51.

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 2020 duly signed by the Financial Controller, two Directors of the Bank and the Company Secretary are given on pages 154 to 270 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 154 to 270 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 127 to 128 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 2020 and their report thereon is given on pages 149 to 152 of this Annual Report.

10. Accounting Policies

The significant accounting policies adopted in the preparation of the Financial Statements are given on pages 160 to 270.

11. Financial Results and Appropriations

11.1 Income

The gross income of the Group for 2020 was Rs. 15,042 Mn (Rs. 16,782 Mn in 2019) while the Bank's gross income was Rs. 13,370 Mn (Rs. 14,712 Mn in 2019). An analysis of the income is given in Note 6 to the financial statements on page 171.

11.2 Profit and appropriations

The Bank has recorded a decline in profit before tax of 21.2% and a decline in profit after tax of 18.8% in 2020. The Group's profit before tax recorded a decline of 11.0% in 2020.

Total Comprehensive Income (net of tax) of the Group for the year is Rs. 805 Mn (Rs. 1,150 Mn in 2019) while the Bank has recorded a total comprehensive income (net of tax) of Rs. 759 Mn (Rs. 1,056 Mn in 2019). Details of the Bank's performance and appropriation of profit are tabulated as follows,

	2020 Rs. '000	2019 Rs. '000
Profit before income tax	938,933	1,191,601
Less: income tax expense	362,397	481,254
Profit for the year	576,536	710,347
Profit brought forward from previous year	838,815	345,374
Transitional adjustment on the implementation of		
SLFRS 9	-	-
SLFRS 16	-	(46,215)
Restated profit brought forward	838,815	299,159
Profit available for appropriation	1,415,351	1,009,506
Less: Appropriations		
Transfer to the reserves	(28,827)	(35,517)
Dividend paid for previous year	(151,698)	-
Repurchase of shares in the current year	-	(125,798)
Other comprehensive income	9,358	(9,376)
Change in control	-	-
Total appropriation	(171,167)	(170,691)
Unappropriated profit carried forward	1,244,184	838,815

12. Taxation (GRI 207-1/207-4)

Income tax rate applicable on the Bank's operations is 28% (2019: 28%). The Bank is also liable for Financial Services VAT at 15% (2019:15%) and VAT on services other than Financial Services at 8% (2019: 8%).

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. Property, Plant and Equipment and Intangible Assets

Information on Goodwill and Intangible Assets and Property, Plant & Equipment and Right of the use of the Assets of the Group and the Bank are given in Notes 33 and 34 to the Financial Statements on pages 212 and 215.

The details of capital expenditure approved and contracted for are given in Note 46.2 to the Financial Statements on page 232.

14. Net Book Value of Freehold Properties

The net book values of freehold properties owned by the Group as at 31 December 2020 are included in the accounts at Rs. 42.6 Mn (2019: Rs. 43.3 Mn).

15. Stated Capital

The stated capital of the Bank as at 31 December 2020 was Rs. 16,334,781,724 consisting of 1,083,558,338 ordinary shares (2019: Rs. 16,334,781,724 consisting of 1,083,558,338 ordinary shares).

16. Share Information

Information relating to earnings, dividend, net assets and market value per share is given in 'Financial Highlights' on page 3.

Information on the trading of the shares is given in the Section on 'Investor Relations' on pages 67 and 69.

17. Shareholdings

As at 31 December 2020, there were 30,187 registered ordinary shareholders (2019: 30,693). 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 68 and 69.

18. Equitable Treatment to Shareholders

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

19. The Board of Directors

19.1 Profiles of the Board of Directors

The Board of Directors of the Bank comprises 9 (2019:10) Directors with wide financial and commercial knowledge and experience as detailed in their profiles given on pages 136 to 138.

19.2 Classification of Directors and appointments, retirements and cessations during 2020

Names of the Directors of the Bank during the year 2020 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 (Retired on 01.11.2020)	None
Indrajit Asela Wickramasinghe (Director/ CEO)	Non-Independent, Executive Director	Director since 19.11.2014	None
Mohamed Hisham Sabry Ghouse (Deputy Chairman)	Independent, Non-Executive Director	Director since 30.08.2012	None
Gaurav Trehan	Non-Independent, Non-Executive Director	Director since 29.09.2014 (Resigned w.e.f.20.05.2020)	None
Puneet Bhatia	Non Independent, Non-Executive Director	Director since 27.10.2014	Sanjeev Mehra (appointed on 29.07.2019)
Michael J O' Hanlon	Non-Independent, Non-Executive Director	Director since 27.10.2014	None
Dilshani Gayathri Wijayawardana	Independent, Non-Executive Director	Director since 01.04.2017	None
Trevine Sylvester Anthony Fernandopulle (Senior Independent Director)	Independent, Non-Executive Director	Director since 01.04.2017	None
Drayton Sarath Palitha Wikramanayake	Independent, Non-Executive Director	Director since 21.06.2019	None
Chandrasiri Jayasingha Pandita Siriwardana	Independent, Non-Executive Director	Appointed as a Director on 02.11.2020 and resigned w.e.f. 31.12.2020	None

19.3 Retirement by rotation/reappointment of Directors

Mr. Sabry Ghouse, Mr. Puneet Bhatia and Mr. Michael J O'Hanlon 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.

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.

19.4 Other Directorships of Directors

Information on other directorships of the Directors who served the Bank during 2020 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 (Ceased to be Director w.e.f.01.11.2020)	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
	Financial Ombudsman Sri Lanka (Guarantee) Ltd.	Non-Executive Director
Sabry Ghouse	Shah Associates Pvt. Ltd.	Director
Gaurav Trehan (Ceased to be Director w.e.f.20.05.2020)	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	Director
	TPG Capital India Private Limited	Director
	Manipal Health Enterprises Private Limited	Nominee Director
	Havells India Limited	Director
	Shriram Capital Limited	Nominee Director
	Jana Capital Limited	Nominee Director
	Campus Activewear Private Limited	Nominee Director
	R R Kabel Limited	Director
	Sai Life Sciences Limited	Director
Michael J O'Hanlon	Roosevelt Management Company LLC	Director & Chairman
	Rushmore Loan Management Services LLC	Director & Chairman
	Kensington Holdco Limited	Alternate Director
	The College of St. Rose, (Non-profit College in Albany, NY)	Director (Trustee)
	O'Hanlon Corporate Consulting LLC	Member

Name of Director	Name of Entity	Position
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
	Continental Insurance Lanka Limited	Director
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 Ltd	Director
Sanjeev Mehra (Alternate Director to Puneet Bhatia)	Five-Star Business Finance Ltd.	Additional Director
Chandrasiri Jayasingha Pandita Siriwardana (Ceased to be a w.e.f. 31.12.2020	Colombo Stock Exchange	Director

19.5 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 112 to 119.

19.6 Meetings

The details of Board meetings and Board subcommittee meetings are presented in the 'Corporate Governance Report' on page 92 of this Annual Report.

19.7 Directors' Remuneration

Details of Directors' remuneration and other benefits paid in respect of the Bank during the financial year ended 31 December 2020 are given in Note 15 to the Financial Statements on page 179.

19.8 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 234 to 236 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.

19.9 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 2020.

20. Related Party Transactions

The details of the related party transactions are set out in Note 48 to the Financial Statements on pages 234 to 236. 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 2020, are as follows:

Key Management Personnel*	2020 Rs. 000	As a % Bank's Regulatory Capital
Remuneration and other employment benefits	332,768	
Loans	127,398	
KMPs	127,398	0.78%
Close Family Members	-	0%
Deposits	11,226	
KMPs	9,929	
Close Family Members	1,296	

**Figures include the Executive Director's remuneration, other employment benefits, loans and deposits.*

Directors	2020 Rs.000	As a % Bank's Regulatory Capital
Director Fees	14,958	
Loans	6	
Directors	6	0%
Close Family Members	-	0%
Deposits	-	
Directors	-	
Close Family Members	-	

Transactions With Subsidiaries		
*Loans	1,045,153	6.4%
Repurchased agreements	105,012	0.64%
Deposits	17,257	

** This includes Rs. 312,253,068 investment in subordinated debenture of UB Finance Company Limited.*

During the year ended 31 December 2020, 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.

21. 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 2020, 1,275 persons were in employment of the Bank (2019: 1,344).

22. Insurance and Indemnity

Pursuant to a decision of the Board, the Bank obtained an Insurance Policy to cover Directors' and Officers' liability.

23. 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.

During the year 2020, no options were granted to the employees under the ESOP and no options already vested were exercised by them.

4,764,962 options, which were to be vested in the relevant employees in equal 20% installments on each of the first five anniversaries of the grant date as per the terms of the ESOP, fully vested in the following categories of employees, and not exercised as of December 2020,

Chief Executive Officer/ Vice Presidents - 4,764,962

5,202,320 options were cancelled as of December 2020 as the applicable vesting criteria was not met. Further 2,050,114 options that vested in the relevant employees in December 2020 were cancelled as same was not exercised by them.

The Board of Directors confirms that the Bank or any of its subsidiaries have not, directly or indirectly provided funds for the ESOP.

24. 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 54 to 62 of this Annual Report.

25. 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.

26. 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.

27. Donations

No donations were made by the Bank during the year (2019: Rs. 50,000).

Annual Report of the Board of Directors on the Affairs of the Bank

28. 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.

29. 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.

29.1 Auditors' Remuneration

A sum of Rs. 8.91 Mn (2019: Rs. 10.31 Mn) and Rs. 11.14 Mn (2019: Rs. 12.43 Mn) were paid by the Bank and the Group respectively for audit related and non-audit services including reimbursement of expenses.

29.2 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

30. 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 72 to 86 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 127 to 129.

31. 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 87 to 94.

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 95 to 111.

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.

32. 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 10 to 11.

33. Annual General Meeting

The 26th Annual General Meeting will be held on 31 March 2021 at 2.30 p.m. Notice of the meeting relating to the 26th Annual General Meeting is enclosed at the end of the Annual Report.

34. Acknowledgment 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

25 February 2021

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 has 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 has 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 have been established in assessing the adequacy and effectiveness of the system of internal controls with respect to financial reporting include the following:

- Committees have 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 112 to 114;
- 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 have also been established with appropriate mandates to ensure effective management and supervision of the Bank's core areas of business operations.

Banking sector is facing major challenges during the COVID outbreak resulting many impacts to its credit growth and internal control environment. There has been risk on collections and credit quality deteriorations, which could increase the provisioning requirements for the banks. As per directions of CBSL, moratorium schemes were introduced to provide relief to the public. The impact on the moratorium of the interest subsidy has been considered and prudent relief measures were provided to the clients who have been affected adversely during the period.

As companies adjust to the "new normal" of remote operations during the COVID-19 pandemic, maintaining focus on the effective operation of internal controls is critical. The Bank ensured that strong internal controls are maintained during pandemic period as this is vital for the business operations. There were restrictions to physical access to branches and head office on certain areas during the period which were managed successfully through the technology of remote access. Proper study was conducted ensuring safety by a third party and the remote access was granted to staff. Internal Audit has performed sample verifications during the period to ensure controls were in place and changes to Internal controls over financial reporting if any has been reviewed during the period.

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 has processes and procedures to adopt new and revised Sri Lanka Accounting Standards. The Bank will continue to improve procedure manuals for incorporating changes to, and adopting new Sri Lanka Accounting Standards as appropriate.

Directors' Statement on Internal Control over Financial Reporting

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 will 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.

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 2020 have been presented in line with SLFRS 9.

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 2020 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 has been designed to provide a reasonable assurance regarding the reliability of financial reporting and the preparation of Financial Statements for external purposes has been done in accordance with Sri Lanka Accounting Standards and regulatory requirements of the Central Bank of Sri Lanka.

Review of the Statement by External Auditors

The External Auditors, Messrs. Ernst & Young, has 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 2020 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 129 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

25 February 2021

Assurance Report on Internal Control

Building a better working world

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APAG/RM/MHM

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 2020.

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.

25 February 2021
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	26	Yes
GRI 102-3	Location of organisation’s head quarters	Inner Back Cover	Yes
GRI 102-4	Location of operations	5	Yes
GRI 102-5	Ownership and legal form	160, Inner Back Cover	Yes
GRI 102-6	Markets served	26, 44-45	Yes
GRI 102-7	Scale of the organisation	55,69,154	Yes
GRI 102-8	Information on employees and other workers	55	Yes
GRI 102-9	Supply chain	61-62	Yes
GRI 102-10	Significant changes to the organisation and its supply chain	5	Yes
GRI 102-11	Precautionary Principle or approach	8	Yes
GRI 102-12	External initiatives	5	Yes
GRI 102-13	Membership of associations	61	Yes
Strategy			
GRI 102-14	Statement from senior decision-maker	18-19	Yes
GRI 102-15	Key impacts, risks, and opportunities	14-15	Yes
Ethics and Integrity			
GRI 102-16	Values, principles, standards, and norms of behavior	4,8,94	Yes
Governance			
GRI 102-18	Governance structure	88	Yes
Stakeholder Engagement			
GRI 102-40	List of stakeholder groups	10	Yes
GRI 102-41	Collective bargaining agreements	55	Yes
GRI 102-42	Identifying and selecting stakeholders	11	Yes
GRI 102-43	Approach to stakeholder engagement	11	Yes
GRI 102-44	Key topics and concerns raised	11	Yes
Reporting Practice			
GRI 102-45	Entities included in the consolidated financial statements	36	Yes
GRI 102-46	Defining report content and topic boundaries	5,9	Yes
GRI 102-47	List of material topics	5-9	Yes
GRI 102-48	Restatements of information	5	Yes
GRI 102-49	Changes in reporting	5	Yes
GRI 102-50	Reporting period	5	Yes
GRI 102-51	Date of most recent report	5	Yes
GRI 102-52	Reporting cycle	5	Yes
GRI 102-53	Contact point for questions regarding the report	9	Yes
GRI 102-54	Claims of reporting in accordance with the GRI Standards	5	Yes
GRI 102-55	GRI content index	130-131	Yes
GRI 102-56	External assurance	5, 132-133	Yes
Management Approach			
GRI 103-1	Explanation of the material topic and its boundary	5-8	Yes
GRI 103-2	The management approach and its components	5-8	Yes
GRI 103-3	Evaluation of the management approach	5-8	Yes

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	286	Yes
GRI 201-2	Financial implications and other risks and opportunities due to climate change	14-15	Yes
GRI 201-3	Defined benefit plan obligations and other retirement plans	224-225	Yes
GRI 206 - Anti Competitive Behaviour			
GRI 206-1	Legal actions for anti-competitive behaviour, anti-trust, and monopoly practices	62	Yes
GRI 207 – Tax			
GRI 207-1	Approach to Tax	122,162,208,218-219	Yes
GRI 207-2	Tax governance, control and risk management	180-182, 208, 218-219	Yes
GRI 207-3	Stakeholder engagement and management of concerns related to Tax	11	Yes
GRI 207-4	Country by country reporting	122,180-182,208,218-219	Yes
Category : Environmental			
GRI 302 - Energy			
GRI 302-1	Energy consumption within the organisation	6	Yes
Category: Social			
GRI 401 - Employment			
GRI 401-1	New employee hires and employee turnover	59	Yes
GRI 401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	58	Yes
GRI 402 - Labour/Management Relations			
GRI 402-1	Minimum notice periods regarding operational changes	8	Yes
GRI 403 - Occupational Health and Safety			
GRI 403-1	Occupational health and safety management system	55	Yes
GRI 403-2	Hazard identification, risk assessment, and incident investigation	60	Yes
GRI 403-3	Occupational health services	60	Yes
GRI 403-4	Worker participation, consultation, and communication on occupational health and safety	60	Yes
GRI 403-5	Worker training on occupational health and safety	56	Yes
GRI 403-6	Promotion of worker health	60	Yes
GRI 403-7	Prevention and mitigation of occupational health and safety impacts directly linked by business relationships	60	Yes
GRI 403-9	Work related injuries	60	Yes
GRI 404 - Training and Education			
GRI 404-1	Average hours of training per year per employee	56-57	Yes
GRI 404-2	Programs for upgrading employee skills and transition assistance programs	57	Yes
GRI 404-3	Percentage of employees receiving regular performance and career development reviews	57	Yes
GRI 405 - Diversity and Equal Opportunity			
GRI 405-1	Diversity of governance bodies and employees	56	Yes
GRI 405-2	Ratio of basic salary and remuneration of women to men	58	Yes
GRI 406 - Non Discrimination			
GRI 406-1	Incidents of discrimination and corrective actions taken	55	Yes
GRI 408 - Child Labour			
GRI 408-1	Operations and suppliers at significant risk for incidents of child labour	59-60	Yes
GRI 409 - Forced or Compulsory Labour			
GRI 409-1	Operations and suppliers at significant risk for incidents of forced or compulsory labour	59-60	Yes
GRI 417 - Marketing and Labelling			
GRI 417-1	Requirements for product and service information and labelling	54	Yes
GRI 417-2	Incidents of non-compliance concerning product and service information and labellWing	62	Yes
GRI 417-3	Incidents of non-compliance concerning marketing communications	62	Yes
GRI 418 - Customer Privacy			
GRI 418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	62	Yes
GRI 419 - Socio Economic Compliance			
GRI 419-1	Non-compliance with laws and regulations in the social and economic area	62	Yes

Independent Assurance Report on Sustainability Reporting

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Independent Assurance Report to Union Bank of Colombo PLC on the Sustainability Reporting Criteria Presented in the Integrated Annual Report- 2020

Introduction and scope of the engagement

The management of Union Bank of Colombo PLC ("the Bank") engaged us to provide an independent assurance on the following elements of the sustainability reporting criteria presented in the annual report- 2020 ("the Report").

- Reasonable assurance on the information on financial performance as specified on page 286 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 Bank's responsibility for the Report

The management of the Bank 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 Bank in accordance with our engagement letter dated 21 December 2020. We disclaim any assumption of responsibility for any reliance on this report to any person other than the Bank 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 Bank's personnel to understand the process for collection, analysis, aggregation and presentation of data.

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- Reviewing and validation of the information contained in the Report.
- Checking the calculations performed by the Bank on a sample basis through recalculation.
- Reconciling and agreeing the data on financial performance are properly derived from the Bank's audited financial statements for the year ended 31 December 2020.
- 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 286 of the Report are properly derived from the audited financial statements of the Bank for the year ended 31 December 2020.
- 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 Bank'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

25 February 2021
Colombo

Board of Directors

1. Michael J O'Hanlon
Non Independent, Non Executive Director

2. Atul Malik
Chairman/ Non Independent Non Executive Director

3. Indrajit Wickramasinghe
Executive Director/ Chief Executive Officer

4. Sabry Ghouse
Deputy Chairman/ Independent, Non Executive Director

▶ 5 ▶ 6 ▶ 7 ▶ 8

5. Sarath Wikramanayake
Independent, Non Executive Director

6. Dilshani Wijayawardana
Independent, Non Executive Director

7. Trevine Fernandopulle
Senior Independent Director/
Independent, Non Executive Director

8. 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).

Sabry Ghouse
Deputy Chairman/ 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.

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.

Trevine Fernandopulle
Senior Independent Director/ 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 the Chairman of AMW Capital Leasing and Finance PLC (an Al Futtaim Group Dubai owned company) and as a member its Audit, Risk and Remuneration Committees. He is also 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.

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 31 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, UB Finance Company Ltd and Financial Ombudsman Sri Lanka (Guarantee) Ltd.

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 over $3bn 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 Bank and recently in TPG's largest investment in India in UPL, Sai Pharma, RR Kabel, Five Star Finance, Campus Shoes and the Reliance Jio and Reliance Retail transactions. He currently serves on the Board of Directors of most of these portfolio 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

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 Ltd, 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

Indrajit Wickramasinghe
Director/Chief Executive Officer

Wije Dambawinne
Vice President/Head of Treasury

Hiranthi de Silva
Vice President - Wholesale Banking

Sri Ganendran
Vice President - Operations

Ravi Jayasekera
Vice President - Human Resources

Chaya Jayawardane
Vice President - Retail Banking

Inoka Jayawardhana
Vice President - Head of Legal and Company Secretary

Nisala Kodippili
Chief Information Officer

Asanka Ranhotty
Vice President – SME & Transaction Banking

Suhen Vanigasooriya
Chief Risk Officer

Assistant Vice Presidents

Naveen Anthonypillai
Assistant Vice President - Head of SME

Rushira De Silva
Assistant Vice President - Corporate Banking - Team Head

Thishani Dissanayake
Assistant Vice President - Marketing

Manisha Fernando
Assistant Vice President - Head of Retail Liability Products & Alternate Channels

Indrajith Hapuarachchie
Assistant Vice President - Deputy Chief Information Officer

Mahendra Illangasinghe
Assistant Vice President - Head of Branch Network

Indika Mendis
Assistant Vice President -Treasury

Ayesha Naotunna
Assistant Vice President - Financial controller

Malinda Perera
Assistant Vice President - Head of Retail Liability Sales & Contact Centre

Nirosha Perera
Assistant Vice President - Head of Internal Audit

Asanga Tennakoon
Assistant Vice President - Corporate Banking -Team Head

Chief Managers

Nalin Ahangama
Chief Manager - Trade Operations

Myuravathani Balamurali
Chief Manager - Treasury Operations

Kasun De Silva
Chief Manager - Zonal Head - Zone I A

Chaminda Fernando
Chief Manager - Zonal Head - Zone I B

Nipuna Ganegoda
Chief Manager - Head of Elite Banking

Chamara Gomis
Chief Manager - Head of Cards

Darsha Hendahewa
Chief Manager - Treasury and Bank Notes Operation

Janaka Iroshan
Chief Manager - Application Development & Support

Jayanath Kariyakarawana
Chief Manager - Recoveries

Irani Karunanayake
Chief Manager - Legal

Saman Kottawatta
Chief Manager - Zonal Head - Zone III

Sandamali Munasinghe
Chief Manager - Legal

Kathirgamathamby Nishaaharan
Chief Manager - Zonal Head - Zone IV

Jeewantha Perera
Chief Manager - Branch Operations/Head of Leasing

Ruchira Perera
Chief Manager - Corporate Banking

Shiran Punchihewa
Chief Manager - Business Information Technology

Anuruddha Ranasinghe
Chief Manager - Zonal Head - Zone II

Gihan Samarasinghe
Chief Manager - Bancassurance & Remittances

Damith Sumathirathne
Chief Manager - Retail Assets Sales

Dhananjeyan Wijendra
Chief Manager - Retail Assets Centre

Dinuke Wijesinghe
Chief Manager - Risk

Senior Managers

01. Mithila Abeysekera
Senior Manager - Digital Transformation

02. Dinesh Balendran
Senior Manager - Operational Risk

03. Kanchana De Silva
Senior Manager - Exports and Imports

04. Kolitha De Silva
Senior Manager - Old Moor Street Branch

05. Shihan De Silva
Senior Relationship Manager

06. Deepal Edirisinghe
Senior Manager - Premises

07. Janaka Edirisinghe
Senior Manager - Development Financing & Portfolio Monitoring

08. Rangika Ekanayaka
Senior Manager - Attidiya Branch

09. Manula Ekanayake
Senior Manager - Implementations & Client Integration

10. Ashanthi Fernando
Senior Relationship Manager

11. Clifford Fernando
Senior Manager - Kandy Branch

12. Dilaksha Fernando
Senior Manager - Credit

13. Minoli Fernando
Senior Manager - Finance

14. Roshan Fernando
Senior Manager - Internal Audit

15. Thangavelu Gobinath
Senior Manager - Institutional CASA

16. Osadhi Gunasekara
Senior Manager - Internal Audit

17. Asintha Gunawardena
Senior Relationship Manager - SME Zone I A

18. Sajani Gunawardena
Senior Manager – Application Administration

19. Mohamed Shazly Hasseen
Senior Manager - Head Office Branch

20. Minesh Jayasekera
Senior Manager - Remittances & NR Products

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 - Central Operations

Senior Managers

33. Chandani Perera
Senior Manager - Credit Operations

34. Dinuk Perera
Senior Relationship Manager - Mid-Market & Factoring

35. Janithi Perera
Senior Manager - Clearing Operations

36. Shabbir Raheem
Senior Manager - Card Operations

37. Menaka Raigambandarage
Senior Manager - Head of Compliance

38. Dulin Rajapakse
Senior Manager - IT Projects

39. Asanka Ranasinghe
Senior Manager - Credit Referrals

40. Achala Ratnayake
Senior Manager - Finance

41. Dilan Rodrigo
Senior Manager - Transaction Banking Sales

42. Visal Rupasinghe
Senior Manager – Human Resources

43. Prashanthi Sabesan
Senior Manager – Human Resources and Organisation Development

44. Sivashankar Sakthivel
Senior Manager - Finance

45. Natalie Salgado
Senior Manager - Treasury

46. Thilini Samarasinghe
Senior Manager - Contact Centre

47. Sakthitharan Sarma
Senior Manager - Systems & Network Administration

48. Nadika Senaratne
Senior Manager - IT Operations

49. Dhanushka Sethuhewa
Senior Manager - Market Risk

50. Jesdharajan Shanmugeswaran
Senior Manager - Kotahena Branch

51. Lahiru Silva
Senior Manager - Kohuwala Branch

52. Rajinda Silva
Senior Manager - Cards Underwriting

53. Christella Sivapragasam
Senior Relationship Manager - Elite Circle

54. Shehan Uduwara
Senior Manager - Head of Retail Recoveries

55. Nilmini Weerasekera
Senior Relationship Manager - Corporate Banking

56. Mithila Wickramasinghe
Senior Manager - Maharagama Branch

57. Hasitha Wijerathne
Senior Manager - Piliyandala Branch

58. Ramani Wijeratne
Senior Manager - Ganemulla Branch

FINANCIAL REPORTS

Financial Calendar

2019 Annual Report and Audited Financial Statements signed on	26 February 2020
25th Annual General Meeting held on	24 June 2020
Dividend for 2019 paid on	18 March 2020

	2020			
	Colombo Stock Exchange	Newspapers (as required by CBSL)		
		English	Sinhala	Tamil
Q1 ended 31 March*	06 May 2020	25 June 2020	25 June 2020	25 June 2020
Q2 ended 30 June*	31 July 2020	28 August 2020	28 August 2020	28 August 2020
Q3 ended 30 September*	29 October 2020	27 November 2020	27 November 2020	27 November 2020
Q4 ended 31 December	25 February 2021	31 March 2021	31 March 2021	31 March 2021

2020 Annual Report and Audited Financial Statements signed on	25 February 2021
26th Annual General Meeting to be held on	31 March 2021

	2021 to be submitted on or before			
	Colombo Stock Exchange	Newspapers (as required by CBSL)		
		English	Sinhala	Tamil
Q1 ended 31 March*	15 May 2021	31 May 2021	31 May 2021	31 May 2021
Q2 ended 30 June*	15 August 2021	31August 2021	31 August 2021	31 August 2021
Q3 ended 30 September*	15 November 2021	30 November 2021	30 November 2021	30 November 2021
Q4 ended 31 December	28 February 2022	31 March 2022	31 March 2022	31 March 2022

* Based on unaudited information

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Chartered Accountants
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Sri Lanka

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APAG/RM/AD

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 2020, 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 2020, 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.

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<table>
<tr><th>Why significant</th><th>How our audit addressed the key audit matter</th></tr>
<tr><td>

Impairment allowance on loans and advances carried at amortised cost

As described in Notes 4.7 and 27, impairment allowance on such financial assets carried at amortised cost is determined in accordance with Sri Lanka Accounting Standard – SLFRS 9 Financial Instruments (SLFRS 9).

This was a key audit matter due to:

- materiality of the reported impairment allowance which involved complex calculations; and
- the degree of assumptions, judgements and estimation uncertainty associated with the calculations.

Key areas of significant judgements, estimates and assumptions used by management in the assessment of the impairment allowance included the following;

- the probable impacts of COVID-19 and related industry responses (e.g. government stimulus packages and debt moratorium relief measures granted by the Bank);
- the determination on whether or not customer contracts have been substantially modified due to such COVID – 19 – related stimulus and relief measures granted and related effects on the amount of interest income recognised on affected loans and advances and
- forward-looking macroeconomic factors, including developing and incorporating macroeconomic scenarios, given the wide range of potential economic outcomes and probable impacts from COVID-19 that may impact future expected credit losses.

</td><td>

We assessed the alignment of the Group's expected credit loss model computations and underlying methodology with the requirements of SLFRS 9 with consideration of COVID 19 impacts and related industry responses based on the best available information up to the date of our report. Our audit procedures included amongst others the following:

- We evaluated the design, implementation and operating effectiveness of controls over estimation of impairment, which included assessing the level of oversight, review and approval of provision for impairment policies and procedures by the Board and management.
- We checked the completeness and accuracy of the underlying data used in the computations by agreeing significant details to source documents and accounting records of the Group.
- We checked the underlying calculations.
- In addition to the above, the following procedures were performed:
  - For a sample of loans and advances assessed on an individual basis for impairment:
    - Assessing the reasonableness and timeliness of internal credit quality assessments based on the borrower's particular circumstances determined by management; and
    - Evaluating the associated reasonability of the provisions made with particular focus on the impact of COVID-19 on high risk industries, strategic responsive actions taken, collateral values, and the value and timing of recoveries.
  - For loans and advances assessed on a collective basis for impairment:
    - Assessing the reasonability of assumptions and estimates used by the Management including the reasonableness of forward-looking information and scenarios
    - As relevant, the basis for and data used by Management to determine overlays in consideration of the probable effects of the COVID -19 pandemic.
  - For loans and advances affected by government stimulus and debt moratorium relief measures granted
    - Assessing the reasonableness of judgements, calculations and data used to determine whether customer contracts have been substantially modified or not and to determine the resulting accounting implications; and
    - Evaluating the reasonability of the interest income recognized on such affected loans and advances
- We assessed the adequacy of the related financial statement disclosures set out in notes 3.4, 4.7, 12 & 27.

</td></tr>
</table>

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Why significant	How our audit addressed the key audit matter
IT systems and controls relevant to financial reporting The Bank uses multiple IT systems in its operations. The COVID -19 pandemic necessitated the Bank to adapt various operating processes and procedures including modification of relevant controls to mitigate the resulting risks. IT systems and controls relevant to financial reporting was a key audit matter due to: ▸ A changed working environment of increased remote access ▸ The Bank's financial reporting process being heavily dependent on information derived from its IT systems and ▸ Key financial statement disclosures involving the use of multiple system – generated reports, collation and spreadsheet – based calculations	Our audit procedures included the following, ▸ Understanding the changes made to security monitoring procedures over IT systems relevant to financial reporting, given the increase in remote access. ▸ Understanding and evaluating the design and operating effectiveness of key automated, IT dependent and manual controls implemented by management over generation of multiple system reports and collation of required information in calculating the significant information for financial statements disclosures. ▸ Checking the source data of the reports used to generate significant disclosures for accuracy and completeness. ▸ Checking the underlying calculations and the reasonableness of classifications made by management. ▸ Assessing the reasonability of Management's general ledger reconciliation procedures which includes cross checking to system reports and source data where relevant.

Other information included in the Group's 2020 Annual Report

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

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's and the Group's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SLAuSs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Independent Auditor's Report on Financial Statements

Building a better working world

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.

25 February 2021
Colombo

FINANCIAL STATEMENTS

TABLE OF CONTENTS

Statement of Profit or Loss

For the year ended 31 December	Note	Page	BANK 2020 Rs.'000	BANK 2019 Rs.'000	GROUP 2020 Rs.'000	GROUP 2019 Rs.'000
Gross income	6	171	13,370,190	14,712,069	15,042,092	16,781,718
Interest income	7.1	172	11,179,991	12,956,243	12,714,314	14,875,016
Less: Interest expenses	7.2	172	7,310,035	8,477,329	8,176,717	9,641,012
Net interest income			3,869,956	4,478,914	4,537,597	5,234,004
Fee and commission income	8.1	173	872,531	1,069,370	969,229	1,182,771
Less: Fee and commission expenses	8.2	173	169,906	214,146	177,230	224,552
Net fee and commission income			702,625	855,224	791,999	958,219
Net fair value gains/ (losses) from financial instruments at fair value through profit or loss	9	173	533,033	350,771	535,058	354,893
Net gains/(losses) from financial investments	10	174	610,463	323,660	611,068	324,186
Other operating income	11	174	174,172	12,025	212,423	44,852
Total operating income			5,890,249	6,020,594	6,688,145	6,916,154
Less: Impairment for loans and other losses	12	175	735,731	390,294	948,288	580,288
Net operating income			5,154,518	5,630,300	5,739,857	6,335,866
Less:						
Personnel expenses	13	177	1,901,968	1,883,326	2,131,069	2,128,124
Depreciation and amortisation	14	178	664,964	636,879	724,666	699,264
Other expenses	15	179	1,205,314	1,309,790	1,375,361	1,525,600
Total operating expenses			3,772,246	3,829,995	4,231,096	4,352,988
Results from operating activities			1,382,272	1,800,305	1,508,761	1,982,878
Share of profit of equity accounted investees, net of tax	32.1	210	(28,945)	103,823	-	-
Profit before value added tax (VAT), nation building tax (NBT) and debt repayment levy (DRL) on financial services			1,353,327	1,904,128	1,508,761	1,982,878
Less: VAT, NBT and DRL on financial services	16	180	414,394	712,527	440,091	781,623
Profit before tax			938,933	1,191,601	1,068,670	1,201,255
Less: Tax expense	17	180	362,397	481,254	445,917	397,037
Profit for the year			576,536	710,347	622,753	804,218
Attributable to:						
Equity holders of the parent			576,536	710,347	632,712	765,133
Non-controlling interest	45	229	-	-	(9,959)	39,085
Profit for the year			576,536	710,347	622,753	804,218
Earnings per share						
Earnings per share - Basic (Rs.)	18.1	183	0.53	0.65	0.58	0.70
Earnings per share - Diluted (Rs.)	18.2	183	0.53	0.65	0.58	0.70

The Notes to the Financial Statements from pages 160 - 270 form an integral part of these Financial Statements.

Statement of Comprehensive Income

For the year ended 31 December	Note	Page	BANK 2020 Rs.'000	BANK 2019 Rs.'000	GROUP 2020 Rs.'000	GROUP 2019 Rs.'000
Profit for the year			576,536	710,347	622,753	804,218
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			183,251	51,225	182,135	51,225
Reclassification to the income statement			58,221	442,581	58,221	442,581
Less: Income tax effect on above			(67,612)	(138,266)	(67,612)	(138,266)
Share of other comprehensive income of equity accounted investees, net of tax	32.1	210	(569)	-	-	-
Total items that will be reclassified to the statement of profit or loss			173,291	355,540	172,744	355,540
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:						
Actuarial gains/ (losses) on defined benefit plans	41.2.2	225	11,927	(13,243)	13,628	(11,775)
Revaluation gains/ (losses) on equity instruments at fair value through other comprehensive income			-	-	-	(1,175)
Less: Income tax effect on above			(3,340)	3,708	(3,816)	3,297
Share of other comprehensive income of equity accounted investees, net of tax	32.1	210	771	159	-	-
Total items that will not be reclassified to the statement of profit or loss			9,358	(9,376)	9,812	(9,653)
Other comprehensive income/(loss) for the year, net of taxes			182,649	346,164	182,556	345,887
Total comprehensive income for the year, net of tax			759,185	1,056,511	805,309	1,150,105
Attributable to:						
Equity holders of the parent			759,185	1,056,511	815,361	1,111,297
Non-controlling interest			-	-	(10,052)	38,808
Total comprehensive income for the year, net of tax			759,185	1,056,511	805,309	1,150,105

The Notes to the Financial Statements from pages 160 - 270 form an integral part of these Financial Statements.

Statement of Financial Position

As at 31 December	Note	Page	BANK 2020 Rs.'000	BANK 2019 Rs.'000	GROUP 2020 Rs.'000	GROUP 2019 Rs.'000
Assets						
Cash and cash equivalents	21	187	2,405,091	2,718,860	2,832,540	3,104,542
Balances with Central Bank of Sri Lanka	22	187	722,727	2,314,197	722,727	2,314,197
Placements with banks	23	188	15,747	94,257	15,747	94,257
Reverse repurchased agreements	24	188	-	426,823	240,736	1,009,581
Derivative financial instruments	25	189	38,189	6,230	38,189	6,230
Financial investments at fair value through profit or loss	26	190	7,143,403	3,228,565	7,180,220	3,270,208
Financial assets at amortised cost - loans and advances to customers	27	192	67,517,674	77,358,301	73,776,668	84,780,138
Financial assets at amortised cost - debt and other instruments	28	201	21,168,076	13,441,040	20,509,495	12,670,558
Financial investments at fair value through other comprehensive income	29	206	19,385,038	17,503,245	19,397,252	17,516,485
Current tax asset	30	208	-	1,148	-	1,148
Investments in real estate	31	208	-	-	106,890	112,563
Investments in subsidiaries	32	209	882,478	912,268	-	-
Goodwill and intangible assets	33	212	1,314,234	1,329,791	1,661,555	1,678,668
Property, plant and equipment and Right of use assets	34	215	1,317,789	1,482,366	1,523,305	1,741,074
Deferred tax assets	35	218	-	-	445,436	497,620
Other assets	36	220	1,032,828	936,568	1,119,602	1,042,696
Total assets			122,943,274	121,753,659	129,570,362	129,839,965
Liabilities						
Due to banks	37	221	9,980,590	11,475,176	9,168,079	11,601,966
Derivative financial instruments	25	189	8,313	4,515	8,313	4,515
Repurchased agreements	38	221	10,205,564	12,116,040	10,100,553	12,116,040
Due to customers	39	222	82,383,852	76,532,012	87,104,192	82,751,668
Other borrowed funds	40	223	-	1,242,450	2,347,634	2,514,058
Current tax liability	30	208	262,689	-	471,398	197,957
Deferred tax liabilities	35	218	53,841	62,299	54,135	63,062
Other liabilities	41	223	1,958,408	2,810,711	2,251,102	3,151,428
Total liabilities			104,853,257	104,243,203	111,505,406	112,400,694
Equity						
Stated capital	42	226	16,334,782	16,334,782	16,334,782	16,334,782
Share warrants	42.1	226	65,484	65,484	65,484	65,484
Statutory reserve fund	43	227	204,227	175,400	228,847	200,020
ESOP reserve	44.3.2	228	23,500	51,426	23,500	51,426
Fair value through OCI reserve			217,840	44,549	230,076	56,785
Retained earnings			1,244,184	838,815	951,674	490,129
Total equity attributable to equity holders of the Bank			18,090,017	17,510,456	17,834,363	17,198,626
Non-controlling interests	45	229	-	-	230,593	240,645
Total equity			18,090,017	17,510,456	18,064,956	17,439,271
Total equity and liabilities			122,943,274	121,753,659	129,570,362	129,839,965
Commitments and contingencies	46	229	40,214,886	32,014,254	40,360,918	32,104,191
Net asset value per share (Rs.)			16.70	16.16	16.46	15.87

The Notes to the Financial Statements from pages 160 - 270 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
Financial Controller

The Board of Directors is responsible for these Financial Statements.
Signed for and on behalf of the Board;

Sabry Ghouse
Deputy Chairman

Indrajit Wickramasinghe
Director/Chief Executive Officer

Inoka Jayawardene
Company Secretary

Colombo

25 February 2021

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	Fair value through OCI Reserve Rs.'000	Retained Earnings Rs.'000	Total Equity Rs.'000
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	44.3.1	228	-	-	-	(1,390)	-	-	(1,390)
Transfers during the year	43	227	-	-	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
Total comprehensive income for the year									
Net profit for the year			-	-	-	-	-	576,536	576,536
Other comprehensive income			-	-	-	-	173,291	9,358	182,649
Total comprehensive income			-	-	-	-	173,291	585,894	759,185
Transactions with equity holders, recognised directly in equity									
Fair value of ESOP	44.3.1	228	-	-	-	(27,926)	-	-	(27,926)
Dividends to equity holders			-	-	-	-	-	(151,698)	(151,698)
Transfers during the year	43	227	-	-	28,827	-	-	(28,827)	-
Balance as at 31 December 2020			16,334,782	65,484	204,227	23,500	217,840	1,244,184	18,090,017

GROUP	Note	Page	Stated Capital Rs.'000	Share Warrants Rs.'000	Statutory Reserve Fund Rs.'000	ESOP 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 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	44.3.1	228	-	-	-	(1,390)	-	-	(1,390)	-	(1,390)
Transfers during the year	43	227	-	-	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
Net profit for the year			-	-	-	-		632,712	632,712	(9,959)	622,753
Other comprehensive income			-	-	-	-	173,291	9,358	182,649	(93)	182,556
Total comprehensive income			-	-	-	-	173,291	642,070	815,361	(10,052)	805,309
Transactions with equity holders, recognised directly in equity											
Fair value of ESOP	44.3.1	228	-	-	-	(27,926)	-	-	(27,926)	-	(27,926)
Dividends paid			-	-	-	-	-	(151,698)	(151,698)	-	(151,698)
Transfers during the year	43	227			28,827			(28,827)	-	-	-
Balance as at 31 December 2020			16,334,782	65,484	228,847	23,500	230,076	951,674	17,834,363	230,593	18,064,956

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 un-favourable balances with local & foreign banks that are subject to an insignificant risk of change in their value.

	Note	Page	BANK 2020 Rs.'000	BANK 2019 Rs.'000	GROUP 2020 Rs.'000	GROUP 2019 Rs.'000
Cash Flow from Operating Activities						
Interest receipts			10,485,733	12,891,606	11,978,131	14,714,098
Fee and commission receipts			702,626	855,224	791,999	958,219
Interest payments			(6,868,433)	(8,363,755)	(7,841,467)	(9,311,792)
Receipts from other operating activities			1,337,669	699,669	1,373,838	507,018
Payments on other operating activities			(3,804,974)	(4,141,374)	(4,262,868)	(4,582,527)
Operating profit before changes in operating assets & liabilities			1,852,621	1,941,370	2,039,633	2,285,016
(Increase)/decrease in operating assets:						
Balances with Central Bank of Sri Lanka			1,591,470	1,905,735	1,591,470	1,905,735
Financial assets at amortised cost - loans and advances to customers			9,700,625	(3,922,185)	10,556,354	(3,153,986)
Others			(134,584)	(38,066)	(109,553)	203,864
			11,157,511	(2,054,516)	12,038,271	(1,044,387)
Increase /(decrease) in operating liabilities:						
Due to banks			568,740	70,939	568,740	70,939
Due to customers			5,444,433	(2,742,477)	4,060,107	(3,697,400)
Repurchased agreements			(1,905,348)	(5,444,447)	(2,010,359)	(5,394,435)
Others			(901,982)	165,068	(913,013)	27,501
			3,205,843	(7,950,917)	1,705,475	(8,993,395)
Net cash from/(used in) operating activities before income tax			16,215,975	(8,064,063)	15,783,379	(7,752,767)
Retirement benefit obligation paid	41.2.2	225	(9,016)	(17,001)	(12,418)	(17,795)
Income tax paid			(177,969)	(91,103)	(187,308)	(112,763)
Net cash from/(used in) operating activities			16,028,990	(8,172,167)	15,583,653	(7,883,325)
Cash flow from/(used in) investing activities						
Dividends received			960	935	1,564	1,461
Financial investments at fair value through profit or loss			(3,924,599)	(384,363)	(3,917,385)	(421,995)
Financial investments at fair value through other comprehensive income			(1,540,415)	646,087	(1,539,391)	684,510
Financial assets at amortised cost - debt and other instruments			(7,698,917)	3,141,765	(7,697,638)	3,419,747
Purchase of property, plant & equipment	34	215	(65,732)	(181,751)	(79,363)	(193,828)
Purchase of intangible assets			(179,179)	(306,781)	(185,310)	(314,658)
Proceeds from Sale of property,plant & equipment			6,430	14,718	18,540	24,021
Net cash from/(used in) investing activities			(13,401,452)	2,930,609	(13,398,983)	3,199,257
Cash flow from/(used in) financing activities						
Proceeds from shares			-	(125,799)	-	(125,799)
Increase/(decrease) in borrowings			(3,114,273)	2,094,958	(2,217,829)	763,645
Dividend paid			(151,698)	-	(151,698)	-
Net cash from/(used in) financing activities			(3,265,971)	1,969,159	(2,369,527)	637,846
Net increase/(decrease) in cash and cash equivalents			(638,433)	(3,272,399)	(184,857)	(4,046,222)
Cash and cash equivalents at beginning of the year			3,053,031	6,325,430	3,034,999	7,081,221
Cash and cash equivalents at end of the year			2,414,598	3,053,031	2,850,142	3,034,999
Reconciliation of cash and cash equivalents						
Cash in hand and at banks	21	187	2,405,091	2,718,860	2,832,540	3,104,542
Placements with banks	23	188	15,747	94,257	15,747	94,257
Due to banks			(6,240)	(186,814)	(238,881)	(1,173,285)
Reverse repurchased agreements			-	426,728	240,736	1,009,485
Total cash and cash equivalents at end of the year			2,414,598	3,053,031	2,850,142	3,034,999

Reconciliation of liabilities arising from financing activities

For the year ended 31 December 2020	31 Dec 2020 Rs.'000	Cash change Cash flow Rs.'000	Non cash change Foreign exchange movement Rs.'000	1 Jan 2020 Rs.'000
BANK				
Due to banks	8,934,458	(2,086,068)	22,742	10,997,784
Other borrowed funds	-	(1,242,450)	-	1,242,450
Less : Unfavorable balances with banks	(6,240)	180,574	-	(186,814)
Less : Interest payable	(111,413)	33,671	-	(145,084)
Total	8,816,805	(3,114,273)	22,742	11,908,336
GROUP				
Due to banks	8,121,946	(3,025,370)	22,742	11,124,574
Other borrowed funds	2,347,634	(166,424)	-	2,514,058
Less : Unfavorable balances with banks	(238,881)	934,404	-	(1,173,285)
Less : Interest payable	(265,116)	39,561	-	(304,677)
Total	9,965,583	(2,217,829)	22,742	12,160,670

For the year ended 31 December 2019	31 Dec 2019 Rs.'000	Cash change Cash flow Rs.'000	Non cash change Foreign exchange movement Rs.'000	1 Jan 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)
Less : 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)
Less : Interest payable	(304,677)	(100,760)	-	(203,917)
Total	12,160,670	763,645	12,208	11,384,817

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 2020 was 1,275 (2019: 1344)

1.1.1 Consolidated Financial Statements

The Consolidated Financial Statements for the year ended 31 December 2020 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 121 and 156 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 154 and 155).
- Statement of Financial Position providing the information on the financial position of the Group as at the year-end (Refer Page 156).
- Statement of Changes in Equity providing the changes in the shareholders' funds during the year ended under review for the Group (Refer Page 157).
- 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 158)
- Notes to the financial statements, which comprise of the significant accounting policies and other explanatory notes and information (Refer Pages 160 to 270)

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 2020 were authorised for issue by the Board of Directors in accordance with the resolution of the Directors on 25 February 2021.

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 25)
- Financial investments at fair value through other comprehensive income (FVOCI) are measured at fair value (Note 29)
- Financial investments at fair value through profit or loss (FVPL) are measured at fair value (Note 26)
- Liabilities for defined benefit obligations are recognised at the present value of the defined benefit obligation (Note 41.2)

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 52 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.

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 and 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;

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. In this assessment, the Directors have considered the potential downsides that the COVID-19 pandemic could bring to business operations of the Group. 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 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 51.

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 20, "Measurement of Financial Instruments"

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) calculation under SLFRS 9 requires management to make judgements and estimates with regard to the following;

- The Group's criteria for assessing if there has been a significant increase in credit risk and therefore impairment for financial assets should be measured on a Lifetime Expected Credit Loss (LTECL) basis and the qualitative assessment
- The segmentation of financial assets when their ECL is assessed on a collective basis
- Development of ECL models, including the various formulas and the choice of inputs
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models

It has been the Group's policy to regularly review its models in the context of actual loss experience and adjust when necessary. The assumptions and judgements mentioned above are discussed in detail under Note 4.7 to the financial statements. Furthermore, the procedure followed in the impairment calculations due to the COVID-19 outbreak have been more fully described in Note 53.2.1 to the financial statement.

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 Non-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 33.

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* (GRI 207-1)

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 35 to the financial statement.

3.9 *Taxation* (GRI 207-1)

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 cost 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 41.2 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 48.4.3.

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 44.1.

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 46 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.

3.16 Recognition of the Loans and Advances under COVID-19 Moratorium Scheme

Modification to the cash flows of the loans and receivables due to the COVID-19 outbreak considers as non-substantial thus does not result in derecognition of the financial asset in accordance with SLFRS 9 "Financial Instruments". Accordingly, modification gain/loss shall be charged to profit or loss immediately. In the determination process, the management applies professional judgement by comparing the modification loss as against the carrying value of the asset and the decision shall be taken based on the materiality of the gain/loss.

4 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.

4.1 Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries for the year ended 31 December 2020 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.

4.2 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.

Notes to the Financial Statements

The consideration transferred does not include amounts related to the settlements or pre-existing relationships. Such amounts are generally recognised in profit or loss.

4.2.1 Subsidiaries

Details of the Bank's subsidiaries, how they are accounted in the financial statements of the Bank are set out in Notes 32.

4.2.2 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 2020.

4.2.3 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. 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.

4.2.4 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.

4.2.5 Non-Controlling Interest (NCI)

Details of NCI are given in Note 45.

4.3 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.

4.4 Financial Instruments – Initial Recognition, Classification and Subsequent Measurement

4.4.1 Date of Recognition

Financial assets and liabilities, with the exception of loans and advances to customers and balances due to customers, are initially recognised on the trade date, i.e., the date 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.

4.4.2 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.

4.4.2.1 "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.

4.4.2.2 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 as explained in Note 4.5.1
- FVOCI as explained in Note 4.5.3
- FVPL as explained in Note 4.5.4

The Group classifies and measures its derivative and trading portfolio at FVPL, as explained in Note 4.5.2

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.

4.4.3 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 51 Fair value measurement.

The Group evaluates the leveling 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.

4.5 Financial Assets and Liabilities

4.5.1 Due from banks, Loans and Advances to Customers, Debt and Other Instruments

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.

4.5.1.(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.

4.5.1.(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.

4.5.2 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".

4.5.3 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. The ECL calculation for debt instruments at FVOCI is explained in Note 4.7.4.3. 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.

4.5.4 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.

4.5.5 Due to Customers, Other Borrowers and Debt Security Holders

After initial measurement, due to customers, other borrowers and debt security holders are subsequently measured at amortised cost. Amortised cost is calculated by taking into account any discount or premium on issue of funds and costs that are an integral part of the EIR.

4.6 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.

4.7 Impairment of Financial Assets

4.7.1 Overview of the ECL Principles

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 (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 4.7.3.

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 4.7.4.2. The details of individual assessment of ECLs are given in Note 4.7.4.1.

The Group has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. This is further explained in Note 4.7.3. 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. 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.

4.7.2 Definition of Default and Cure

The Group considers a financial instrument as defaulted and therefore stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments.

As a part of 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. Such events include.

- A material decrease in the underlying collateral value where the recovery of the loan is expected through assets realization
- A material decrease in the turnover of the customer or loss of a major customer
- The borrower is deceased
- The borrower requesting emergency funding

When none of the default criteria have been present and the borrower is no longer considered as non-performing in accordance with the Directives of the Central Bank, the Group policy to consider a financial instrument as 'cured' and therefore classified out of Stage 3.

Once cured, the decision whether to classify an asset as Stage 2 or Stage 1 largely depends on the arrears position at the time of the cure. The Group's criteria for 'cure' for rescheduled or restructured loans is more stringent than ordinary loans and is explained in Note 4.7.2.

4.7.3 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.
The Group also applies a secondary qualitative method for triggering a significant increase in credit risk, such as restructuring or rescheduling of an asset while the asset is less than past due in certain cases.

4.7.4 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. The assessment of multiple scenarios incorporates how defaulted loans are expected to be recovered, including the probability that the loans will cure and the value of collateral or the amount that might be received for selling the asset.

Key elements of the ECL calculations are outlined below;

- PD - The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio
- 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 4.7.4.2.2.
- LGD - The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD. The LGD is further explained in Note 4.7.4.2.3.

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 as credit-impaired, 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%.

4.7.4.1 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.

4.7.4.2 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 internal characteristics of the loans such as; Product type, Type of collateral.

4.7.4.2.1 The PD Estimation Process

PD estimation for loans and advances under SLFRS 9 is largely based on the days past due (DPD) of the customers. Accordingly, exposures are categorized in to five groups based on DPDs as follows;

- Zero days past due
- 1-30 days past due
- 31-60 days past due
- 61-90 days past due
- Above 90 days past due

However, for loans granted to banks and debt and other instruments classified as amortised cost/FVOCI, the Group relies on external credit ratings in determining their respective PDs.

4.7.4.2.2 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 modeling 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.

4.7.4.2.3 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.

4.7.4.2.4 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.

4.7.4.3 Debt Instruments Measured at FVOCI

The ECLs for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value instead an amount equal to the impairment that would arise if the assets were measured at amortised cost is recognized in OCI as an accumulated impairment amount, with a correspondence charge to profit or loss. The accumulated loss recognized in OCI is recycled to the profit and loss statements upon derecognition of the assets.

4.7.4.4 Rescheduled and Restructured Loans

The Bank makes modifications to the original terms of loans in response to the borrower's financial difficulties, rather than taking possession of the collateral. The Bank considers such loans as rescheduled or restructured loans. Reschedulement or restructure may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms. It is the Bank policy to monitor rescheduled and restructured loans to ensure that future payments are likely to occur.

Rescheduled/restructured loans are at a minimum classified as stage 2 at the date of the modification of the loan.

Procedure followed in the ECL calculations due to COVID-19 outbreak is detailed in Note 53.2.1 to the financial statements.

4.8 Fair Value Determination and Measurement

4.8.1 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.

4.8.2 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 51 to the financial statement.

4.9 Leases

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.

4.9.1 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.

4.9.1.1 (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 34 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.

4.9.1.1 (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.

4.9.2 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.

5. Standards Issued but not yet Effective as at 31 December 2020

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.

5.1 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. SLFRS 17 is effective for annual reporting periods beginning on or after 01 January 2023.

This amendment do not have any impact on the Bank.

5.2 Amendments to SLFRS 9, LKAS 39, SLFRS 7, SLFRS 4 and SLFRS 16 – Interest Rate Benchmark Reform (Phase 1 & 2)

The amendments to SLFRS 9 & LKAS 39 provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainty about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument. IBOR reforms Phase 2 include number of reliefs and additional disclosures. Amendments supports companies in applying SLFRS when changes are made to contractual cash flows or hedging relationships because of the reform. These amendments are effective for the annual reporting periods beginning on or after 01 January 2021.

5.3 Amendments to SLFRS 16 - COVID-19 Related Rent Concessions

The amendments provide relief to lessees from applying SLFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 Pandemic. As a practical expedient, a lessee may elect not to assess whether a COVID-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from COVID-19 related rent concession the same way it would account for the change under SLFRS16 if the change were not a lease modification. The amendment applies to annual reporting periods beginning on or after 01 June 2020.

None of the new or amended pronouncements are expected to have a material impact on the consolidated financial statements of the Group in the foreseeable future.

6. 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 2020 Rs.'000	BANK 2019 Rs.'000	GROUP 2020 Rs.'000	GROUP 2019 Rs.'000
Interest income	7.1	172	**11,179,991**	12,956,243	**12,714,314**	14,875,016
Fee and commission income	8.1	173	**872,531**	1,069,370	**969,229**	1,182,771
Net fair value gains/ (losses) from financial instruments at fair value through profit or loss	9	173	**533,033**	350,771	**535,058**	354,893
Net gains/ (losses) from financial investments	10	174	**610,463**	323,660	**611,068**	324,186
Other operating income	11	174	**174,172**	12,025	**212,423**	44,852
Total			**13,370,190**	14,712,069	**15,042,092**	16,781,718

7. NET INTEREST INCOME

ACCOUNTING POLICY

The Group recognizes interest income for all financial instruments measured at amortised cost, financial instruments measured at FVPL and interest earning financial assets measures at FVOCI using the effective interest rate (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 regarding the cash flows on the financial asset are revised for reasons other than credit risk, the difference from the previous carrying amount is booked as a positive or negative adjustment to the carrying amount of the financial asset on the balance sheet with a corresponding increase or decrease in Interest income calculated using the effective interest method.

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 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 calculating interest income on a gross basis.

For the year ended 31 December	Note	Page	BANK 2020 Rs.'000	BANK 2019 Rs.'000	GROUP 2020 Rs.'000	GROUP 2019 Rs.'000
Interest income	7.1	172	**11,179,991**	12,956,243	**12,714,314**	14,875,016
Less: Interest expense	7.2	172	**7,310,035**	8,477,329	**8,176,717**	9,641,012
Net interest income			**3,869,956**	4,478,914	**4,537,597**	5,234,004

7. NET INTEREST INCOME (CONTD.)

7.1 *Interest income*

For the year ended 31 December	BANK 2020 Rs.'000	BANK 2019 Rs.'000	GROUP 2020 Rs.'000	GROUP 2019 Rs.'000
Reverse repurchase agreements	**38,101**	70,588	**61,683**	119,494
Placements with banks	**733**	10,827	**2,617**	244,182
Financial investments at fair value through profit or loss	**164,999**	193,507	**164,999**	193,507
Financial assets at amortised cost - loans and advances to customers	**7,356,229**	9,420,417	**8,773,082**	11,191,658
Interest income accrued on impaired financial assets	**841,889**	584,807	**868,592**	611,509
Financial assets at amortised cost - debt and other instruments	**1,270,099**	1,089,581	**1,335,400**	928,150
Financial investments at fair value through other comprehensive income	**1,507,941**	1,586,516	**1,507,941**	1,586,516
Total	**11,179,991**	12,956,243	**12,714,314**	14,875,016

7.2 *Interest expenses*

For the year ended 31 December	BANK 2020 Rs.'000	BANK 2019 Rs.'000	GROUP 2020 Rs.'000	GROUP 2019 Rs.'000
Due to banks	**664,339**	931,245	**792,811**	972,285
Repurchased agreements	**757,630**	985,822	**757,630**	985,822
Due to customers	**5,679,555**	6,322,802	**6,327,060**	7,215,126
Other borrowed funds	**208,511**	237,460	**299,216**	467,779
Total	**7,310,035**	8,477,329	**8,176,717**	9,641,012

8. 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 2020 Rs.'000	BANK 2019 Rs.'000	GROUP 2020 Rs.'000	GROUP 2019 Rs.'000
Fee and commission income	8.1	173	**872,531**	1,069,370	**969,229**	1,182,771
Fee and commission expenses	8.2	173	**169,906**	214,146	**177,230**	224,552
Net Fee and commission income			**702,625**	855,224	**791,999**	958,219

8. NET FEE AND COMMISSION INCOME (CONTD.)

8.1 Fee and commission income

For the year ended 31 December	BANK 2020 Rs.'000	BANK 2019 Rs.'000	GROUP 2020 Rs.'000	GROUP 2019 Rs.'000
Loans	**109,536**	141,600	**119,966**	154,412
Trade and remittances	**171,667**	187,383	**171,667**	187,383
Credit and debit cards	**255,200**	214,837	**255,200**	214,837
Bancassurance	**56,543**	56,328	**56,543**	79,825
Factoring	**3,316**	7,025	**6,557**	15,656
Fund management	**-**	-	**60,661**	63,658
Deposits related fee	**188,305**	355,845	**188,305**	355,845
Guarantees	**75,167**	92,644	**75,167**	92,644
Others	**12,797**	13,708	**35,163**	18,511
Total	**872,531**	1,069,370	**969,229**	1,182,771

8.2 Fee and commission expenses

For the year ended 31 December	BANK 2020 Rs.'000	BANK 2019 Rs.'000	GROUP 2020 Rs.'000	GROUP 2019 Rs.'000
Financial services	**56,983**	64,371	**64,308**	74,124
Credit and debit cards	**73,544**	87,123	**73,544**	87,123
Brokerage	**39,379**	62,652	**39,378**	63,305
Total	**169,906**	214,146	**177,230**	224,552

9. 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 2020 Rs.'000	BANK 2019 Rs.'000	GROUP 2020 Rs.'000	GROUP 2019 Rs.'000
Government securities				
Net marked to market gain/(loss)	**(11,043)**	2,901	**(11,043)**	2,901
Net capital gain	**223,356**	120,594	**223,356**	120,594
Subtotal	**212,313**	123,495	**212,313**	123,495
Unit investments				
Net marked to market gain/(loss)	**258**	657	**2,283**	4,779
Net capital gain	**320,462**	226,619	**320,462**	226,619
Subtotal	**320,720**	227,276	**322,745**	231,398
Total	**533,033**	350,771	**535,058**	354,893

10. 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 2020 Rs.'000	BANK 2019 Rs.'000	GROUP 2020 Rs.'000	GROUP 2019 Rs.'000
Dividend income	960	935	1,565	1,461
Gain on Government securities	609,503	322,725	609,503	322,725
Total	610,463	323,660	611,068	324,186

11. 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, 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 2020 Rs.'000	BANK 2019 Rs.'000	GROUP 2020 Rs.'000	GROUP 2019 Rs.'000
Net gain/(loss) on sale of property, plant and equipment			3,468	(2,453)	4,078	5,120
Foreign exchange gain	11.1	174	166,631	3,703	166,631	3,703
Income from real estate			-	-	4,465	4,237
Others			4,073	10,775	37,249	31,792
Total			174,172	12,025	212,423	44,852

11.1 Foreign exchange gain

For the year ended 31 December	BANK 2020 Rs.'000	BANK 2019 Rs.'000	GROUP 2020 Rs.'000	GROUP 2019 Rs.'000
Income from customer transactions and revaluation gain	186,794	139,380	186,794	139,380
SWAP transactions	(20,163)	(135,677)	(20,163)	(135,677)
Total	166,631	3,703	166,631	3,703

12. 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 27.5 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 2020 Rs.'000	BANK 2019 Rs.'000	GROUP 2020 Rs.'000	GROUP 2019 Rs.'000
Financial assets at amortised cost - loans and advances to customers	12.1	175	618,409	393,698	857,913	546,996
Financial assets at amortised cost - debt and other instruments	12.2	176	103,526	(4,382)	105,142	(3,411)
Placements with banks	12.3	176	-	(749)	-	(749)
Commitments and contingencies	12.4	176	12,748	1,304	(15,815)	35,529
Investments in real estate	31.1	208	-	-	-	1,500
Investments in subsidiaries	32.1	210	1,048	423	-	-
Goodwill and intangible assets			-	-	1,048	423
Total impairment charge/ (reversal)			735,731	390,294	948,288	580,288

12.1 Financial assets at amortised cost - loans and advances to customers

BANK For the year ended 31 December	2020 Stage 1 Rs.'000	2020 Stage 2 Rs.'000	2020 Stage 3 Rs.'000	2020 Total Rs.'000	2019 Stage 1 Rs.'000	2019 Stage 2 Rs.'000	2019 Stage 3 Rs.'000	2019 Total Rs.'000
Term loans	80,010	173,100	281,278	534,388	(213,076)	(2,748)	315,241	99,417
Overdrafts	(21,792)	(10,816)	70,160	37,552	(1,880)	(14,297)	236,564	220,387
Trade finance	8,240	(23)	11,991	20,208	6,677	(1,131)	(5,503)	43
Lease and hire purchase	(1,733)	(1,577)	(2,975)	(6,285)	(3,172)	(16,841)	13,168	(6,845)
Factoring	(10,143)	-	10,607	464	2,589	-	66,468	69,057
Others	2,741	13,556	15,785	32,082	1,600	5,049	4,990	11,639
Impairment charge/ (reversal)	57,323	174,240	386,846	618,409	(207,262)	(29,968)	630,928	393,698

GROUP For the year ended 31 December	2020 Stage 1 Rs.'000	2020 Stage 2 Rs.'000	2020 Stage 3 Rs.'000	2020 Total Rs.'000	2019 Stage 1 Rs.'000	2019 Stage 2 Rs.'000	2019 Stage 3 Rs.'000	2019 Total Rs.'000
Term loans	77,652	165,794	362,079	605,525	(215,131)	(3,238)	332,903	114,534
Overdrafts	(21,434)	(11,771)	70,159	36,954	(2,067)	(14,297)	236,564	220,200
Trade finance	8,240	(23)	11,991	20,208	6,677	(1,131)	(5,503)	43
Lease and hire purchase	(6,021)	(22,023)	89,916	61,872	(11,009)	(41,062)	170,927	118,856
Factoring	(17,782)	19,838	96,794	98,850	17,416	7,611	53,600	78,627
Others	2,643	13,555	18,256	34,504	1,697	5,050	7,989	14,736
Impairment charge/ (reversal)	43,298	165,370	649,245	857,913	(202,417)	(47,067)	796,480	546,996

12. IMPAIRMENT FOR LOANS AND OTHER LOSSES (CONTD.)

12.2 Financial assets at amortised cost - debt and other instruments

BANK For the year ended 31 December	2020 Stage 1 Rs.'000	2020 Stage 2 Rs.'000	2020 Stage 3 Rs.'000	2020 Total Rs.'000	2019 Stage 1 Rs.'000	2019 Stage 2 Rs.'000	2019 Stage 3 Rs.'000	2019 Total Rs.'000
Lease backed trust certificates	(12)	-	-	(12)	(2,830)	-	-	(2,830)
Other financial assets at amortised cost	104,865	(1,327)	-	103,538	(292)	(1,260)	-	(1,552)
Impairment charge/ (reversal)	104,853	(1,327)	-	103,526	(3,122)	(1,260)	-	(4,382)

GROUP For the year ended 31 December	2020 Stage 1 Rs.'000	2020 Stage 2 Rs.'000	2020 Stage 3 Rs.'000	2020 Total Rs.'000	2019 Stage 1 Rs.'000	2019 Stage 2 Rs.'000	2019 Stage 3 Rs.'000	2019 Total Rs.'000
Lease backed trust certificates	(12)	-	-	(12)	(2,830)	-	-	(2,830)
Other financial assets at amortised cost	105,154	-	-	105,154	(581)	-	-	(581)
Impairment charge/ (reversal)	105,142	-	-	105,142	(3,411)	-	-	(3,411)

12.3 Placements with banks

BANK & GROUP For the year ended 31 December	2020 Stage 1 Rs.'000	2020 Stage 2 Rs.'000	2020 Stage 3 Rs.'000	2020 Total Rs.'000	2019 Stage 1 Rs.'000	2019 Stage 2 Rs.'000	2019 Stage 3 Rs.'000	2019 Total Rs.'000
Money market placements	-	-	-	-	(749)	-	-	(749)
Impairment charge/ (reversal)	-	-	-	-	(749)	-	-	(749)

12.4 Commitments and contingencies

BANK For the year ended 31 December	2020 Stage 1 Rs.'000	2020 Stage 2 Rs.'000	2020 Stage 3 Rs.'000	2020 Total Rs.'000	2019 Stage 1 Rs.'000	2019 Stage 2 Rs.'000	2019 Stage 3 Rs.'000	2019 Total Rs.'000
Undrawn loan commitments	7,137	1,818	(1,154)	7,801	24,519	1,230	(30,663)	(4,914)
Other commitments	4,947	-	-	4,947	6,218	-	-	6,218
Impairment charge/ (reversal)	12,084	1,818	(1,154)	12,748	30,737	1,230	(30,663)	1,304

GROUP For the year ended 31 December	2020 Stage 1 Rs.'000	2020 Stage 2 Rs.'000	2020 Stage 3 Rs.'000	2020 Total Rs.'000	2019 Stage 1 Rs.'000	2019 Stage 2 Rs.'000	2019 Stage 3 Rs.'000	2019 Total Rs.'000
Undrawn loan commitments	7,137	4,057	(31,956)	(20,762)	23,479	803	5,029	29,311
Other commitments	4,947	-	-	4,947	6,218	-	-	6,218
Impairment charge/ (reversal)	12,084	4,057	(31,956)	(15,815)	29,697	803	5,029	35,529

13. 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 41.2 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 44 to these financial statements.

For the year ended 31 December	Note	Page	BANK 2020 Rs.'000	BANK 2019 Rs.'000	GROUP 2020 Rs.'000	GROUP 2019 Rs.'000
Salary and bonus			**1,322,375**	1,253,738	**1,502,406**	1,443,346
Contributions to defined contribution plans			**171,754**	169,640	**197,521**	195,997
Contributions to defined benefit plans	13.1	177	**59,210**	50,708	**65,263**	57,010
Others	13.2	177	**348,629**	409,240	**365,879**	431,771
Total			**1,901,968**	1,883,326	**2,131,069**	2,128,124

13.1 Contributions to defined benefit plans have been made based on the actuarial valuation carried out as at 31 December 2020. Refer Note 41.2 for detailed disclosure and assumptions on the retirement benefit obligation.

13.2 Others include conveyance expenses, staff insurance, training related expenses and amortisation of pre-paid staff cost.

14. 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 and amortisation 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 derecognized. Depreciation does not 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 and generators	6 – 15 Years
Furniture and fittings	5 – 8 Years
Motor vehicles	4 – 10 Years
Computer software	10 Years

Amortisation of right of use assets

The right of use assets are depreciated using a straight line method from the commencement date to the earlier of the end of the useful life of the right of use assets or the end of the lease term

Changes in Estimates

Depreciation/amortization methods, useful lives and residual values are reassessed at each reporting date and adjusted if appropriate. During the year ended 31 December 2020, the Group reassessed the estimates and revised accordingly.

For the year ended 31 December	Note	Page	BANK 2020 Rs.'000	BANK 2019 Rs.'000	GROUP 2020 Rs.'000	GROUP 2019 Rs.'000
Amortisation of intangible assets	33	212	**198,572**	160,385	**200,913**	162,412
Depreciation of property, plant and equipment	34	215	**201,132**	221,215	**237,565**	261,176
Amortisation of right of use assets	34	215	**265,259**	255,279	**286,188**	275,676
Total			**664,964**	636,879	**724,666**	699,264

15. 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.

For the year ended 31 December	Note	Page	BANK 2020 Rs.'000	BANK 2019 Rs.'000	GROUP 2020 Rs.'000	GROUP 2019 Rs.'000
Auditors' remunerations	15.1	179	**8,908**	10,306	**11,135**	12,425
Directors' fees	15.2	179	**14,958**	12,982	**17,886**	16,650
Professional and legal expenses			**14,918**	32,749	**19,960**	39,560
Advertising and marketing expenses			**54,052**	148,356	**70,230**	182,847
Office administration and establishment expenses			**932,493**	935,357	**1,055,057**	1,039,041
Deposit insurance expenses			**69,493**	63,364	**76,396**	72,387
Others	15.3	179	**110,492**	106,676	**124,697**	162,690
Total			**1,205,314**	1,309,790	**1,375,361**	1,525,600

15.1 Auditors' remunerations

For the year ended 31 December	BANK 2020 Rs.'000	BANK 2019 Rs.'000	GROUP 2020 Rs.'000	GROUP 2019 Rs.'000
Audit fees	**4,677**	5,944	**6,904**	8,063
Audit related fees and expenses	**540**	699	**540**	699
Non audit expenses	**3,691**	3,663	**3,691**	3,663
Total	**8,908**	10,306	**11,135**	12,425

15.2 Directors' fees include fees paid to Non Executive Directors. Remuneration paid to Executive Director is included under salary and bonus in Note 13.

15.3 Others include transportation related expenses, other overhead expenses incurred on day to day operations and the pandemic related expenses of the Group.

16. VALUE ADDED TAX (VAT), NATION BUILDING TAX (NBT) AND DEBT REPAYMENT LEVY (DRL) ON FINANCIAL SERVICES (GRI 207-2/207-4)

ACCOUNTING POLICY

Value Added Tax on Financial Services

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 on Financial Services 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 2020 is 15% (2019 - 15%).

Nation Building Tax on Financial Services

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 30 November 2019 is 2% and it was abolished with effect from 1 December 2019.

Debt Repayment Levy (DRL)

DRL on financial services is calculated in accordance with the Finance Act No. 35 of 2018 based on the total value addition used for the purpose of VAT on financial services. The DRL rate applied up to 31 December 2019 is 7% and it was abolished with effect from 1 January 2020.

For the year ended 31 December	BANK 2020 Rs.'000	BANK 2019 Rs.'000	GROUP 2020 Rs.'000	GROUP 2019 Rs.'000
Value added tax on financial services	**414,394**	416,772	**440,091**	458,300
Nation building tax on financial services	**-**	51,193	**-**	56,265
Debt repayment levy on financial services	**-**	244,562	**-**	267,058
Total	**414,394**	712,527	**440,091**	781,623

17. TAX EXPENSE (GRI 207-2/207-4)

ACCOUNTING POLICY

As per the Sri Lanka Accounting Standard - LKAS 12 - 'Income Taxes', the tax expense/ income 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/income 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. The Group applied IFRIC Interpretation 23 "Uncertainty over Income Tax Treatment" in the determination of taxable profit, tax bases, unused tax credits and tax rates with effect from 1 January 2019, when there is uncertainty over the income tax treatment. However, the application of IFRIC 23 did not have any significant impact on the financial statements of the Group that require additional disclosures in the financial statements.

"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 2020 Rs.'000	BANK 2019 Rs.'000	GROUP 2020 Rs.'000	GROUP 2019 Rs.'000
Current tax expense	17.1	181	**420,230**	426,005	**434,219**	437,385
Under provision in respect of prior years			**21,577**	-	**39,869**	1,125
Deferred tax charge/ (reversal)	17.1	181	**(79,410)**	55,249	**(28,171)**	(41,473)
Total			**362,397**	481,254	**445,917**	397,037
Effective tax rate			**35.2%**	44.2%	**41.8%**	33.1%

17. TAX EXPENSE (CONTD.)

17.1 Reconciliation of accounting profit to income tax expense

For the year ended 31 December	BANK 2020 %	BANK 2020 Rs.'000	BANK 2019 %	BANK 2019 Rs.'000	GROUP 2020 %	GROUP 2020 Rs.'000	GROUP 2019 %	GROUP 2019 Rs.'000
Profit before tax		**938,933**		1,191,601		**1,068,670**		1,201,255
Adjust : Share of profit of equity accounted investees, net of tax		**28,945**		(103,823)		**-**		-
Adjusted profit before taxes		**967,878**		1,087,778		**1,068,670**		1,201,255
Tax using the corporate tax rate	**28.0%**	**271,006**	28.0%	304,578	**28.0%**	**299,228**	28.0%	336,351
Add: disallowable expenses	**59.0%**	**571,214**	48.0%	522,464	**60.8%**	**650,170**	70.2%	843,660
Less: Tax deductible expenses	**(36.1%)**	**(349,570)**	(37.3%)	(405,299)	**(42.9%)**	**(458,167)**	(64.4%)	(773,897)
Less: Tax exempt income	**(6.4%)**	**(62,266)**	0.0%	(262)	**(6.0%)**	**(64,248)**	(0.1%)	(1,264)
Adjustment for leasing	**(1.0%)**	**(10,154)**	0.4%	4,524	**(1.0%)**	**(10,451)**	0.4%	4,524
	43.4%	**420,230**	39.2%	426,005	**39.0%**	**416,533**	34.1%	409,374
Tax losses utilised	**-**	**-**	-	-	**1.7%**	**17,687**	2.3%	28,011
Taxable profit	**43.4%**	**420,230**	39.2%	426,005	**40.7%**	**434,219**	36.4%	437,385
Under provision in respect of previous year	**2.2%**	**21,577**	-	-	**3.7%**	**39,869**	0.1%	1,125
Deferred tax charge/(reverse)	**(8.2%)**	**(79,410)**	5.1%	55,249	**(2.6%)**	**(28,171)**	(3.5%)	(41,473)
Tax expense	**35.2%**	**362,397**	44.2%	481,254	**41.8%**	**445,917**	33.1%	397,037

17.1.1 Applicable rates of tax

For the year ended 31 December	2020	2019
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%

17.1.2 New amendments to Income Tax Law announced by the Government

Reduction of Income tax rate with effects from 1st January 2020

The cabinet has approved to reduce the banking sector income tax rate to 24% from 28% with effect from 1 January 2020. However, considering the fact that the said amendment is yet to be enacted, both income tax and deferred tax were calculated at the rate of 28% for the year ended 31 December 2020.

Had the Bank considered the reduced income tax rate of 24%, the income tax charge recognized in the P&L would have reduced by Rs.60.0Mn. Further, there will be a deferred tax expense charge of Rs.2.9Mn and reversal of Rs.10.5Mn to the Statement of Profit or Loss and Statement of Other Comprehensive Income respectively for the year ended 31 December 2020.

17. TAX EXPENSE (CONTD.)

17.2 The deferred tax charge/ (reversal) in the Statement of Profit or Loss and Statement of Comprehensive Income

BANK
For the year ended 31 December

	2020			
	Deferred Tax Assets Rs.'000	Deferred Tax Liabilities Rs.'000	Statement of Profit or Loss Rs.'000	Other Comprehensive Income Rs.'000
Depreciation allowances for tax purpose	-	379,055	(41,794)	-
Impairment allowance	271,687	-	(22,404)	-
Revaluation of financial investments at fair value through other comprehensive income	-	81,710	-	67,612
Retirement benefit obligation	55,651	-	(14,082)	-
Actuarial gains/ (losses) on defined benefit plan liability	7,894	-	-	3,340
Other temporary differences	71,691	-	(1,129)	-
Total deferred tax charge/ (reverse)	**406,923**	**460,765**	**(79,410)**	**70,951**

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 deferred tax charge/ (reverse)	372,648	434,947	55,249	134,558	(11,883)

GROUP
For the year ended 31 December

	2020			
	Deferred Tax Assets Rs.'000	Deferred Tax Liabilities Rs.'000	Statement of Profit or Loss Rs.'000	Other Comprehensive Income Rs.'000
Depreciation allowances for tax purpose	-	438,927	(32,489)	-
Impairment allowance	277,013	-	37,967	-
Carry forward losses	487,883	-	(12,782)	-
Re-measurement of financial investments - at fair value through other comprehensive income	-	81,710	-	67,612
Retirement benefit obligation	62,598	-	(12,521)	-
Actuarial gains/ (losses) on defined benefit plan liability	5,268	-	-	3,816
Other temporary differences	79,177	-	(8,347)	-
Total deferred tax charge/ (reverse)	**911,938**	**520,637**	**(28,171)**	**71,428**

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 deferred tax charge/ (reverse)	920,072	485,515	(41,473)	134,969	(12,088)

18. EARNINGS PER SHARE (EPS)

ACCOUNTING POLICY

The Group 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'.

18.1 Earnings per share - Basic

			BANK		GROUP	
For the year ended 31 December	Note	Page	2020	2019	2020	2019
Net profit attributable to ordinary shareholders (Rs.'000)			576,536	710,347	632,712	765,133
Weighted average number of ordinary shares ('000)	18.1.1	183	1,083,558	1,088,790	1,083,558	1,088,790
Basic earnings per ordinary share (Rs.)			**0.53**	0.65	**0.58**	0.70

18.1.1 Weighted average number of ordinary shares for basic EPS

	BANK & GROUP			
For the year ended 31 December	2020		2019	
	Outstanding '000	Weighted Average '000	Outstanding '000	Weighted Average '000
Number of shares held as at 1 January	1,083,558	1,083,558	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**	**1,083,558**	1,083,558	1,088,790

18.2 Earnings per share - Diluted

			BANK		GROUP	
For the year ended 31 December	Note	Page	2020	2019	2020	2019
Net profit attributable to ordinary shareholders (Rs.'000)			576,536	710,347	632,712	765,133
Weighted average number of ordinary shares ('000)	18.2.1	183	1,083,514	1,089,149	1,083,514	1,089,149
Diluted earnings per ordinary share (Rs.)			**0.53**	0.65	**0.58**	0.70

18.2.1 Weighted average number of ordinary shares for diluted EPS

			BANK & GROUP	
For the year ended 31 December	Note	Page	2020 '000	2019 '000
Number of ordinary shares used as denominator for Basic EPS			1,083,558	1,088,790
Effect of dilution :				
Add: Weighted average number of potential ordinary shares outstanding under warrant	42.1	226	218,281	218,281
Add: Weighted average number of potential ordinary shares outstanding under ESOP	44.2	228	4,765	12,124
Less: Weighted average number of potential ordinary shares that would have been issued at average market price			(223,090)	(230,046)
Number of shares held as at 31 December			**1,083,514**	1,089,149

19. 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.

19.1 Dividend paid for the financial year 2019

	Dividend
Out of dividend received - free of tax (Rs.'000)	935
Out of normal profit (Rs.'000)	150,763
Dividend paid (Rs.'000)	151,698
Dividend per ordinary share (Rs.)	0.14

19.2 Shares repurchased during the year 2019

In 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.

20. 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	Note	Page	2020 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	21	187			2,405,091	2,405,091
Balances with Central Bank of Sri Lanka	22	187	-	-	722,727	722,727
Placements with banks	23	188	-	-	15,747	15,747
Derivative financial instruments	25	189	38,189	-	-	38,189
Financial investments at fair value through profit or loss	26	190	7,143,403	-	-	7,143,403
Financial assets at amortised cost - loans and advances to customers	27	192	-	-	67,517,674	67,517,674
Financial assets at amortised cost - debt and other instruments	28	201	-	-	21,168,076	21,168,076
Financial investments at fair value through other comprehensive income	29	206	-	19,385,038	-	19,385,038
Other financial assets	36	220	-	-	147,865	147,865
Total financial assets			7,181,592	19,385,038	91,977,180	118,543,810

20. MEASUREMENT OF FINANCIAL INSTRUMENTS (CONTD.)

BANK As at 31 December	Note	Page	2020 Fair Value Through P&L Rs.'000	Amortised Cost Rs.'000	Total Rs.'000
Liabilities					
Due to banks	37	221	-	9,980,590	9,980,590
Derivative financial instruments	25	189	8,313	-	8,313
Repurchased agreements	38	221	-	10,205,564	10,205,564
Due to customers	39	222	-	82,383,852	82,383,852
Other financial liabilities	41	223	-	1,059,919	1,059,919
Total financial liabilities			8,313	103,629,925	103,638,238

BANK As at 31 December	Note	Page	2019 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	21	187	-	-	2,718,860	2,718,860
Balances with Central Bank of Sri Lanka	22	187	-	-	2,314,197	2,314,197
Placements with banks	23	188	-	-	94,257	94,257
Reverse repurchased agreements	24	188	-	-	426,823	426,823
Derivative financial instruments	25	189	6,230	-	-	6,230
Financial investments at fair value through profit or loss	26	190	3,228,565	-	-	3,228,565
Financial assets at amortised cost - loans and advances to customers	27	192	-	-	77,358,301	77,358,301
Financial assets at amortised cost - debt and other instruments	28	201	-	-	13,441,040	13,441,040
Financial investments at fair value through other comprehensive income	29	206	-	17,503,245	-	17,503,245
Other financial assets	36	220	-	-	217,561	217,561
Total financial assets			3,234,795	17,503,245	96,571,039	117,309,079

BANK As at 31 December	Note	Page	2019 Fair Value Through P&L Rs.'000	Amortised Cost Rs.'000	Total Rs.'000
Liabilities					
Due to banks	37	221	-	11,475,176	11,475,176
Derivative financial instruments	25	189	4,515	-	4,515
Repurchased agreements	38	221	-	12,116,040	12,116,040
Due to customers	39	222	-	76,532,012	76,532,012
Other borrowed funds	40	223	-	1,242,450	1,242,450
Other financial liabilities	41	223	-	1,907,756	1,907,756
Total financial liabilities			4,515	103,273,434	103,277,949

20. MEASUREMENT OF FINANCIAL INSTRUMENTS (CONTD.)

GROUP As at 31 December	Note	Page	2020 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	21	187	-	-	2,832,540	2,832,540
Balances with Central Bank of Sri Lanka	22	187	-	-	722,727	722,727
Placements with banks	23	188	-	-	15,747	15,747
Reverse repurchased agreements	24	188	-	-	240,736	240,736
Derivative financial instruments	25	189	38,189	-	-	38,189
Financial investments at fair value through profit or loss	26	190	7,180,220	-	-	7,180,220
Financial assets at amortised cost - loans and advances to customers	27	192	-	-	73,776,668	73,776,668
Financial assets at amortised cost - debt and other instruments	28	201	-	-	20,509,495	20,509,495
Financial investments at fair value through other comprehensive income	29	206	-	19,397,252		19,397,252
Other financial assets	36	220			177,807	177,807
Total financial assets			7,218,409	19,397,252	98,275,720	124,891,381

GROUP As at 31 December	Note	Page	2020 Fair Value Through P&L Rs.'000	Amortised Cost Rs.'000	Total Rs.'000
Liabilities					
Due to banks	37	221	-	9,168,079	9,168,079
Derivative financial instruments	25	189	8,313	-	8,313
Repurchased agreements	38	221	-	10,100,553	10,100,553
Due to customers	39	222	-	87,104,192	87,104,192
Other borrowed funds	40	223	-	2,347,634	2,347,634
Other financial liabilities	41	223	-	1,264,705	1,264,705
Total financial liabilities			8,313	109,985,163	109,993,476

GROUP As at 31 December	Note	Page	2019 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	21	187	-	-	3,104,542	3,104,542
Balances with Central Bank of Sri Lanka	22	187	-	-	2,314,197	2,314,197
Placements with banks	23	188	-	-	94,257	94,257
Reverse repurchased agreements	24	188	-	-	1,009,581	1,009,581
Derivative financial instruments	25	189	6,230	-	-	6,230
Financial investments at fair value through profit or loss	26	190	3,270,208	-	-	3,270,208
Financial assets at amortised cost - loans and advances to customers	27	192	-	-	84,780,138	84,780,138
Financial assets at amortised cost - debt and other instruments	28	201	-	-	12,670,558	12,670,558
Financial investments at fair value through other comprehensive income	29	206	-	17,516,485	-	17,516,485
Other financial assets	36	220	-	-	245,956	245,956
Total financial assets			3,276,438	17,516,485	104,219,229	125,012,152

20. MEASUREMENT OF FINANCIAL INSTRUMENTS (CONTD.)

GROUP As at 31 December	Note	Page	2019 Fair Value Through P&L Rs.'000	Amortised Cost Rs.'000	Total Rs.'000
Liabilities					
Due to banks	37	221	-	11,601,966	11,601,966
Derivative financial instruments	25	189	4,515	-	4,515
Repurchased agreements	38	221	-	12,116,040	12,116,040
Due to customers	39	222	-	82,751,668	82,751,668
Other borrowed funds	40	223	-	2,514,058	2,514,058
Other financial liabilities	41	223	-	2,085,401	2,085,401
Total financial liabilities			4,515	111,069,133	111,073,648

21. 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 2020 Rs.'000	 2019 Rs.'000	GROUP 2020 Rs.'000	 2019 Rs.'000
Local currency in hand	**1,865,867**	1,962,920	**2,048,524**	2,136,818
Foreign currency in hand	**218,762**	313,321	**218,763**	313,321
Balances with local banks	**15,892**	29,669	**260,683**	241,453
Balances with foreign banks	**304,570**	412,950	**304,570**	412,950
Total	**2,405,091**	2,718,860	**2,832,540**	3,104,542

22. 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 2% (2019: 5%) of the rupee deposit liabilities. 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 2020 Rs.'000	 2019 Rs.'000	GROUP 2020 Rs.'000	 2019 Rs.'000
Statutory balances with Central Bank of Sri Lanka	**722,727**	2,314,197	**722,727**	2,314,197

23. 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	Note	Page	BANK 2020 Rs.'000	BANK 2019 Rs.'000	GROUP 2020 Rs.'000	GROUP 2019 Rs.'000
Placements outside Sri Lanka	23.1	188	**15,747**	94,257	**15,747**	94,257
Total			**15,747**	94,257	**15,747**	94,257

23.1 The below table shows the stage wise classification of placements and the impairment allowance;

BANK & GROUP As at 31 December	2020 Stage 1 Rs.'000	2020 Stage 2 Rs.'000	2020 Stage 3 Rs.'000	2020 Total Rs.'000
Placements	**15,747**	-	-	**15,747**

BANK & GROUP As at 31 December	2019 Stage 1 Rs.'000	2019 Stage 2 Rs.'000	2019 Stage 3 Rs.'000	2019 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

24. 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).

As at 31 December	Note	Page	BANK 2020 Rs.'000	BANK 2019 Rs.'000	GROUP 2020 Rs.'000	GROUP 2019 Rs.'000
Due from banks	24.1	189	-	-	**240,736**	582,758
Due from customers	24.1	189	-	426,823	-	426,823
Total			-	426,823	**240,736**	1,009,581

24. REVERSE REPURCHASED AGREEMENTS (CONTD.)

24.1 The below table shows the stage wise classification of reverse repurchased agreements;

BANK As at 31 December	2020				2019			
	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
Total	-	-	-	-	426,823	-	-	426,823

GROUP As at 31 December	2020				2019			
	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	**240,736**	-	-	**240,736**	1,009,581	-	-	1,009,581
Total	**240,736**	-	-	**240,736**	1,009,581	-	-	1,009,581

25. 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 11).

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.

BANK & GROUP As at 31 December	2020		2019	
	Assets Rs.'000	Liabilities Rs.'000	Assets Rs.'000	Liabilities Rs.'000
Forward foreign exchange contracts				
- Sales	**5,850**	**3,819**	1,327	1,664
- Purchases	**8,493**	**2,411**	33	1,009
Currency SWAPs				
- Sales	**1,927**	**280**	-	-
- Purchases	**21,919**	**1,803**	4,870	1,842
Total	**38,189**	**8,313**	6,230	4,515

26. FINANCIAL INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS (FVTPL)

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 instrument at fair value through profit or loss"

Interest and dividend income are recorded in "Interest income" and "Net fair value gains/(losses) from financial instrument 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.

As at 31 December	Note	Page	BANK 2020 Rs.'000	BANK 2019 Rs.'000	GROUP 2020 Rs.'000	GROUP 2019 Rs.'000
Sri Lanka Government securities	26.1	190	**1,996,083**	1,827,477	**1,996,083**	1,827,477
Investment in units	26.2	191	**5,147,320**	1,401,088	**5,184,137**	1,442,731
Total			**7,143,403**	3,228,565	**7,180,220**	3,270,208

26.1 Sri Lanka Government securities

BANK & GROUP Year of Maturity	2020 Cost of Investment Rs.'000	2020 Fair Value Rs.'000	2019 Cost of Investment Rs.'000	2019 Fair Value Rs.'000
2020	-	-	21,239	21,258
2021	**1,070,582**	**1,068,982**	52,957	53,012
2022	**104,790**	**104,170**	52,803	52,495
2023	**110,939**	**110,411**	643,291	643,126
2024	**502,195**	**498,208**	1,052,967	1,057,586
2027	**214,127**	**214,312**	-	-
Total	**2,002,633**	**1,996,083**	1,823,257	1,827,477

26. FINANCIAL INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTD.)

26.2 Investment in Units

BANK As at 31 December	2020			2019		
	No of units '000	Cost Rs.'000	Market Value Rs.'000	No of units '000	Cost Rs.'000	Market Value Rs.'000
NAMAL High Yield Fund	**18,362**	**449,698**	**452,305**	62,202	1,400,248	1,401,088
Capital Alliance Investment Grade Fund	**44,038**	**869,117**	**869,297**	-	-	-
JB Vantage Money Market Fund	**36,464**	**1,000,000**	**1,000,430**	-	-	-
NDB Wealth Money Plus	**83,040**	**1,947,014**	**1,947,354**	-	-	-
Capital Alliance Income Fund	**42,877**	**871,296**	**877,934**	-	-	-
Total		**5,137,125**	**5,147,320**		1,400,248	1,401,088

GROUP As at 31 December	2020			2019		
	No of units '000	Cost Rs.'000	Market Value Rs.'000	No of units '000	Cost Rs.'000	Market Value Rs.'000
NAMAL High Yield Fund	**19,856**	**480,116**	**489,122**	64,050	1,437,881	1,442,731
Capital Alliance Investment Grade Fund	**44,038**	**869,117**	**869,297**	-	-	-
JB Vantage Money Market Fund	**36,464**	**1,000,000**	**1,000,430**	-	-	-
NDB Wealth Money Plus	**83,040**	**1,947,014**	**1,947,354**	-	-	-
Capital Alliance Income Fund	**42,877**	**871,296**	**877,934**	-	-	-
Total		**5,167,543**	**5,184,137**		1,437,881	1,442,731

27. FINANCIAL ASSETS AT AMORTISED COST - LOANS AND ADVANCES TO CUSTOMERS

ACCOUNTING POLICY

Bank only measures 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 receivables 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.

As at 31 December	Note	Page	BANK 2020 Rs.'000	BANK 2019 Rs.'000	GROUP 2020 Rs.'000	GROUP 2019 Rs.'000
Gross loans and receivables	27.1	193	**69,994,780**	79,316,043	**76,924,720**	87,397,947
Less: Impairment	27.5	197	**(2,477,106)**	(1,957,742)	**(3,148,052)**	(2,617,809)
Net loans and receivables			**67,517,674**	77,358,301	**73,776,668**	84,780,138

27. FINANCIAL ASSETS AT AMORTISED COST - LOANS AND ADVANCES TO CUSTOMERS (CONTD.)

27.1 Loans and receivables to customers - By Product

As at 31 December	BANK 2020 Rs.'000	BANK 2019 Rs.'000	GROUP 2020 Rs.'000	GROUP 2019 Rs.'000
Term loans	47,066,952	51,295,505	48,488,046	53,090,076
Overdrafts	11,082,303	11,234,125	10,994,032	11,141,255
Trade finance	7,995,654	13,151,744	7,995,654	13,151,744
Lease and hire purchase	462,816	708,997	4,212,687	5,340,896
Factoring	189,911	477,161	1,472,497	1,920,315
Pawning & Gold loans	337,254	369,592	879,371	674,742
Credit cards	1,709,462	1,176,806	1,709,462	1,176,806
Staff loans	1,150,428	902,113	1,172,971	902,113
Gross loans and receivables	69,994,780	79,316,043	76,924,720	87,397,947

27.1.1 Stage-wise classification of gross loans and receivables - By product

BANK As at 31 December	2020				2019			
	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
Term loans	35,428,584	4,945,164	6,693,204	47,066,952	44,675,687	647,890	5,971,928	51,295,505
Overdrafts	9,041,952	433,529	1,606,822	11,082,303	9,311,863	576,719	1,345,543	11,234,125
Trade finance	7,547,522	14,280	433,852	7,995,654	12,485,924	105,434	560,386	13,151,744
Lease and hire purchase	144,372	84,895	233,549	462,816	334,952	122,740	251,305	708,997
Factoring	47,502	904	141,505	189,911	365,526	-	111,635	477,161
Pawning	333,464	-	3,790	337,254	349,737	16,415	3,440	369,592
Credit cards	1,541,299	117,960	50,203	1,709,462	1,107,855	49,408	19,543	1,176,806
Staff loans	1,150,428	-	-	1,150,428	902,113	-	-	902,113
Total	55,235,123	5,596,732	9,162,925	69,994,780	69,533,657	1,518,606	8,263,780	79,316,043

GROUP As at 31 December	2020				2019			
	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
Term loans	36,627,411	4,669,665	7,190,970	48,488,046	45,666,433	1,075,513	6,348,130	53,090,076
Overdrafts	9,041,952	345,258	1,606,822	10,994,032	9,218,992	576,719	1,345,544	11,141,255
Trade finance	7,547,522	14,280	433,852	7,995,654	12,485,924	105,434	560,386	13,151,744
Lease and hire purchase	1,649,483	1,001,412	1,561,792	4,212,687	2,078,434	1,707,750	1,554,712	5,340,896
Factoring	505,453	195,069	771,975	1,472,497	1,399,261	19,406	501,648	1,920,315
Pawning & Gold loans	709,999	112,007	57,365	879,371	598,609	50,747	25,386	674,742
Credit cards	1,541,299	117,960	50,203	1,709,462	1,107,855	49,408	19,543	1,176,806
Staff loans	1,171,736	-	1,235	1,172,971	902,113	-	-	902,113
Total	58,794,855	6,455,651	11,674,214	76,924,720	73,457,621	3,584,977	10,355,349	87,397,947

27. FINANCIAL ASSETS AT AMORTISED COST - LOANS AND ADVANCES TO CUSTOMERS (CONTD.)

27.1.2 Changes in the gross carrying amount of Loans and receivables

BANK As at 31 December	2020				2019			
	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	69,533,657	1,518,606	8,263,780	79,316,043	63,442,603	7,936,267	4,408,165	75,787,035
New assets originated or purchased	90,056,652	6,184,186	9,417,971	105,658,809	45,557,532	880,386	3,263,177	49,701,095
Assets derecognised or repaid	(100,374,847)	(5,376,399)	(9,135,614)	(114,886,859)	(37,886,966)	(6,342,218)	(1,469,120)	(45,698,304)
Transfers to Stage 1	731,993	(516,236)	(215,757)	-	1,163,921	(1,150,952)	(12,969)	-
Transfers to Stage 2	(3,921,315)	3,940,988	(19,673)	-	(626,148)	626,148	-	-
Transfers to Stage 3	(791,017)	(154,413)	945,430	-	(2,117,015)	(429,716)	2,546,731	-
Amounts written off	-	-	(93,212)	(93,212)	(270)	(1,309)	(472,204)	(473,783)
Gross carrying amount 31 December	55,235,123	5,596,732	9,162,925	69,994,780	69,533,657	1,518,606	8,263,780	79,316,043

GROUP As at 31 December	2020				2019			
	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	73,457,621	3,584,977	10,355,349	87,397,947	67,853,413	10,173,167	7,425,961	85,452,541
New assets originated or purchased	93,663,909	5,995,724	9,528,635	109,188,268	50,402,389	1,254,769	3,413,713	55,070,871
Assets derecognised or repaid	(104,619,015)	(5,461,354)	(9,259,289)	(119,339,658)	(42,185,743)	(7,102,351)	(2,575,711)	(51,863,805)
Transfers to Stage 1	(277,227)	15,549	261,678	-	1,590,855	(1,534,944)	(55,911)	-
Transfers to Stage 2	(2,972,708)	2,414,257	558,451	-	(1,618,026)	1,720,995	(102,969)	-
Transfers to Stage 3	(457,725)	(93,502)	551,227	-	(2,584,997)	(925,350)	3,510,347	-
Amounts written off	-	-	(321,837)	(321,837)	(270)	(1,309)	(1,260,081)	(1,261,660)
Gross carrying amount 31 December	58,794,855	6,455,651	11,674,214	76,924,720	73,457,621	3,584,977	10,355,349	87,397,947

27.2 Loans and advances to customers - By Currency

As at 31 December	BANK 2020 Rs.'000	BANK 2019 Rs.'000	GROUP 2020 Rs.'000	GROUP 2019 Rs.'000
Sri Lanka Rupee	57,158,880	65,468,988	64,088,820	73,550,892
United States Dollar	12,825,623	13,814,120	12,825,623	13,814,120
Euro	7,866	30,402	7,866	30,402
Others	2,411	2,533	2,411	2,533
Gross loans and receivables	69,994,780	79,316,043	76,924,720	87,397,947

27. FINANCIAL ASSETS AT AMORTISED COST - LOANS AND ADVANCES TO CUSTOMERS (CONTD.)

27.3 Loans and advances to customers - By Industry

BANK As at 31 December	2020 %	 Rs.'000	2019 %	 Rs.'000
Agriculture * and fishing	10%	7,269,488	9%	7,357,127
Manufacturing	15%	10,318,186	14%	11,279,345
Tourism	6%	4,474,477	6%	4,858,761
Transport	0%	309,386	1%	455,022
Construction	5%	3,295,334	6%	4,844,214
Wholesale and retail trade	18%	12,489,487	22%	17,671,761
Information technology and communication services	0%	233,477	0%	295,356
Financial and business services	8%	5,516,857	11%	8,830,143
Infrastructure	3%	1,936,565	1%	1,038,094
Other services	11%	7,425,442	5%	3,840,223
Other customers including pawning	24%	16,726,081	25%	18,845,997
Gross loans and receivables	**100%**	**69,994,780**	100%	79,316,043

* As per the requirement of Central Bank of Sri Lanka (CBSL), a minimum of 10% of the loans and advances shall be granted to the agriculture sector. The Bank has complied with the said requirement as at 31 December 2020 and 31 December 2019. The computation method used to derive the industry-wise exposure in note 27.3 above is different from the method used for CBSL minimum lending requirement calculation to agriculture sector. Based on CBSL guidelines, Bank's lending to agriculture sector percentage computes to 12.53% as at 31 December 2020 (2019 - 10.86%).

GROUP As at 31 December	2020 %	 Rs.'000	2019 %	 Rs.'000
Agriculture and fishing	10%	7,779,742	9%	7,890,496
Manufacturing	14%	10,903,164	14%	11,949,812
Tourism	6%	4,716,765	6%	5,218,952
Transport	1%	778,812	1%	955,765
Construction	5%	3,596,927	6%	5,160,417
Wholesale and retail trade	20%	15,112,784	23%	20,007,338
Information technology and communication services	0%	291,405	0%	385,827
Financial and business services	7%	5,738,709	11%	9,355,692
Infrastructure	3%	1,969,337	1%	1,073,532
Other services	11%	8,268,758	5%	4,030,904
Other customers including pawning	23%	17,768,317	25%	21,369,212
Gross loans and receivables	**100%**	**76,924,720**	100%	87,397,947

27. FINANCIAL ASSETS AT AMORTISED COST - LOANS AND ADVANCES TO CUSTOMERS (CONTD.)

27.4 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 27.5.2 to the financial statements.

As at 31 December	Note	Page	BANK 2020 Rs.'000	BANK 2019 Rs.'000	GROUP 2020 Rs.'000	GROUP 2019 Rs.'000
27.4.1 Lease receivable						
Total lease rentals receivable			**541,109**	818,013	**5,353,821**	6,945,585
Unearned lease income			**(97,220)**	(127,943)	**(1,177,061)**	(1,649,710)
Gross lease receivable			**443,889**	690,070	**4,176,760**	5,295,875
Less: Impairment allowance for lease receivable			**(52,774)**	(61,551)	**(380,164)**	(416,935)
Net lease receivables			**391,115**	628,519	**3,796,596**	4,878,940
Gross lease receivable within one year	27.4.1.1	196	**443,889**	394,359	**2,188,741**	2,302,737
Gross lease receivable from one to five years	27.4.1.2	196	**-**	295,711	**1,974,802**	2,950,404
Gross lease receivable after five years	27.4.1.3	196	**-**	-	**13,218**	42,734
Total gross lease receivable			**443,889**	690,070	**4,176,760**	5,295,875
27.4.1.1 Lease receivable within one year						
Total lease receivable within one year			**541,109**	476,430	**2,796,379**	3,076,838
Unearned lease income			**(97,220)**	(82,071)	**(607,639)**	(774,101)
Gross lease receivable			**443,889**	394,359	**2,188,741**	2,302,737
Less: Impairment allowance for lease receivable			**(52,774)**	(35,800)	**(205,807)**	(183,051)
Net lease receivables			**391,115**	358,559	**1,982,934**	2,119,686
27.4.1.2 Lease receivable from one to five years						
Total lease receivable from one to five years			**-**	341,583	**2,542,882**	3,821,357
Unearned lease income			**-**	(45,872)	**(568,080)**	(870,953)
Gross lease receivable			**-**	295,711	**1,974,802**	2,950,404
Less: Impairment allowance for lease receivable			**-**	(25,751)	**(173,198)**	(230,587)
Net lease receivables			**-**	269,960	**1,801,604**	2,719,817
27.4.1.3 Lease receivable after five years						
Total lease receivable after five years			**-**	-	**14,560**	47,390
Unearned lease income			**-**	-	**(1,342)**	(4,656)
Gross lease receivable			**-**	-	**13,218**	42,734
Less: Impairment allowance for lease receivable			**-**	-	**(1,159)**	(3,297)
Net lease receivables			**-**	-	**12,058**	39,437

As at 31 December	Note	Page	BANK 2020 Rs.'000	BANK 2019 Rs.'000	GROUP 2020 Rs.'000	GROUP 2019 Rs.'000
27.4.2 Hire purchase receivables						
Total hire purchase receivable			**22,314**	22,314	**39,314**	48,408
Unearned hire purchase income			**(3,387)**	(3,387)	**(3,387)**	(3,387)
Gross hire purchase receivable			**18,927**	18,927	**35,927**	45,021
Less: Impairment allowance for hire purchase receivable			**(8,937)**	(9,180)	**(12,570)**	(13,177)
Net hire purchase receivables			**9,991**	9,747	**23,357**	31,844
Gross hire purchase receivable within one year	27.4.2.1	197	**18,927**	18,927	**35,927**	45,021
Gross hire purchase receivable after one year			**-**	-	**-**	-
Total gross hire purchase receivable			**18,927**	18,927	**35,927**	45,021

27. FINANCIAL ASSETS AT AMORTISED COST - LOANS AND ADVANCES TO CUSTOMERS (CONTD.)

As at 31 December	BANK 2020 Rs.'000	BANK 2019 Rs.'000	GROUP 2020 Rs.'000	GROUP 2019 Rs.'000
27.4.2.1 Hire purchase receivable within one year				
Total hire purchase receivable within one year	**22,314**	22,314	**39,314**	48,408
Unearned hire purchase income	**(3,387)**	(3,387)	**(3,387)**	(3,387)
Gross hire purchase receivable	**18,927**	18,927	**35,927**	45,021
Less: Impairment allowance for hire purchase receivable	**(8,937)**	(9,180)	**(12,570)**	(13,177)
Net hire purchase receivables	**9,991**	9,747	**23,357**	31,844

27.5 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 receivables, 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 4.7.3.

Details of impairment losses on financial assets carried at amortised cost are given in Note 4.7 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.

Impact on the COVID-19 outbreak and the procedure followed in the impairment calculation have been more fully described in the Note 53.1.5 to these financial statements.

27. FINANCIAL ASSETS AT AMORTISED COST - LOANS AND ADVANCES TO CUSTOMERS (CONTD.)

27.5.1 Stage movements in allowance for impairment

BANK As at 31 December	2020				2019			
	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	397,970	57,832	1,501,940	1,957,742	605,502	89,109	1,343,216	2,037,827
Charge/(reversal) to statement of profit or loss	57,323	174,240	386,846	618,409	(207,262)	(29,968)	630,928	393,698
Other Adjustments	(5,833)	-	-	(5,833)	-	-	-	-
Write offs during the year	-	-	(93,212)	(93,212)	(270)	(1,309)	(472,204)	(473,783)
Closing balance as at 31 December	**449,460**	**232,072**	**1,795,574**	**2,477,106**	397,970	57,832	1,501,940	1,957,742

GROUP As at 31 December	2020				2019			
	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	463,481	139,319	2,015,009	2,617,809	666,168	187,695	2,478,610	3,332,473
Charge/(reversal) to statement of profit or loss	43,298	165,370	649,245	857,913	(202,417)	(47,067)	796,480	546,996
Other Adjustments	(5,833)	-	-	(5,833)	-	-	-	-
Write offs during the year	-	-	(321,837)	(321,837)	(270)	(1,309)	(1,260,081)	(1,261,660)
Closing balance as at 31 December	**500,946**	**304,689**	**2,342,417**	**3,148,052**	463,481	139,319	2,015,009	2,617,809

27. FINANCIAL ASSETS AT AMORTISED COST - LOANS AND ADVANCES TO CUSTOMERS (CONTD.)

27.5.2 Movements in allowance for impairment charges - By Product

BANK As at 31 December	2020 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	297,651	68,040	6,905	3,020	11,687	10,667	397,970
Charge/(reversal) to statement of profit or loss	80,010	(21,792)	8,240	(1,733)	(10,143)	2,741	57,323
Other Adjustments	(5,833)	-	-	-	-	-	(5,833)
Net write off during the year	-	-	-	-	-	-	-
Closing balance as at 31 December	371,828	46,248	15,145	1,287	1,544	13,408	449,460
Stage 2							
Opening balance as at 1 January	18,688	27,369	286	5,080	-	6,409	57,832
Charge/(reversal) to statement of profit or loss	173,100	(10,816)	(23)	(1,577)	-	13,556	174,240
Net write off during the year	-	-	-	-	-	-	-
Closing balance as at 31 December	191,788	16,553	263	3,503	-	19,965	232,072
Stage 3							
Opening balance as at 1 January	864,621	488,810	40,919	62,631	38,555	6,404	1,501,940
Charge/(reversal) to statement of profit or loss	281,278	70,160	11,991	(2,975)	10,607	15,785	386,846
Net write off during the year	(54,156)	(23,230)	(13,091)	(2,735)	-	-	(93,212)
Closing balance as at 31 December	1,091,743	535,740	39,819	56,921	49,162	22,189	1,795,574
Total							
Opening balance as at 1 January	1,180,960	584,219	48,110	70,731	50,242	23,480	1,957,742
Charge/(reversal) to statement of profit or loss	534,388	37,552	20,208	(6,285)	464	32,082	618,409
Other Adjustments	(5,833)	-	-	-	-	-	(5,833)
Net write off during the year	(54,156)	(23,230)	(13,091)	(2,735)	-	-	(93,212)
Closing balance as at 31 December	1,655,359	598,541	55,227	61,711	50,706	55,562	2,477,106

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

27. FINANCIAL ASSETS AT AMORTISED COST - LOANS AND ADVANCES TO CUSTOMERS (CONTD.)

GROUP As at 31 December	2020						
	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	311,411	67,682	6,905	40,205	26,514	10,764	463,481
Charge/(reversal) to statement of profit or loss	77,652	(21,434)	8,240	(6,021)	(17,782)	2,643	43,298
Other Adjustments	(5,833)	-	-	-	-	-	(5,833)
Net write off during the year	-	-	-	-	-	-	-
Closing balance as at 31 December	383,230	46,248	15,145	34,184	8,732	13,407	500,946
Stage 2							
Opening balance as at 1 January	34,514	27,369	286	63,129	7,611	6,410	139,319
Charge/(reversal) to statement of profit or loss	165,794	(11,771)	(23)	(22,023)	19,838	13,555	165,370
Net write off during the year	-	-	-	-	-	-	-
Closing balance as at 31 December	200,308	15,598	264	41,106	27,449	19,965	304,689
Stage 3							
Opening balance as at 1 January	929,863	488,810	40,919	326,779	219,334	9,304	2,015,009
Charge/(reversal) to statement of profit or loss	362,079	70,159	11,991	89,916	96,794	18,256	649,245
Net write off during the year	(108,979)	(23,230)	(13,091)	(99,251)	(77,286)	-	(321,837)
Closing balance as at 31 December	1,182,963	535,739	39,819	317,444	238,842	27,610	2,342,417
Total							
Opening balance as at 1 January	1,275,788	583,861	48,110	430,113	253,459	26,478	2,617,809
Charge/(reversal) to statement of profit or loss	605,525	36,954	20,208	61,872	98,850	34,504	857,913
Other Adjustments	(5,833)	-	-	-	-	-	(5,833)
Net write off during the year	(108,979)	(23,230)	(13,091)	(99,251)	(77,286)	-	(321,837)
Closing balance as at 31 December	1,766,501	597,585	55,227	392,734	275,023	60,982	3,148,052

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	1,305,465	395,189	63,383	385,424	327,834	1,315	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	929,863	488,810	40,919	326,779	219,334	9,304	2,015,009
Total							
Opening balance as at 1 January	1,871,071	506,871	65,028	540,829	336,932	11,742	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	1,275,788	583,861	48,110	430,113	253,459	26,478	2,617,809

28. 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 fair value through profit or loss:

- 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 2020 Rs.'000	BANK 2019 Rs.'000	GROUP 2020 Rs.'000	GROUP 2019 Rs.'000
Investment in deep discounted bond	28.1	201	3,125,770	3,005,570	-	-
Fixed deposits			-	-	2,777,741	2,544,023
Sri Lanka development bond			5,369,383	3,219,460	5,369,383	3,219,460
Investment in debentures	28.2	202	564,087	1,655,690	251,834	1,343,437
Lease backed trust certificates	28.3	202	-	7,092	-	7,092
Sri Lanka Government securities	28.4	202	11,995,519	5,589,983	11,995,519	5,589,983
Commercial papers			253,598	-	253,598	-
Total			21,308,357	13,477,795	20,648,075	12,703,995
Less: Impairment	28.6	204	(140,281)	(36,755)	(138,579)	(33,437)
Net carrying value			21,168,076	13,441,040	20,509,495	12,670,558

28.1 Investment in deep discounted bond

As at 31 December	BANK 2020 Rs.'000	BANK 2019 Rs.'000	GROUP 2020 Rs.'000	GROUP 2019 Rs.'000
Serandib Capital Private Limited	3,125,770	3,005,570	-	-

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%.

28. FINANCIAL ASSETS AT AMORTISED COST - DEBT AND OTHER INSTRUMENTS (CONTD.)

28.2 Investment in debentures

BANK As at 31 December	2020 No. of Debentures '000	2020 Carrying Value Rs.'000	2019 No. of Debentures '000	2019 Carrying Value Rs.'000
Senior debentures				
Commercial Leasing & Finance PLC	-	-	5,000	548,884
DFCC Bank PLC	-	-	5,163	542,719
LB Finance PLC	2,500	251,834	2,500	251,834
Total senior debentures		251,834		1,343,437
Subordinated debenture				
UB Finance Company Limited	3,000	312,253	3,000	312,253
Total subordinated debenture		312,253		312,253
Total		564,087		1,655,690

GROUP As at 31 December	2020 No. of Debentures '000	2020 Carrying Value Rs.'000	2019 No. of Debentures '000	2019 Carrying Value Rs.'000
Senior debentures				
Commercial Leasing & Finance PLC	-	-	5,000	548,884
DFCC Bank PLC	-	-	5,163	542,719
LB Finance PLC	2,500	251,834	2,500	251,834
Total		251,834		1,343,437

28.3 Lease backed trust certificates

As at 31 December	BANK 2020 Rs.'000	BANK 2019 Rs.'000	GROUP 2020 Rs.'000	GROUP 2019 Rs.'000
Peoples Leasing & Company PLC	-	7,092	-	7,092
Total	-	7,092	-	7,092

28.4 Sri Lanka Government securities

BANK & GROUP As at 31 December Year of Maturity	2020 Amortised Cost Rs.'000	2020 Fair Value Rs.'000	2019 Amortised Cost Rs.'000	2019 Fair Value Rs.'000
2020	-	-	4,177,628	4,184,702
2021	11,319,348	11,391,263	1,412,355	1,417,640
2022	566,454	585,212	-	-
2024	109,717	116,631	-	-
Total	11,995,519	12,093,106	5,589,983	5,602,342

28. FINANCIAL ASSETS AT AMORTISED COST - DEBT AND OTHER INSTRUMENTS (CONTD.)

28.5 Stage-wise classification - debt and other instruments

BANK As at 31 December	2020					
	Deep Discounted Bond Rs.'000	Sri Lanka Development Bond Rs.'000	Investment in Debentures Rs.'000	Commercial Papers Rs.'000	Sri Lanka Government Securities Rs.'000	Total Rs.'000
Stage 1	**3,125,770**	**5,369,383**	**251,834**	**253,598**	**11,995,519**	**20,996,104**
Stage 2	-	-	**312,253**	-	-	**312,253**
Stage 3	-	-	-	-	-	-
Total	**3,125,770**	**5,369,383**	**564,087**	**253,598**	**11,995,519**	**21,308,357**

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

GROUP As at 31 December	2020					
	Fixed Deposits Rs.'000	Sri Lanka Development Bond Rs.'000	Investment in Debentures Rs.'000	Commercial Papers Rs.'000	Sri Lanka Government Securities Rs.'000	Total Rs.'000
Stage 1	**2,777,741**	**5,369,383**	**251,834**	**253,598**	**11,995,519**	**20,648,075**
Stage 2	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-
Total	**2,777,741**	**5,369,383**	**251,834**	**253,598**	**11,995,519**	**20,648,075**

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

28. FINANCIAL ASSETS AT AMORTISED COST - DEBT AND OTHER INSTRUMENTS (CONTD.)

28.6 Impairment allowance on financial assets at amortised cost - debt and other instruments

BANK As at 31 December	2020					
	Deep Discounted Bond Rs.'000	Sri Lanka Development Bond Rs.'000	Investment in Debentures Rs.'000	Lease Backed Trust Certificates Rs.'000	Commercial Papers Rs.'000	Total Rs.'000
Stage 1						
Opening balance as at 1 January	289	33,232	193	12	-	33,726
Charge/(reversal) to statement of profit or loss	(226)	105,156	(112)	(12)	47	104,853
Net write off during the year	-	-	-	-	-	-
Closing balance as at 31 December	63	138,388	81	-	47	138,579
Stage 2						
Opening balance as at 1 January	-	-	3,029	-	-	3,029
Charge/(reversal) to statement of profit or loss	-	-	(1,327)	-	-	(1,327)
Net write off during the year	-	-	-	-	-	-
Closing balance as at 31 December	-	-	1,702	-	-	1,702
Stage 3	-	-	-	-	-	-
Total						
Opening balance as at 1 January	289	33,232	3,222	12	-	36,755
Charge/(reversal) to statement of profit or loss	(226)	105,156	(1,439)	(12)	47	103,526
Net write off during the year	-	-	-	-	-	-
Closing balance as at 31 December	63	138,388	1,783	-	47	140,281

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	33,726
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

28. FINANCIAL ASSETS AT AMORTISED COST - DEBT AND OTHER INSTRUMENTS (CONTD.)

GROUP As at 31 December	2020					
	Fixed Deposits Rs.'000	Sri Lanka Development Bond Rs.'000	Investment in Debentures Rs.'000	Lease Backed Trust Certificates Rs.'000	Commercial Papers Rs.'000	Total Rs.'000
Stage 1						
Opening balance as at 1 January	-	33,232	193	12	-	33,437
Charge/(reversal) to statement of profit or loss	63	105,156	(112)	(12)	47	105,142
Net write off during the year	-	-	-	-	-	-
Closing balance as at 31 December	63	138,388	81	-	47	138,579
Stage 2	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-
Total						
Opening balance as at 1 January	-	33,232	193	12	-	33,437
Charge/(reversal) to statement of profit or loss	63	105,156	(112)	(12)	47	105,142
Net write off during the year	-	-	-	-	-	-
Closing balance as at 31 December	63	138,388	81	-	47	138,579

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	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

29. FINANCIAL INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (FVOCI)

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 4.7. 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 derecognition, 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.

As at 31 December	Note	Page	BANK 2020 Rs.'000	BANK 2019 Rs.'000	GROUP 2020 Rs.'000	GROUP 2019 Rs.'000
Sri Lanka Government securities	29.1	206	19,382,508	17,500,715	19,382,508	17,500,715
Equity securities						
- Quoted	29.2	207	-	-	12,013	13,039
- Unquoted	29.3	207	2,530	2,530	2,731	2,731
Total			19,385,038	17,503,245	19,397,252	17,516,485
Less: Impairment			-	-	-	-
Net carrying value			19,385,038	17,503,245	19,397,252	17,516,485

29.1 Sri Lanka Government securities

BANK & GROUP As at 31 December Year of Maturity	2020 Cost of Investment Rs.'000	2020 Fair Value Rs.'000	2019 Cost of Investment Rs.'000	2019 Fair Value Rs.'000
2020	-	-	4,664,098	4,679,695
2021	8,545,754	8,729,227	7,705,219	7,722,899
2022	2,963,616	3,010,812	-	-
2023	5,411,485	5,480,571	699,119	701,043
2024	1,144,903	1,139,018	2,059,982	2,055,634
2025	-	-	532,086	536,590
2026	749,283	746,284	-	-
2027	268,885	268,369	1,531,935	1,539,662
2034	6,761	8,228	257,923	265,192
Total	19,090,687	19,382,508	17,450,363	17,500,715

29. FINANCIAL INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (FVOCI) (CONTD.)

29.2 Equity securities - Quoted investments

GROUP As at 31 December	2020 No. of Shares '000	2020 Cost of Investment Rs.'000	2020 Market Value Rs.'000	2019 No. of Shares '000	2019 Cost of Investment Rs.'000	2019 Market Value Rs.'000
Dialog Axiata PLC	702	9,479	8,707	702	9,479	8,637
Hatton National Bank PLC	26	5,665	3,306	26	5,576	4,402
Total		15,144	12,013		15,054	13,039
Less : Mark to market adjustment		(3,131)			(2,016)	
Net carrying value		12,013			13,039	

29.3 Equity securities - Unquoted investments

BANK As at 31 December	2020 No. of Shares '000	2020 Cost of Investment Rs.'000	2020 Market Value Rs.'000	2019 No. of Shares '000	2019 Cost of Investment Rs.'000	2019 Market Value Rs.'000
Lanka Financial Service Bureau Limited	200	2,000	2,000	200	2,000	2,000
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		2,530	2,530
Less : Mark to market adjustment		-	-		-	-
Net carrying value		2,530				2,530

GROUP As at 31 December	2020 No. of Shares '000	2020 Cost of Investment Rs.'000	2020 Market Value Rs.'000	2019 No. of Shares '000	2019 Cost of Investment Rs.'000	2019 Market Value Rs.'000
Lanka Financial Service Bureau Limited	200	2,000	2,000	200	2,000	2,000
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		2,731	2,731
Less : Mark to market adjustment		-			-	
Net carrying value		2,731			2,731	

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.

30. CURRENT TAX ASSET/ LIABILITY (GRI 207-1/207-2/207-4)

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 use to compute the amount are those that are enacted or substantially enacted by the reporting date.

As at 31 December	BANK 2020 Rs.'000	BANK 2019 Rs.'000	GROUP 2020 Rs.'000	GROUP 2019 Rs.'000
Current tax asset	-	1,148	-	1,148
Current tax liability	**262,689**	-	**471,398**	197,957

31. 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, site preparation costs, 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	2020 Rs.'000	2019 Rs.'000
Land			**38,393**	44,059
Housing projects			**13,521**	13,521
Other projects			**177,831**	177,838
Total			**229,745**	235,418
Less: Impairment	31.1	208	**(122,855)**	(122,855)
Net carrying value			**106,890**	112,563

31.1 Impairment on investments in real estate

GROUP As at 31 December	2020 Rs.'000	2019 Rs.'000
Opening balance as at 1 January	**122,855**	121,355
Charge/ (Write back) to statement of profit or loss	-	1,500
Net write off/ disposals during the year	-	-
Closing balance as at 31 December	**122,855**	122,855

32. INVESTMENTS IN SUBSIDIARIES

ACCOUNTING POLICY

Subsidiaries are entities 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 and 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 the Bank continues to recognise the investments in subsidiaries at cost.

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 cost of an acquisition is measured at fair value of the consideration including contingent consideration, given on the date of transfer of title. The acquired identifiable assets, liabilities and contingent liabilities are measured at their fair values at the date of acquisition.

Subsequent to the initial measurement, investment in subsidiaries are recognise using the equity method in separate financial statements of the Bank.

The Group did not acquire / dispose any subsidiaries during the year ended 31 December 2020.

All subsidiaries of the Bank have been incorporated in Sri Lanka.

BANK

As at 31 December			2020			2019		
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	32.1	210	**51.00**	**269,910**	**331,500**	51.00	270,267	331,500
UB Finance Company Limited	32.1	210	**73.31**	**612,568**	**841,297**	73.31	642,001	841,297
Total				**882,478**	**1,172,797**		912,268	1,172,797

32. INVESTMENTS IN SUBSIDIARIES (CONTD.)

32.1 Movement of equity accounted investee

BANK As at 31 December	2020 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	(199,296)	(61,233)	(260,528)
Current year share of profit (net of tax)	(29,915)	970	(28,945)
Other comprehensive income (net of tax)			
- To be reclassified to profit or loss	-	(569)	(569)
- Not to be reclassified to profit or loss	482	289	771
Less: Impairment	-	(1,048)	(1,048)
Total share of equity accounted investees retained profits	(228,729)	(61,590)	(290,318)
Total share of equity accounted investees retained profits	(228,728)	(61,590)	(290,319)
Cost of equity accounted investees	841,297	331,500	1,172,797
Total carrying amount of investments in equity accounted investees	612,568	269,910	882,478

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	-	(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

32. INVESTMENTS IN SUBSIDIARIES (CONTD.)

32.2 Summarised financial information of subsidiaries

As at 31 December	2020		2019	
	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	401,415	69,080	536,386	74,528
Less: Operating expenses	392,404	66,735	454,031	68,964
Profit before taxes	9,011	2,345	82,355	5,564
Less: Tax expense (including VAT , NBT and DRL on financial services)	49,817	443	(56,327)	1,338
Profit after tax	(40,806)	1,902	138,682	4,226
Total comprehensive income	(40,149)	1,355	139,666	3,124
As at 31 December				
Financial assets at amortised cost - loans and advances to customers	6,985,246	-	7,967,994	-
Financial assets at amortised cost - debt and other instruments	-	19,701	-	17,257
Financial investments at fair value through other comprehensive income	201	12,013	201	13,039
Property, plant and equipments and intangible assets	198,190	17,627	243,216	26,298
Other assets	56,566	29,902	80,959	24,683
Total assets	8,261,892	130,849	9,741,404	124,169
Due to customers	4,737,598	-	6,443,075	-
Other borrowed funds	2,347,634	-	1,271,608	-
Other liabilities	268,568	24,127	322,025	18,863
Total liabilities	7,591,743	25,236	9,031,107	19,922
Total equity	670,149	105,613	710,297	104,247

32.3 Capital requirement of UB Finance Company Limited

The Bank, as the major shareholder of UB Finance Company Limited (UBF), was in negotiations with a prospective foreign investor for a strategic acquisition of a stake of UBF. However, the finalization of this transaction has been delayed on account of the pandemic. Due to the above negotiations being carried on, UBF is in want of compliance with the minimum core capital and capital adequacy requirements set out in the Directions No.02 of 2017 and No. 03 of 2018 issued under the Finance Business Act and the Finance Companies (Capital Funds) Direction No. 01 of 2003, as of 31 December 2020.

Due to the above, the Central Bank of Sri Lanka has, by its communication dated 23 January 2019, imposed temporary caps on the loans and advances and deposits of UBF. These caps continue and are effective until the required capital and capital adequacy ratios are met.

UBF is committed to meet the aforesaid minimum core capital and capital adequacy requirements by way of a Rights Issue and has sought the approval of the Central Bank of Sri Lanka for same. The Bank, as UBF's major shareholder, has undertaken to infuse additional capital in to UBF up to the value of its entitlement under the proposed Rights Issue. The Bank, by subscribing for its entitlement under the said Rights Issue, then would make UBF meet the said minimum core capital and capital adequacy requirements.

However, the Central Bank of Sri Lanka has informed UBF and Union Bank that these two entities should be merged by 30 June 2021. If such a merger is carried through it would be subject to the necessary approvals, including the approval of the shareholders of both the entities.

33. 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 if any. 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.

(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 derecognised on disposal or when no future economic benefits are expected from its use. The gain or loss arising from derecognition of an item of intangible asset is included in the Statement of Profit or Loss when the item is derecognised.

There were no restrictions on the title of the intangible assets as at the reporting date. Further, there were no items pledged as securities for liabilities.

33. GOODWILL AND INTANGIBLE ASSETS (CONTD.)

BANK

As at 31 December	2020			2019		
	Computer Software Rs.'000	Software under Development Rs.'000	Total Rs.'000	Computer Software Rs.'000	Software under Development Rs.'000	Total Rs.'000
Cost						
Opening balance as at 1 January	2,128,162	1,060	2,129,222	1,824,435	21,680	1,846,115
Additions	183,477	-	183,477	308,264	3,079	311,343
Adjustment	(570,795)	(462)	(571,257)	(4,537)	(23,699)	(28,236)
Closing balance as at 31 December	1,740,844	598	1,741,442	2,128,162	1,060	2,129,222
Less: Amortisation						
Opening balance as at 1 January	799,431	-	799,431	643,583	-	643,583
Charge for the year	198,572	-	198,572	160,385	-	160,385
Adjustment	(570,795)	-	(570,795)	(4,537)	-	(4,537)
Closing balance as at 31 December	427,208	-	427,208	799,431	-	799,431
Net book value as at 31 December	1,313,636	598	1,314,234	1,328,731	1,060	1,329,791

GROUP

As at 31 December	2020						
	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	2,173,016	1,060	10,169	118,947	136,001	2,552,224
Additions	-	185,310	-	-	-	-	185,310
Transfers	-	-	-	-	-	-	-
Adjustment	-	(570,795)	(462)	-	-	-	(571,257)
Closing balance as at 31 December	113,031	1,787,532	598	10,169	118,947	136,001	2,166,277
Less: Amortisation							
Opening balance as at 1 January	-	833,476	-	1,441	22,468	14,738	872,123
Charge for the year	-	200,913	-	-	-	-	200,913
Adjustment	-	(570,795)	-	-	-	-	(570,795)
Closing balance as at 31 December	-	463,594	-	1,441	22,468	14,738	502,241
Less: Impairment charge	-	-	-	279	2,202	-	2,481
Net book value as at 31 December	113,031	1,323,937	598	8,449	94,277	121,263	1,661,555

33. GOODWILL AND INTANGIBLE ASSETS (CONTD.)

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

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;

2020	Goodwill	Brand Value	License and related Infrastructure
Discount rate	**12.62%**	**12.62%**	**11.46%**
Terminal growth rate	**1.01%**	**1.01%**	**1.00%**

2019	Goodwill	Brand Value	License and related Infrastructure
Discount rate	15.00%	15.00%	14.40%
Terminal growth rate	2.50%	2.50%	2.50%

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.

34. 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 derecognised. The costs of day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

Derecognition

The carrying amount of an item of property, plant and equipment is derecognised on disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from the derecognition 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 derecognised. When replacement costs are recognised in the carrying amount of an item of property, plant and equipment, the remaining carrying amount of the replaced part is derecognised. Major inspection costs are capitalised at each such capitalisation, the remaining carrying amount of the previous cost of inspections is derecognised.

Capital Work in Progress

These are expenses of capital nature directly incurred in the construction of buildings, major plant, machinery and system development, awaiting capitalisation. Capital work-in-progress would be transferred to the relevant asset when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.
capital work-in-progress is stated at cost less any accumulated impairment losses.

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.

34. PROPERTY, PLANT AND EQUIPMENT AND RIGHT OF USE ASSETS (CONTD.)

BANK

2020

	Property, plant and equipment					Right of use assets			
	Leasehold Improvements Rs.'000	Computer & Equipment Rs.'000	Furniture & Fittings Rs.'000	Motor Vehicles 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	639,453	1,456,714	385,930	37,247	2,519,344	947,305	66,758	1,014,063	3,533,407
Additions	2,358	59,651	3,723	-	65,732	212,467	26,578	239,045	304,777
Disposals	(3,890)	(1,889)	(492)	(10,609)	(16,880)	-	-	-	(16,880)
Closing balance as at 31 December	637,921	1,514,476	389,161	26,638	2,568,196	1,159,772	93,336	1,253,108	3,821,304
Less: Accumulated depreciation/amortisation									
Opening balance as at 1 January	559,325	991,577	234,902	9,959	1,795,763	240,621	14,658	255,279	2,051,042
Charge for the year	36,060	124,752	37,203	3,118	201,132	247,693	17,566	265,259	466,391
Disposals	(3,881)	(1,860)	(410)	(7,768)	(13,918)	-	-	-	(13,918)
Closing balance as at 31 December	591,504	1,114,469	271,695	5,309	1,982,977	488,314	32,224	520,538	2,503,515
Net book value as at 31 December	46,417	400,007	117,466	21,329	585,219	671,458	61,112	732,570	1,317,789

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)
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	934,505	934,505
Additions	-	-	-	-	-	-	79,558	-	79,558	79,558
Disposals	-	-	-	-	-	-	-	-	-	-
Adjustment/transfer	-	-	-	-	-	-	-	-	-	-
Closing balance as at 31 December	-	-	-	-	-	-	947,305	66,758	1,014,063	1,014,063
Less: Accumulated depreciation/amortisation										
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

34. PROPERTY, PLANT AND EQUIPMENT AND RIGHT OF USE ASSETS (CONTD.)

GROUP

	2020									
	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	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	694,092	1,515,123	503,804	124,278	2,889,220	1,039,161	66,758	1,105,920	3,995,140
Additions	-	3,316	64,018	6,733	5,296	79,363	214,506	26,576	241,082	320,445
Disposals	-	(3,890)	(1,889)	(1,778)	(25,869)	(33,426)	-	-	-	(33,426)
Adjustment/transfer	-	-	20,204	(20,204)	-	-	-	-		
Closing balance as at 31 December	51,923	693,518	1,597,456	488,555	103,705	2,935,157	1,253,667	93,334	1,347,002	4,282,159
Less: Accumulated depreciation/amortisation										
Opening balance as at 1 January	8,593	590,592	1,038,604	300,355	32,726	1,970,870	268,537	14,658	283,195	2,254,065
Charge for the year	668	42,267	132,186	46,869	15,575	237,565	268,621	17,566	286,188	523,753
Disposals	-	(3,881)	(1,860)	(1,449)	(11,774)	(18,964)	-	-	-	(18,964)
Adjustment/transfer	-	-	14,676	(14,676)	-	-	-	-	-	-
Closing balance as at 31 December	9,261	628,978	1,183,606	331,099	36,527	2,189,471	537,158	32,224	569,383	2,758,854
Net book value as at 31 December	42,662	64,540	413,850	157,456	67,178	745,686	716,509	61,110	777,620	1,523,305

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	-	-	-	-	-	-	-	-	-	-	-
Closing balance as at 31 December	-	-	-	-	-	-	-	1,039,161	66,758	1,105,920	1,105,920
Less: Accumulated depreciation/ amortisation											
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

34. PROPERTY, PLANT AND EQUIPMENT AND RIGHT OF USE ASSETS (CONTD.)

34.1 Cost of fully depreciated property, plant, equipment and intangible assets

The initial cost of fully depreciated property, plant and equipment as at 31 December , which are as follows:

As at 31 December	BANK		GROUP	
	2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Leasehold improvements	**503,666**	426,258	**506,198**	426,258
Computer and equipment	**657,500**	559,698	**688,181**	605,751
Furniture and fittings	**101,282**	81,692	**123,926**	89,998
Motor vehicles	**1,639**	1,639	**1,797**	1,934
Intangible assets	**4,283**	3,525	**13,875**	13,721
Total	**1,268,369**	1,072,812	**1,333,976**	1,137,662

34.2 Temporarily idle property, plant and equipment - Bank & Group

There were no property, plant and equipment idle from active use as at the reporting date (2019: NIL)

34.3 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 (2019: NIL)

34. 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 (2019: NIL).

34.5 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 (2019: NIL)

34.6 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 (2019: NIL)

35. DEFERRED TAXATION (GRI 207-1/ 207-2/ 207-4)

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 utilized

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be 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 17.1.1 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.

35. DEFERRED TAXATION (CONTD.)

As at 31 December	BANK 2020 Rs.'000	BANK 2019 Rs.'000	GROUP 2020 Rs.'000	GROUP 2019 Rs.'000
Deferred tax asset (Net)	**-**	-	**445,436**	497,620
Deferred tax liability (Net)	**53,841**	62,299	**54,135**	63,062
Deferred tax assets/ (liabilities) movement				
Balance as at beginning of the year	**(62,299)**	115,596	**434,557**	515,938
Transitional adjustment on the implementation of SLFRS 16	**-**	11,883	**-**	12,088
Restated opening balance as at 1 January	**(62,299)**	127,479	**434,557**	528,026
Deferred tax (charged)/reversed to the Statement of Profit or Loss	**79,410**	(55,249)	**28,171**	41,473
Deferred tax (charged)/reversed to the Statement of Other Comprehensive Income	**(70,951)**	(134,531)	**(71,428)**	(134,942)
Balance as at 31 December	**(53,841)**	(62,299)	**391,301**	434,557

35.1 *Deferred tax asset or liability applicable for Statement of Profit or Loss*

As at 31 December	BANK 2020 Rs.'000	BANK 2019 Rs.'000	GROUP 2020 Rs.'000	GROUP 2019 Rs.'000
Deferred tax assets				
Carry forward losses	**-**	-	**487,883**	475,101
Retirement benefit obligation	**55,651**	41,569	**62,598**	50,077
Impairment allowance	**271,687**	249,283	**277,013**	314,980
Share based payments	**31,780**	34,556	**31,780**	34,556
Operating leases	**39,911**	36,007	**47,397**	36,274
Total	**399,029**	361,415	**906,671**	910,988
Deferred tax liability				
Accelerated depreciation allowance for tax purposes (Property, plant and equipment)	**(311,926)**	(354,330)	**(330,075)**	(376,413)
Accelerated depreciation allowance for tax purposes (Lease rental receivable)	**(67,129)**	(66,519)	**(108,852)**	(95,003)
Total	**(379,055)**	(420,849)	**(438,927)**	(471,416)

35.2 *Deferred tax asset or liability applicable for Statement of Other Comprehensive Income*

As at 31 December	BANK 2020 Rs.'000	BANK 2019 Rs.'000	GROUP 2020 Rs.'000	GROUP 2019 Rs.'000
Deferred tax assets/ (liabilities)				
Actuarial gains/ (losses) on defined benefit plan liability	**7,895**	11,234	**5,267**	9,084
Gains / (losses) on re-measuring available for sale financial assets	**(81,710)**	(14,098)	**(81,710)**	(14,098)
Total	**(73,815)**	(2,865)	**(76,443)**	(5,015)

36. OTHER ASSETS

ACCOUNTING POLICY

The Group classify 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 costs.

Other financial assets and other non financial assets included under other assets are summarised below:

As at 31 December	Note	Page	BANK 2020 Rs.'000	BANK 2019 Rs.'000	GROUP 2020 Rs.'000	GROUP 2019 Rs.'000
Other financial assets						
Refundable deposits			18,598	17,401	21,866	30,683
Other debtors			129,267	200,160	155,941	215,273
Total other financial assets			147,865	217,561	177,807	245,956
Other non financial assets						
Advances			372,877	254,172	378,757	261,871
Pre-paid expenses			64,954	52,663	108,877	52,954
Pre-paid staff cost	36.1	220	342,646	313,637	347,170	316,469
Pre-paid lease rental			1,729	2,958	3,000	2,958
Others*			110,108	101,558	111,034	168,469
Total other non financial assets			892,314	724,988	948,838	802,721
Less : Provision for other assets			(7,351)	(5,981)	(7,043)	(5,981)
Total			1,032,828	936,568	1,119,602	1,042,696

*Others consist of stocks such as stationeries, three wheelers, gift stocks and other sundry receivables.

36.1 Pre-paid staff cost

As at 31 December	BANK 2020 Rs.'000	BANK 2019 Rs.'000	GROUP 2020 Rs.'000	GROUP 2019 Rs.'000
Balance as at 1st January	313,637	299,375	316,469	299,375
Add : Adjustments for new grants and settlements	63,033	51,345	66,417	55,882
Less : Charge to personnel expenses	(34,024)	(37,083)	(35,716)	(38,788)
Balance as at 31 December	342,646	313,637	347,170	316,469

37. 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.

As at 31 December	BANK 2020 Rs.'000	BANK 2019 Rs.'000	GROUP 2020 Rs.'000	GROUP 2019 Rs.'000
Local bank borrowings	**3,265,798**	7,091,208	**2,453,286**	7,217,998
Foreign bank borrowings	**4,071,584**	3,375,691	**4,071,584**	3,375,691
Refinance borrowings	**1,590,837**	344,071	**1,590,837**	344,071
Unfavourable balances with banks	**6,239**	186,814	**6,240**	186,814
Deposits	**1,046,132**	477,392	**1,046,132**	477,392
Total	**9,980,590**	11,475,176	**9,168,079**	11,601,966

38. REPURCHASED AGREEMENTS

ACCOUNTING POLICY

Securities sold under agreements to repurchase at a specified future date are not derecognised 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.

As at 31 December	BANK 2020 Rs.'000	BANK 2019 Rs.'000	GROUP 2020 Rs.'000	GROUP 2019 Rs.'000
Due to banks				
Treasury products	**7,096,043**	7,545,373	**7,096,044**	7,545,373
Due to customers				
Treasury products	**3,109,521**	4,570,667	**3,004,509**	4,570,667
Total	**10,205,564**	12,116,040	**10,100,553**	12,116,040

Notes to the Financial Statements

39. 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 2020 Rs.'000	BANK 2019 Rs.'000	GROUP 2020 Rs.'000	GROUP 2019 Rs.'000
Total deposits	39.1	222	**82,383,852**	76,532,012	**87,104,192**	82,751,668
39.1 Due to customers - By product						
Demand deposits			**4,809,537**	3,863,878	**4,806,981**	3,863,428
Savings deposits			**19,700,827**	15,468,600	**19,691,212**	15,257,449
Fixed deposits			**55,569,927**	54,765,954	**60,302,438**	61,197,211
Other deposits			**2,303,561**	2,433,580	**2,303,561**	2,433,580
Total deposits			**82,383,852**	76,532,012	**87,104,192**	82,751,668
39.1.1 Due to customers - Local currency deposits						
Demand deposits			**4,026,765**	3,452,248	**4,024,209**	3,451,798
Savings deposits			**13,341,615**	11,585,257	**13,332,000**	11,374,106
Fixed deposits			**49,218,664**	46,368,000	**53,951,175**	52,799,257
Other deposits			**2,303,561**	2,433,580	**2,303,561**	2,433,580
Total local currency deposits			**68,890,605**	63,839,085	**73,610,945**	70,058,741
39.1.2 Due to customers - Foreign currency deposits						
Demand deposits			**782,772**	411,630	**782,772**	411,630
Savings deposits			**6,359,212**	3,883,343	**6,359,212**	3,883,343
Fixed deposits			**6,351,263**	8,397,954	**6,351,263**	8,397,954
Total foreign currency deposits	39.1.2.1	222	**13,493,247**	12,692,927	**13,493,247**	12,692,927
Total deposits			**82,383,852**	76,532,012	**87,104,192**	82,751,668

39.1.2.1 Foreign currency deposits - By currency

As at 31 December	BANK 2020 Rs.'000	BANK 2019 Rs.'000	GROUP 2020 Rs.'000	GROUP 2019 Rs.'000
United States Dollar	**12,682,876**	11,850,404	**12,682,876**	11,850,404
Great Britain Pounds	**399,412**	465,805	**399,412**	465,805
Euro	**305,204**	183,868	**305,204**	183,868
Australian Dollar	**102,253**	189,700	**102,253**	189,700
Others	**3,502**	3,150	**3,502**	3,150
Total deposits	**13,493,247**	12,692,927	**13,493,247**	12,692,927

39. DUE TO CUSTOMERS (CONTD.)

39.2 Due to customers - By province

As at 31 December	BANK 2020 Rs.'000	BANK 2019 Rs.'000	GROUP 2020 Rs.'000	GROUP 2019 Rs.'000
Central	**2,492,200**	2,140,629	**2,540,431**	2,205,583
Eastern	**477,254**	434,933	**492,602**	441,322
North Central	**602,214**	548,346	**605,271**	550,798
North Western	**2,851,543**	2,931,500	**2,863,486**	2,956,595
Northern	**2,249,411**	2,028,082	**2,249,411**	2,028,082
Sabaragamuwa	**1,228,091**	1,073,116	**1,238,837**	1,082,454
Southern	**2,827,335**	2,835,213	**2,911,743**	2,932,470
Uva	**435,474**	383,873	**435,474**	383,873
Western	**69,220,330**	64,156,320	**73,766,937**	70,170,491
Total deposits	**82,383,852**	76,532,012	**87,104,192**	82,751,668

40. 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 2020 Rs.'000	BANK 2019 Rs.'000	GROUP 2020 Rs.'000	GROUP 2019 Rs.'000
Borrowings from non banking institutions	-	1,242,450	**2,347,634**	2,514,058

41. 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 2020 Rs.'000	BANK 2019 Rs.'000	GROUP 2020 Rs.'000	GROUP 2019 Rs.'000
Other financial liabilities						
Other creditors*			**461,646**	1,289,631	**585,587**	1,361,567
Lease liability	41.1	224	**598,273**	618,125	**679,118**	723,834
Total other financial liabilities			**1,059,919**	1,907,756	**1,264,705**	2,085,401
Other non financial liabilities						
Accrued expenses			**108,366**	146,506	**135,603**	174,577
Retirement benefit obligation	41.2.2	225	**226,946**	188,679	**250,603**	211,386
Impairment on commitments and contingencies	46.1.2	231	**94,334**	81,586	**118,921**	134,736
Other payables**			**468,844**	486,184	**481,271**	545,328
Total other non financial liabilities			**898,489**	902,955	**986,398**	1,066,027
Total other liabilities			**1,958,408**	2,810,711	**2,251,102**	3,151,428

*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.

41. OTHER LIABILITIES (CONTD.)

41.1 Lease liability

As at 31 December	BANK 2020 Rs.'000	BANK 2019 Rs.'000	GROUP 2020 Rs.'000	GROUP 2019 Rs.'000
As at 1 January	**618,125**	785,460	**723,834**	913,521
Additions	**184,787**	8,351	**184,787**	8,351
Accretion of interest	**72,690**	79,574	**87,522**	95,675
Payments	**(277,329)**	(255,260)	**(317,025)**	(293,713)
As at 31 December	**598,273**	618,125	**679,118**	723,834
41.1.1 Maturity analysis of lease liability				
Lease liability within one year	**80,543**	150,649	**97,717**	175,163
Lease liability within one to five years	**455,131**	401,181	**516,787**	475,549
Lease liability more than five years	**62,599**	66,295	**64,615**	73,122
Total	**598,273**	618,125	**679,118**	723,834

41.2 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 Bank and 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.

41. OTHER LIABILITIES (CONTD.)

41.2.1 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, 2019 to determine the liabilities of the active employees in the gratuity, were used in the actuarial valuation carried out as at December 31, 2020.
	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 7.78% p.a. (2019 – 10.23% p.a.) has been used to discount future liabilities considering anticipated long term rate of inflation.
	Salary increases	A salary increment of 5.84% p.a. (2019 – 8.28% p.a.) has been used in respect of the active employees.

41.2.2 The movement of the retirement benefit obligation

As at 31 December	Note	Page	BANK 2020 Rs.'000	BANK 2019 Rs.'000	GROUP 2020 Rs.'000	GROUP 2019 Rs.'000
As at 1 January			**188,679**	141,729	**211,386**	160,310
Charge to profit or loss	41.2.3	225	**59,210**	50,708	**65,263**	57,096
Charge /(reversal) to other comprehensive income	41.2.4	225	**(11,927)**	13,243	**(13,628)**	11,775
Contribution made for retirement benefit obligation			**235,962**	205,680	**263,021**	229,181
Payments made during the year			**(9,016)**	(17,001)	**(12,418)**	(17,795)
As at 31 December			**226,946**	188,679	**250,603**	211,386

41.2.3 Net benefit expense (recognised in profit or loss)

	BANK 2020 Rs.'000	BANK 2019 Rs.'000	GROUP 2020 Rs.'000	GROUP 2019 Rs.'000
Current service cost	**31,385**	33,275	**35,273**	37,559
Interest cost on benefit obligation	**19,396**	17,433	**21,561**	19,537
Past service cost and (gain)/loss on settlements	**8,429**	-	**8,429**	-
Charge to profit or loss	**59,210**	50,708	**65,263**	57,096

41.2.4 Due to assumption change (recognised in OCI profit or loss)

As at 31 December	BANK 2020 Rs.'000	BANK 2019 Rs.'000	GROUP 2020 Rs.'000	GROUP 2019 Rs.'000
(Gains)/losses due to assumption change				
Financial assumptions	**1,676**	(1,282)	**549**	(981)
Demographic assumptions	-	-	-	-
Experience loss/(gain) arising during the year	**(13,604)**	14,525	**(14,177)**	12,756
Total amount recognised for the year	**(11,927)**	13,243	**(13,628)**	11,775

41.2.5 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.

41.2.6 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.

41. OTHER LIABILITIES (CONTD.)

Increase/ (decrease) in discount rate	Increase/ (decrease) in salary increment rate	Sensitivity effect on employment benefit obligation increase/ (decrease) in the liability			
		BANK		GROUP	
		2020	2019	2020	2019
%	%	Rs.'000	Rs.'000	Rs.'000	Rs.'000
1%		**(18,144)**	(15,510)	**(17,779)**	(15,996)
(-1%)		**21,018**	17,909	**20,635**	18,423
	1%	**20,578**	17,558	**20,166**	18,099
	(-1%)	**(18,085)**	(15,476)	**(17,683)**	(15,996)

41.2.7 The expected benefit payout in the future years for retirement benefit obligation

As at 31 December	BANK		GROUP	
	2020	2019	2020	2019
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Within 12 months	**17,248**	10,087	**25,230**	15,733
Between 2 and 5 years	**104,203**	104,715	**116,088**	116,185
More than 5 years	**260,546**	243,832	**262,375**	246,485

42. STATED CAPITAL

As at 31 December	BANK		GROUP	
	2020	2019	2020	2019
Ordinary shares				
Value (Rs.'000)	**16,334,782**	16,334,782	**16,334,782**	16,334,782
Number of shares - '000	**1,083,558**	1,083,558	**1,083,558**	1,083,558

42.1 Share warrants

As at 31 December	BANK		GROUP	
	2020	2019	2020	2019
Share warrants (Rs.'000)	**65,484**	65,484	**65,484**	65,484

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. Given the Bank does not have an immediate need for new capital, with the request of Culture Financial Holdings, the Board of Directors of the Bank decided to (i) extend the exercise period of the warrants by a further two (2) years (i.e. until 30 September 2022) and (ii) revise the exercise price to a price that is equivalent to the average closing price per share for the five day period that immediately precedes the exercise of warrants. The Bank has obtained the concurrence of the Central Bank of Sri Lanka and the Securities and Exchange Commission of Sri Lanka for the extension of the warrants' exercise period and the revision to the exercise price, as described above.

43. 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.

As at 31 December	BANK		GROUP	
	2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
As at 1 January	**175,400**	139,883	**200,020**	157,569
Transferred from retained earnings	**28,827**	35,517	**28,827**	42,451
As at 31 December	**204,227**	175,400	**228,847**	200,020

44. 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 was 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.

44. EMPLOYEE SHARE OPTION PLAN (ESOP) (CONTD.)

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.

The recognition and measurement of the Employee Share Options Plans (ESOP) are in accordance with the SLFRS 2 (Share based payment transactions).

By 31 December 2020, options completed the vesting period and based on pre agreed targets reserve has been adjusted. The option holders are entitled for a further five year exercise period.

44.1 Inputs and assumptions used to determine the fair value of share option plan are given below:

	2020	2019
Fair value at measurement date (Rs. '000)	**113,500**	143,689
Exercise price (Rs.)	**21.60**	21.60
Expected volatility	**30.12%**	23.70%
Option life (expected weighted average life)	**5 Years**	5 Years
Risk free interest rate (based on Government bonds)	**5.00%**	8.45%

Total expense arising from employee share option plan transactions are recorded in Note 44.3.1 to the financial statements.

44.2 Movement in weighted average exercise prices and share options during the year is given below;

	2020		2019	
	Number of options '000	Weighted Average Exercise Price Rs.	Number of options '000	Weighted Average Exercise Price Rs.
Outstanding as at 1 January	**12,124**	**21.6**	12,124	21.6
Granted during the year	**-**	**-**	-	-
Exercised during the year	**-**	**-**	-	-
Expired during the year	**(7,359)**	**-**	-	-
Outstanding as at 31 December	**4,765**	**21.6**	12,124	21.6

44.3 Movement during the year

As at 31 December	Note	Page	BANK 2020 Rs.'000	BANK 2019 Rs.'000	GROUP 2020 Rs.'000	GROUP 2019 Rs.'000
Balance as at 1 January			**123,413**	99,140	**123,413**	99,140
Transfer to stated capital			**-**	-	**-**	-
Charge to Profit or Loss	44.3.1	228	**(9,913)**	24,273	**(9,913)**	24,273
Balance as at 31 December			**113,500**	123,413	**113,500**	123,413
44.3.1 Charge to Profit or Loss						
Equity settled charge for the year			**(27,926)**	(1,390)	**(27,926)**	(1,390)
Liability settled charge for the year			**18,013**	25,663	**18,013**	25,663
For the year ended 31 December			**(9,913)**	24,273	**(9,913)**	24,273
44.3.2 Break-up of the balance :						
Equity component			**23,500**	51,426	**23,500**	51,426
Liability component			**90,000**	71,987	**90,000**	71,987
Balance as at 31 December			**113,500**	123,413	**113,500**	123,413

45. NON - CONTROLLING INTEREST (NCI)

	UB Finance Company Limited Rs.'000	National Asset Management Limited Rs.'000	Total Rs.'000
2020			
% of Ownership interest held by NCI	**26.69%**	**49.00%**	
Balance as at 31 December 2019	**189,550**	**51,095**	**240,645**
Profit for the year	**(10,891)**	**932**	**(9,959)**
Other comprehensive income, net of tax	**175**	**(268)**	**(93)**
Dividends paid	**-**	**-**	**-**
Balance as at 31 December 2020	**178,834**	**51,759**	**230,593**
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

46. COMMITMENTS AND CONTINGENT LIABILITIES

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.

46. COMMITMENTS AND CONTINGENT LIABILITIES (CONTD.)

46.1 Commitments and Contingencies

As at 31 December	BANK		GROUP	
	2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Commitments				
Undrawn loan commitments	**15,857,546**	12,886,945	**16,003,578**	12,976,882
Contingencies				
Guarantees	**9,225,134**	9,545,781	**9,225,134**	9,545,781
Documentary credit	**3,589,740**	1,681,824	**3,589,740**	1,681,824
Forward contracts	**4,891,487**	2,563,677	**4,891,487**	2,563,677
Cheque pending for realisation	**322,110**	503,543	**322,110**	503,543
Spot contracts	**595,124**	1,651,024	**595,124**	1,651,024
Acceptances	**4,763,752**	952,060	**4,763,752**	952,060
Forward Bonds	**-**	931,760	**-**	931,760
Other contingent items	**969,993**	1,297,640	**969,993**	1,297,640
Total contingencies	**24,357,340**	19,127,309	**24,357,340**	19,127,309
Total commitments and contingencies	**40,214,886**	32,014,254	**40,360,918**	32,104,191

46.1.1 Stage movements in commitments and contingencies

BANK As at 31 December	2020				2019			
	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	**14,945,066**	**371,493**	**540,987**	**15,857,546**	12,302,438	157,661	426,846	12,886,945
Other contingencies	**18,548,619**	**-**	**-**	**18,548,619**	13,477,305	-	-	13,477,305
Total	**33,493,685**	**371,493**	**540,987**	**34,406,165**	25,779,743	157,661	426,846	26,364,250

GROUP As at 31 December	2020				2019			
	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	**15,025,586**	**392,347**	**585,644**	**16,003,578**	12,302,438	157,661	516,783	12,976,882
Other contingencies	**18,548,619**	**-**	**-**	**18,548,619**	13,477,305	-	-	13,477,305
Total	**33,574,205**	**392,347**	**585,644**	**34,552,197**	25,779,743	157,661	516,783	26,454,187

46. COMMITMENTS AND CONTINGENT LIABILITIES (CONTD.)

46.1.2 Stage movements in allowance for impairment

BANK As at 31 December	2020				2019			
	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 as at 1 January	65,447	4,103	4,697	74,247	40,928	2,873	35,360	79,161
Charge to statement of profit or loss	7,137	1,818	(1,154)	7,801	24,519	1,230	(30,663)	(4,914)
Net write off during the year	-	-	-	-	-	-	-	-
Closing balance as at 31 December	72,584	5,921	3,543	82,048	65,447	4,103	4,697	74,247
Other contingencies								
Opening balance as at 1 January	7,339	-	-	7,339	1,121	-	-	1,121
Charge to statement of profit or loss	4,947	-	-	4,947	6,218	-	-	6,218
Net write off during the year	-	-	-	-	-	-	-	-
Closing balance as at 31 December	12,286	-	-	12,286	7,339	-	-	7,339
Total								
Opening balance as at 1 January	72,786	4,103	4,697	81,586	42,049	2,873	35,360	80,282
Charge to statement of profit or loss	12,084	1,818	(1,154)	12,748	30,737	1,230	(30,663)	1,304
Net write off during the year	-	-	-	-				
Closing balance as at 31 December	84,870	5,921	3,543	94,334	72,786	4,103	4,697	81,586

GROUP As at 31 December	2020				2019			
	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 as at 1 January	65,447	4,103	57,847	127,397	41,967	3,300	52,819	98,086
Charge to statement of profit or loss	7,137	4,057	(31,956)	(20,762)	23,479	803	5,029	29,311
Net write off during the year	-	-	-	-	-	-	-	-
Closing balance as at 31 December	72,584	8,160	25,891	106,635	65,446	4,103	57,848	127,397
Other contingencies								
Opening balance as at 1 January	7,339	-	-	7,339	1,121	-	-	1,121
Charge to statement of profit or loss	4,947	-	-	4,947	6,218	-	-	6,218
Net write off during the year	-	-	-	-	-	-	-	-
Closing balance as at 31 December	12,286	-	-	12,286	7,339	-	-	7,339
Total								
Opening balance as at 1 January	72,786	4,103	57,847	134,736	43,088	3,300	52,819	99,207
Charge to statement of profit or loss	12,084	4,057	(31,956)	(15,815)	29,697	803	5,029	35,529
Net write off during the year	-	-	-	-	-	-	-	-
Closing balance as at 31 December	84,870	8,160	25,891	118,921	72,785	4,103	57,848	134,736

46. COMMITMENTS AND CONTINGENT LIABILITIES (CONTD.)

46.2 Capital commitments

As at 31 December	BANK 2020 Rs.'000	BANK 2019 Rs.'000	GROUP 2020 Rs.'000	GROUP 2019 Rs.'000
Approved and contracted for				
New branches/ relocations and refurbishments of branches	3,744	-	3,744	-
Capital commitments for new system implementation and others	846,413	342,697	846,413	342,697
Total	850,157	342,697	850,157	342,697
Approved but not contracted for				
New branches/ relocations and refurbishments of branches	14,136	-	14,136	-
Capital commitments for new system implementation and others	117,082	210,974	117,082	210,974
Total	131,218	210,974	131,218	210,974
Total capital commitments	981,376	553,670	981,376	553,670

46.3 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.

46.3.1 BANK

Legal Status		Case No
1. Cases filed against the Bank over the loan facilities granted		
	- District Courts	2632/15 SPL, 30656/M, 0405/P, 473/P, 0268/2018 DSP,04/2019 RA, NWP/ HCCA/KUR/185/2018 (F),3713/Spl
	- Commercial High Courts	0223/2013 MR CHC, 518/2014 MR CHC, 0200/2016 MR,0496/2016 MR, 0506/2017 MR, 0593/2018 MR,0098/2018 C, 0411/2019 MR, 0453/2019 MR,0592/2019 MR, '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), 0188/2017 (F), 325/2019 CA- Writ
	- Supreme Court	0098/2017 SC Appeal, 0013/2016 SC(CHC)
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, 2054/L, 0034/2017 DLM, 28736/L, 162/L,
		0186/ L, 543/T, 2220/L, 0174/2019 DMB,0175/2019 DMB, 0210/2019 DSP

46. COMMITMENTS AND CONTINGENT LIABILITIES (CONTD.)

46.3.2 UB Finance Company Limited

Legal Status		Case No
1. Cases filed against the Company over the repossession of vehicles and loan facilities		
	- District Courts	DSP/222/10, DMR/836/16, DMR/2814/15, DMR 925/14
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/1615/17, DMR/3020/15, DLM 000148/2017,4107/11/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		
	- Labour Tribunal	2/512/2015, 8/641/12, HCCA/LT/79/18 (Appeal Case)
	- 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

47. ASSETS PLEDGE

As at 31 December		Face value 2020 Rs.'000	2019 Rs.'000
Nature of Assets	**Nature of Liability**		
BANK			
Government treasury bills and bonds	Repurchased agreements	**10,735,598**	14,863,906
Financial investments at fair value through profit or loss		**33,000**	28,000
Financial investments at fair value through other comprehensive income		**6,501,733**	9,854,587
Financial assets at amortised cost - debt and other instruments		**4,200,865**	4,981,319
GROUP			
Government treasury bills and bond	Repurchased agreements	**10,735,598**	14,863,906
Financial investments at fair value through profit or loss		**33,000**	28,000
Financial investments at fair value through other comprehensive income		**6,501,733**	9,854,587
Financial assets at amortised cost - debt and other instruments		**4,200,865**	4,981,319
Lease Receivables	Other borrowed funds	**2,932,941**	2,186,279
Factoring Receivable	Overdraft	**-**	468,750

48. 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.

48.1 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.

48.1.1 Transactions with Culture Finance Holding Limited (Immediate parent)

For the year ended 31 December	2020 Rs.'000	2019 Rs.'000
Dividend paid	-	107,458

48.2 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 KMP include the Board of Directors of the Bank and key employees of the Bank holding directorships in subsidiary companies of the Bank.

48.2.1 Compensation of Key Management Personnel

For the year ended 31 December	2020 Rs.'000	2019 Rs.'000
Short term employee benefits	55,775	74,134
Post employment benefits	4,994	6,365
Other long term benefits	7,895	9,733
Directors' fees and expenses	14,958	12,982
Total	83,622	103,214

48.2.2 ESOP granted to KMPs

As at 31 December	2020 Rs.'000	2019 Rs.'000
Number of options exercised during the year	-	-
Number of options remaining as at 31 December	4,765	12,124

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.

48.3 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 dependents of the KMP or the KMPs' domestic partner.

48. RELATED PARTY DISCLOSURES (CONTD.)

48.3.1 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	2020		2019	
	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	**4,778**	**5,362**	10,864	11,954
Liabilities				
Due to customers	**435**	**164**	31,623	30,249

Items in the Statement of Profit or Loss

For the year ended 31 December	2020 Rs.'000	2019 Rs.'000
Interest income	**273**	563
Interest expense	**7**	3,781

48.4 Transactions with other related parties

The following table shows the outstanding balance and the corresponding interest during the year.

48.4.1 Transactions with subsidiaries

Items in the Statement of Financial Position

As at 31 December	2020		2019	
	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	**732,900**	**581,237**	547,428	433,447
Financial assets at amortised cost - debt and other instruments	**312,253**	**312,253**	312,253	312,253
Other assets	**-**	**133**	173	194
Liabilities				
Due to customers	**17,257**	**76,963**	223,417	234,725
Repurchased agreements	**105,012**	**48,259**	-	137

Items in the Statement of Profit or Loss

For the year ended 31 December	2020 Rs.'000	2019 Rs.'000
Interest income	**132,308**	114,062
Interest expense	**6,647**	14,580
Personnel expenses	**1,384**	2,214
Dividend received	**-**	-

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.

48. RELATED PARTY DISCLOSURES (CONTD.)

48.4.2 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. 137.5Mn to the Fund for the year ended 31 December 2020 (2019- Rs.135.9Mn). Fund has invested a sum of Rs. 738Mn with the Bank as at 31 December 2020 (2019 : 530Mn). During the year, Bank has incurred sum of Rs. 89.7Mn (2019 : 77.2Mn) as interest expense.

48.4.3 Transactions with the Serandib Capital Limited

	Balance as at 31-Dec-20 Rs.'000	Income/ Expense during 2020 Rs.'000	Balance as at 31-Dec-19 Rs.'000	Income/ Expense during 2019 Rs.'000
Deep discounted bond	**3,125,770**	**120,200**	3,005,570	115,599
Deposits	**1,138**	**27**	797	49

49. 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.

49. SEGMENT INFORMATION (CONTD.)

	Corporate		Treasury		SME		Retail		Other Group		Total	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Interest income	3,317,942	4,394,644	1,816,334	1,492,809	2,777,221	3,581,624	3,094,727	3,259,971	1,708,090	2,145,968	12,714,314	14,875,016
Inter-segment interest income	-	-	810,324	1,144,840	-	-	2,213,633	2,569,327	-	-	3,023,957	3,714,167
Total interest income	3,317,942	4,394,644	2,626,658	2,637,649	2,777,221	3,581,624	5,308,360	5,829,298	1,708,090	2,145,968	15,738,272	18,589,183
Interest expense	746,376	1,051,856	1,075,753	1,379,196	1,283,829	1,580,768	4,201,068	4,509,888	869,691	1,119,304	8,176,717	9,641,012
Inter-segment interest expense	1,919,487	2,544,251	-	-	1,104,470	1,169,916	-	-	-	-	3,023,957	3,714,167
Total interest expense	2,665,863	3,596,107	1,075,753	1,379,196	2,388,299	2,750,684	4,201,068	4,509,888	869,691	1,119,304	11,200,674	13,355,179
Net interest income	652,079	798,537	1,550,905	1,258,453	388,922	830,940	1,107,292	1,319,410	838,399	1,026,664	4,537,597	5,234,004
Total other income	184,078	222,153	1,258,902	628,214	186,479	364,831	390,835	338,947	130,254	128,005	2,150,548	1,682,150
Total net income	836,157	1,020,690	2,809,807	1,886,667	575,401	1,195,771	1,498,127	1,658,357	968,653	1,154,669	6,688,145	6,916,154
Less :												
Impairment	85,188	1,311	103,526	(3,760)	326,819	297,294	219,150	111,239	213,605	174,204	948,288	580,288
Depreciation & amortisation	80,747	77,134	79,468	75,363	140,380	144,239	364,309	340,144	59,762	62,384	724,666	699,264
Other expenses	264,585	282,660	258,006	268,686	817,788	870,376	1,766,904	1,776,091	399,147	455,911	3,506,430	3,653,724
Segmental results	405,637	659,585	2,368,807	1,546,379	(709,586)	(116,138)	(852,236)	(569,117)	296,139	462,170	1,508,761	1,982,878
Less: VAT, NBT and DRL on financial services											440,091	781,623
Less: Tax expense											445,917	397,037
Profit after tax											622,753	804,218
Other information												
Segment assets	30,770,226	37,033,000	43,782,309	30,869,747	22,179,517	25,012,776	14,111,573	15,972,000	13,981,364	15,973,870	124,824,989	124,861,393
Unallocated assets											4,745,373	4,978,572
Consolidated total assets											129,570,362	129,839,965
Segment liabilities	15,017,116	13,560,000	18,949,665	24,005,000	12,699,999	10,774,379	52,872,615	50,087,000	9,189,374	10,544,505	108,728,769	108,970,885
Unallocated liabilities											2,776,637	3,429,809
Consolidated total liabilities											111,505,406	112,400,694
Cash flow from operating activities	2,343,344	(3,768,941)	7,874,540	(6,966,602)	1,612,575	(4,415,437)	4,198,533	(6,123,555)	(445,339)	13,391,210	15,583,653	(7,883,325)
Cash flow from investing activities	(260,064)	(218,193)	(12,496,472)	3,001,111	(178,964)	(255,621)	(465,953)	(354,508)	2,470	1,026,468	(13,398,983)	3,199,257
Cash flow from financing activities	-	-	(3,265,971)	2,107,167	-	-	-	-	896,444	(1,469,320)	(2,369,527)	637,847

50. 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.

51. FAIR VALUE OF ASSETS AND LIABILITIES

51.1 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.

51. FAIR VALUE OF ASSETS AND LIABILITIES (CONTD.)

BANK As at 31 December	2020 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	-	14,343	-	14,343
- Currency SWAPs	-	23,846	-	23,846
Financial investments at fair value through profit or loss				
- Sri Lanka Government securities	1,996,083	-	-	1,996,083
- Investment in units	5,147,320	-	-	5,147,320
Financial investments at fair value through other comprehensive income				
- Sri Lanka Government securities	19,382,508	-	-	19,382,508
Total financial assets measured at fair value	26,525,911	38,189	-	26,564,100
Financial liabilities measured at fair value				
Derivative financial instruments				
- Forward foreign exchange contracts	-	6,230	-	6,230
- Currency SWAPs	-	2,083	-	2,083
Total financial liabilities measured at fair value	-	8,313	-	8,313

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

51. FAIR VALUE OF ASSETS AND LIABILITIES (CONTD.)

GROUP As at 31 December	2020			
	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	-	14,343	-	14,343
- Currency SWAPs	-	23,846	-	23,846
Financial investments at fair value through profit or loss				
- Sri Lanka Government securities	1,996,083	-	-	1,996,083
- Investment in units	5,184,137	-	-	5,184,137
Financial investments at fair value through other comprehensive income				
- Sri Lanka Government securities	19,382,508	-	-	19,382,508
- Equity securities - Quoted	12,013	-	-	12,013
Total financial assets measured at fair value	26,574,741	38,189	-	26,612,930
Financial liabilities measured at fair value				
Derivative financial instruments				
- Forward foreign exchange contracts	-	6,230	-	6,230
- Currency SWAPs	-	2,083	-	2,083
Total financial liabilities measured at fair value	-	8,313	-	8,313

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

51. FAIR VALUE OF ASSETS AND LIABILITIES (CONTD.)

51.2 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	Liabilities
Cash and cash equivalents	Due to banks
Balances with Central Bank of Sri Lanka	Repurchased agreements
Placements with banks	Savings and demand deposits in "Due to customers"
Reverse repurchased agreements	Other financial liabilities
Other financial assets	

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	2020				
	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	-	72,208,346	-	72,208,346	67,517,674
Financial assets at amortised cost - debt and other instruments	11,975,063	9,217,915	-	21,192,978	21,168,076
Total	11,975,063	81,426,260	-	93,401,324	88,685,750
Financial liabilities					
Due to customers	-	58,080,496	-	58,080,496	57,873,488
Total	-	58,080,496	-	58,080,496	57,873,488

51. FAIR VALUE OF ASSETS AND LIABILITIES (CONTD.)

BANK 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	-	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

GROUP As at 31 December	2020				
	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	-	78,813,979	-	78,813,979	73,776,668
Financial assets at amortised cost - debt and other instruments	11,975,063	8,328,061	-	20,303,124	20,509,495
Total	11,975,063	87,142,039	-	99,117,103	94,286,163
Financial liabilities					
Due to customers		62,807,363		62,807,363	62,605,999
Other borrowed funds		2,347,634		2,347,634	2,347,634
Total	-	65,154,997	-	65,154,997	64,953,633

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

52. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

52.1 BANK

As at 31 December	2020			2019		
	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	2,405,091	-	2,405,091	2,718,860	-	2,718,860
Balances with Central Bank of Sri Lanka	-	722,727	722,727	-	2,314,197	2,314,197
Placements with banks	15,747	-	15,747	94,257	-	94,257
Reverse repurchased agreements	-	-	-	426,823	-	426,823
Derivative financial instruments	38,189	-	38,189	6,230	-	6,230
Financial investments at fair value through profit or loss	6,236,393	907,011	7,143,403	1,475,498	1,753,067	3,228,565
Financial assets at amortised cost - loans and advances to customers	33,273,572	34,244,102	67,517,674	46,506,604	30,851,697	77,358,301
Financial assets at amortised cost - debt and other instruments	13,462,674	7,705,402	21,168,076	9,078,092	4,362,948	13,441,040
Financial investments at fair value through other comprehensive income	8,987,032	10,398,007	19,385,038	4,945,395	12,557,850	17,503,245
Current tax asset	-	-	-	1,148	-	1,148
Investments in subsidiaries	-	882,478	882,478	-	912,268	912,268
Goodwill and intangible assets	-	1,314,234	1,314,234	-	1,329,791	1,329,791
Property, plant and equipment and Right of use assets	-	1,317,789	1,317,789	-	1,482,366	1,482,366
Other assets	622,906	409,922	1,032,828	578,646	357,922	936,568
Total assets	65,041,604	57,901,671	122,943,274	65,831,553	55,922,106	121,753,659
Liabilities						
Due to banks	9,894,070	86,521	9,980,590	11,223,586	251,590	11,475,176
Derivative financial instruments	8,313	-	8,313	4,515	-	4,515
Repurchased agreements	10,205,564	-	10,205,564	12,116,040	-	12,116,040
Due to customers	80,037,667	2,346,185	82,383,852	71,745,653	4,786,359	76,532,012
Other borrowed funds	-	-	-	1,242,450	-	1,242,450
Current tax liability	262,689	-	262,689	-	-	-
Deferred tax liabilities	-	53,841	53,841	-	62,299	62,299
Other liabilities	1,355,878	602,530	1,958,408	2,248,182	562,529	2,810,711
Total liabilities	101,764,181	3,089,077	104,853,257	98,580,426	5,662,777	104,243,203
Maturity gap	(36,722,577)	54,812,594	18,090,017	(32,748,873)	50,259,329	17,510,456
Cumulative gap	(36,722,577)	18,090,017		(32,748,873)	17,510,456	

52. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (CONTD.)

52.2 GROUP

As at 31 December	2020			2019		
	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	2,832,540	-	2,832,540	3,104,542	-	3,104,542
Balances with Central Bank of Sri Lanka	-	722,727	722,727	-	2,314,197	2,314,197
Placements with banks	15,747	-	15,747	94,257	-	94,257
Reverse repurchased agreements	240,736	-	240,736	1,009,581	-	1,009,581
Derivative financial instruments	38,189	-	38,189	6,230	-	6,230
Financial investments at fair value through profit or loss	6,236,393	943,827	7,180,220	1,475,498	1,794,710	3,270,208
Financial assets at amortised cost - loans and advances to customers	35,682,013	38,094,655	73,776,668	48,919,018	35,861,120	84,780,138
Financial assets at amortised cost - debt and other instruments	13,152,123	7,357,372	20,509,495	9,081,410	3,589,148	12,670,558
Financial investments at fair value through other comprehensive income	8,987,032	10,410,221	19,397,252	4,945,395	12,571,090	17,516,485
Current tax assets	-	-	-	1,148	-	1,148
Investments in real estate	-	106,890	106,890	-	112,563	112,563
Goodwill and intangible assets	-	1,661,555	1,661,555	-	1,678,668	1,678,668
Property, plant and equipment and Right of use assets	-	1,523,305	1,523,305	-	1,741,074	1,741,074
Deferred tax assets	-	445,436	445,436	-	497,620	497,620
Other assets	682,981	436,622	1,119,602	670,325	372,371	1,042,696
Total assets	67,867,753	61,702,609	129,570,362	69,307,404	60,532,561	129,839,965
Liabilities						
Due to banks	9,081,558	86,521	9,168,079	11,536,263	65,703	11,601,966
Derivative financial instruments	8,313	-	8,313	4,515	-	4,515
Repurchased agreements	10,100,553	-	10,100,553	12,116,040	-	12,116,040
Due to customers	82,890,473	4,213,719	87,104,192	76,020,085	6,731,583	82,751,668
Other borrowed funds	1,739,884	607,750	2,347,634	1,956,998	5,57,060	2,514,058
Current tax liabilities	268,807	202,591	471,398	8,223	189,734	197,957
Deferred tax liabilities	-	54,135	54,135	-	63,062	63,062
Other liabilities	1,462,940	788,162	2,251,102	2,248,011	903,417	3,151,428
Total liabilities	105,552,528	5,952,878	111,505,406	103,890,135	8,510,559	112,400,694
Maturity gap	(37,684,775)	55,749,731	18,064,956	(34,582,731)	52,022,002	17,439,271
Cumulative gap	(37,684,775)	18,064,956		(34,582,731)	17,439,271	

53. RISK MANAGEMENT

53.1 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, reputation 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.

53.1.1 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.

53.1.2 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.

53. RISK MANAGEMENT (CONTD.)

53.1.3 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.

53.1.4 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.

53.1.5 The impact of COVID-19 on the business/operations and risk management of the Bank

The COVID-19 pandemic has had a direct impact on economic activities both locally and globally, while pandemic- related uncertainties have affected the overall business landscape of the country. Sri Lanka's efforts to gradually revive its economic activities subsequent to the countrywide lock-down, have been once again impeded by the emergence of the second wave of the pandemic; which has forced lock-downs in selected areas and provinces with mobility restrictions being imposed to control a possible community spread.

Subsequent to the COVID-19 outbreak in Sri Lanka, the Bank had strictly adhered to the guidelines and directions issued by the Government and the Central Bank of Sri Lanka (CBSL) when conducting its business operations. The Bank provided relief for affected businesses and individuals, in-line with the directions issued by CBSL. Such relief measures include, offering concessionary rates of interest to eligible loan products (debt moratorium), deferment of repayment terms of credit facilities, and waiving off selected fees and charges. Based on the Guidance Notes on Accounting Considerations of the COVID-19 Outbreak issued by the CA Sri Lanka, concessionary rates on the Equal Monthly Installment loans given under government debt moratorium relief packages have been considered under non-substantial modification methodology and the impact have been charged to profit or loss immediately in these Financial Statements.

The said relief packages have negative impacts on the earnings and cash flows/liquidity positions of the Bank. However, the management is of the view that the negative impacts would not pose any additional stress on the Bank's ability to maintain its regulatory capital margins which is well above the regulatory requirements. The Bank has increased its liquidity buffers on a prudent basis and maintains a strong excess liquidity position.

When assessing the expected credit losses, the Bank considered the potential impact of the COVID-19 outbreak based on the available information and has made provisions as management overlays to counter the future possible deteriorations in credit quality. However, due to the uncertainty of the pandemic-ridden business environment, actual losses may differ from the amount provided.

53.2 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.

53. RISK MANAGEMENT (CONTD.)

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.

53.2.1 Impairment assessment

The methodology of the impairment assessment has explained in the Note 4.7 under summary of significant accounting policies.
CA Sri Lanka issued certain guidelines in the application of certain provisions in SLFRS 9 "Financial Instruments", considering the insufficiency of information, uncertainty relating to borrowers repayment ability, resource constraints and various government relief measures as a result of the pandemic, though the circumstances require reassessment of all the factors for the preparation of Financial Statements for the reporting on 31 December 2020 financial statements and thereon. Accordingly, the Bank identified three sectors as risk elevated industries. The Risk Management Department independently review the customer exposures subject to the said industries and provide additional provisions by shifting buckets. Furthermore, on Economic Factor Adjustment, weightages assigned to worst case scenario has increased by transferring the weightages from best case scenario to worst case scenario in the 31 December 2020. Also, in the Treasury impairment models, the Bank has considered the effect on country risk downgrade on the investments denominated in foreign currencies.

53.2.1.1 Analysis of the total impairment for expected credit losses is as follows.

BANK As at 31st December	2020				2019			
	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
Financial assets at amortised cost								
- Loans & Advances	449,460	232,072	1,795,574	2,477,106	397,970	57,833	1,501,940	1,957,742
- Debt & Other Instruments	138,579	1,702	-	140,281	33,726	3,029	-	36,755
- Credit related commitments & contingencies	84,870	5,921	3,543	94,334	72,786	4,103	4,697	81,586
Total	672,909	239,695	1,799,117	2,711,721	504,482	64,964	1,506,637	2,076,083

53.2.1.2 Movement of the total allowance for expected credit losses during the period

BANK For the year ended 31st December	2020 Rs.000	2019 Rs.000
Opening balance as at 1 January	2,076,083	2,159,995
Net charge for the year	734,683	389,871
Write off during the year	(93,212)	(473,783)
Other movements	(5,833)	-
Balance as at 31st December	2,711,721	2,076,083

53.2.2 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.

53.2.3 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.

53. RISK MANAGEMENT (CONTD.)

The following table shows the risk concentration by industry for the components of the Statement of Financial Position;

BANK As at 31 December	2020							
	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	2,405,091	-	-	-	-	-	-	2,405,091
Balances with Central Bank of Sri Lanka	-	722,727	-	-	-	-	-	722,727
Placements with banks	15,747	-	-	-	-	-	-	15,747
Derivative financial instruments	33,635	-	-	4,554	-	-	-	38,189
Financial investments at fair value through profit or loss	5,147,320	1,996,083	-	-	-	-	-	7,143,403
Financial assets at amortised cost - loans and advances to customers	5,490,023	-	15,839,687	11,398,306	4,994,363	10,521,065	19,274,230	67,517,674
Financial assets at amortised cost - debt and other instruments	3,943,456	17,224,620	-	-	-	-	-	21,168,076
Financial investments at fair value through other comprehensive income	2,530	19,382,508	-	-	-	-	-	19,385,038
Other financial assets	-	-	-	-	-	-	147,865	147,865
Subtotal	17,037,802	39,325,938	15,839,687	11,402,860	4,994,363	10,521,065	19,422,095	118,543,810
Undrawn loan commitments	394,116	-	6,816,640	4,222,301	813,509	1,728,067	1,800,866	15,775,498
Guarantees	1,663,353	-	1,812,364	2,616,578	1,775,207	346,667	1,004,517	9,218,686
Letters of credit	-	-	-	1,574,999	265,419	1,374,360	372,452	3,587,230
Acceptances	-	-	659,193	2,239,957	312,926	946,307	602,040	4,760,424
Other contingent items	-	-	969,993	-	-	-	-	969,993
Subtotal	2,057,469	-	10,258,190	10,653,835	3,167,061	4,395,401	3,779,875	34,311,831
Total	19,095,271	39,325,938	26,097,877	22,056,695	8,161,424	14,916,466	23,201,970	152,855,641

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

53. RISK MANAGEMENT (CONTD.)

GROUP As at 31 December	2020							
	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	2,832,540	-	-	-	-	-	-	2,832,540
Balances with Central Bank of Sri Lanka	-	722,727	-	-	-	-	-	722,727
Placements with banks	15,747	-	-	-	-	-	-	15,747
Reverse repurchased agreements	240,736	-	-	-	-	-	-	240,736
Derivative financial instruments	33,635	-	-	4,554	-	-	-	38,189
Financial investments at fair value through profit or loss	5,184,137	1,996,083	-	-	-	-	-	7,180,220
Financial assets at amortised cost - loans and advances to customers	5,690,383	-	16,791,324	13,699,766	5,299,343	11,062,870	21,232,982	73,776,668
Financial assets at amortised cost - debt and other instruments	3,284,875	17,224,620	-	-	-	-	-	20,509,495
Financial investments at fair value through other comprehensive income	6,037	19,382,508	-	-	-	-	8,707	19,397,252
Other financial assets	29,367	575	-	-	-	-	147,865	177,807
Subtotal	17,317,457	39,326,513	16,791,324	13,704,320	5,299,343	11,062,870	21,389,554	124,891,381
Undrawn loan commitments	394,116	-	6,816,640	4,343,745	813,509	1,728,067	1,800,866	15,896,943
Guarantees	1,663,353	-	1,812,364	2,616,578	1,775,207	346,667	1,004,517	9,218,686
Letters of credit	-	-	-	1,574,999	265,419	1,374,360	372,454	3,587,232
Acceptances	-	-	659,193	2,239,957	312,926	946,306	602,040	4,760,422
Other contingent items	-	-	969,993	-	-	-	-	969,993
Subtotal	2,057,469	-	10,258,190	10,775,279	3,167,061	4,395,400	3,779,877	34,433,276
Total	19,374,926	39,326,513	27,049,514	24,479,599	8,466,404	15,458,270	25,169,431	159,324,657

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

53. RISK MANAGEMENT (CONTD.)

53.2.4 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	2020							
	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	15,747	-	-	15,747	15,747	-	-	15,747
Reverse repurchased agreements	-	-	-	-	240,736	-	-	240,736
Loans and advances	54,785,663	5,364,660	7,367,351	67,517,674	58,293,909	6,150,962	9,331,797	73,776,668
Term loans	35,056,756	4,753,376	5,601,461	45,411,593	36,244,181	4,469,357	6,008,007	46,721,545
Overdrafts	8,995,704	416,976	1,071,082	10,483,762	8,995,704	329,660	1,071,083	10,396,447
Trade finance	7,532,377	14,017	394,033	7,940,427	7,532,377	14,016	394,033	7,940,427
Lease and hire-purchase	143,085	81,392	176,628	401,104	1,615,299	960,306	1,244,348	3,819,953
Factoring	45,958	904	92,343	139,205	496,721	167,620	533,133	1,197,474
Pawning & Gold loans	333,316	-	3,790	337,106	709,851	112,007	51,944	873,802
Credit card	1,528,040	97,995	28,014	1,654,049	1,528,040	97,995	28,015	1,654,049
Staff loans	1,150,427	-	-	1,150,427	1,171,736	-	1,235	1,172,971
Financial assets at amortised cost - debt and other instruments	20,857,525	310,551	-	21,168,076	20,198,944	310,551	-	20,509,495
Financial investments at fair value through other comprehensive income	19,385,038	-	-	19,385,038	19,397,252	-	-	19,397,252
Other financial assets	147,865	-	-	147,865	177,807	-	-	177,807
Subtotal	95,191,838	5,675,210	7,367,352	108,234,400	98,324,395	6,461,513	9,331,797	114,117,705
Undrawn loan commitments	14,872,482	365,572	537,444	15,775,498	14,953,003	384,187	559,753	15,896,943
Guarantees	9,218,686	-	-	9,218,686	9,218,686	-	-	9,218,686
Letters of credit	3,587,230	-	-	3,587,230	3,587,230	-	-	3,587,230
Acceptances	4,760,424	-	-	4,760,424	4,760,424	-	-	4,760,424
Other contingent items	969,993	-	-	969,993	969,993	-	-	969,993
Subtotal	33,408,815	365,572	537,444	34,311,831	33,489,336	384,187	559,753	34,433,276
Total	128,600,653	6,040,782	7,904,796	142,546,231	131,813,731	6,845,700	9,891,550	148,550,981
By industry segment								
Construction	6,646,052	1,026,048	489,326	8,161,426	6,738,065	1,094,325	634,015	8,466,405
Consumer	24,672,351	495,125	930,400	26,097,876	25,100,812	700,607	1,248,095	27,049,514
Financial services	45,455,016	2,646,645	14,692	48,116,353	45,732,959	2,008,620	290,948	48,032,527
Manufacturing	12,589,197	135,011	2,192,256	14,916,464	12,819,147	323,663	2,315,460	15,458,270
Service	19,992,367	1,239,400	1,970,204	23,201,971	20,885,175	1,795,145	2,510,344	25,190,664
Wholesale & retail trade	19,245,670	498,553	2,307,918	22,052,141	20,537,571	923,340	2,892,688	24,353,601
Total	128,600,653	6,040,782	7,904,796	142,546,231	131,813,731	6,845,700	9,891,550	148,550,981

53. RISK MANAGEMENT (CONTD.)

As at 31 December	2020							
	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	1,301,226	50,933	485,075	1,837,234	1,640,410	165,962	611,619	2,417,991
Eastern	177,415	1,425	39,950	218,790	276,325	37,495	74,003	387,823
North Central	505,274	16,184	174,790	696,248	718,223	119,756	255,116	1,093,095
North Western	1,823,506	92,240	505,069	2,420,815	1,938,225	152,494	652,024	2,742,743
Northern	1,054,387	18,728	111,966	1,185,081	1,054,387	18,728	111,966	1,185,081
Sabaragamuwa	1,137,764	98,306	508,170	1,744,240	1,355,263	202,597	612,632	2,170,492
Southern	2,919,164	148,859	424,931	3,492,954	3,505,373	475,338	757,755	4,738,466
Uva	392,127	6,473	191,779	590,379	392,127	6,473	191,779	590,379
Western	119,289,790	5,607,634	5,463,066	130,360,490	120,933,398	5,666,857	6,624,656	133,224,911
Total	128,600,653	6,040,782	7,904,796	142,546,231	131,813,731	6,845,700	9,891,550	148,550,981

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
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 & Gold loans	348,240	16,415	3,230	367,885	597,112	50,747	22,175	670,034
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
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	100,509,386	1,770,000	6,761,841	109,041,227	104,531,075	3,445,659	8,340,241	116,316,975
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	126,216,343	1,923,558	7,183,990	135,323,891	130,238,032	3,599,217	8,799,177	142,636,426
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	40,458,094	312,194	37,131	40,807,419	41,504,323	110,709	94,274	41,709,306
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	126,216,343	1,923,558	7,183,990	135,323,891	130,238,032	3,599,217	8,799,177	142,636,426

53. RISK MANAGEMENT (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	116,198,644	1,581,099	4,832,101	122,611,844	118,783,486	2,036,618	5,625,387	126,445,491
Total	126,216,343	1,923,558	7,183,990	135,323,891	130,238,032	3,599,217	8,799,177	142,636,426

53.2.5 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;

53. RISK MANAGEMENT (CONTD.)

53.2.5.1 Maximum and net exposure to credit risk by class of financial assets

BANK

As at 31 December — 2020

		Value of collateral and credit enhancements held										
	Maximum Exposure to Credit Risk Rs.'000	Documentary Bills (Excluding Export Bills Purchased) Rs.'000	Stocks, Bonds, Debentures, Life Policies Rs.'000	Fixed, Savings and Other Deposits Rs.'000	Foreign Currency Deposits Rs.'000	Stock in Trade Rs.'000	Immovable Property Plant and Machinery Rs.'000	Leasing and Hire Purchase Agreements Rs.'000	Movable Property Rs.'000	Trust Certificates, Other Securities Rs.'000	Gold Rs.'000	Net Exposure Rs.'000
Placements with banks	**15,747**	-	-	-	-	-	-	-	-	-	-	**15,747**
Derivative financial instruments	**38,189**	-	-	-	-	-	-	-	-	-	-	**38,189**
Financial investments at fair value through profit or loss	**7,143,403**	-	-	-	-	-	-	-	-	-	-	**7,143,403**
Financial assets at amortised cost - loans and advances to customers	**69,994,780**	**7,992,884**	**484,257**	**4,796,846**	**79,870**	**348,188**	**22,917,794**	**359,844**	**528,665**	**1,738,615**	**337,254**	**30,410,563**
Financial assets at amortised cost - debt and other instruments	**21,308,357**	-	**3,689,857**	-	-	-	-	-	-	-	-	**17,618,500**
Financial investments at fair value through other comprehensive income	**19,385,038**	-	-	-	-	-	-	-	-	-	-	**19,385,038**
Other financial assets	**147,865**	-	-	-	-	-	-	-	-	-	-	**147,865**
Total financial assets	**118,033,379**	**7,992,884**	**4,174,114**	**4,796,846**	**79,870**	**348,188**	**22,917,794**	**359,844**	**528,665**	**1,738,615**	**337,254**	**74,759,305**

BANK

As at 31 December — 2019

		Value of collateral and credit enhancements held										
	Maximum Exposure to Credit Risk Rs.'000	Documentary Bills (Excluding Export Bills Purchased) Rs.'000	Stocks, Bonds, Debentures, Life Policies Rs.'000	Fixed, Savings and Other Deposits Rs.'000	Foreign Currency Deposits Rs.'000	Stock in Trade Rs.'000	Immovable Property Plant and Machinery Rs.'000	Leasing and Hire Purchase Agreements Rs.'000	Movable Property Rs.'000	Trust Certificates, Other Securities Rs.'000	Gold Rs.'000	Net Exposure 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

53. RISK MANAGEMENT (CONTD.)

GROUP

As at 31 December	2020											
		Value of collateral and credit enhancements held										
	Maximum Exposure to Credit Risk Rs.'000	Documentary Bills (Excluding Export Bills Purchased) Rs.'000	Stocks, Bonds, Debentures, Life Policies Rs.'000	Fixed, Savings and Other Deposits Rs.'000	Foreign Currency Deposits Rs.'000	Stock in Trade Rs.'000	Immovable Property Plant and Machinery Rs.'000	Leasing and Hire Purchase Agreements Rs.'000	Movable Property Rs.'000	Trust Certificates, Other Securities Rs.'000	Gold Rs.'000	Net Exposure Rs.'000
Placements with banks	15,747	-	-	-	-	-	-	-	-	-	-	15,747
Reverse repurchased agreements	240,736	-	-	-	-	-	-	-	-	240,736	-	-
Derivative financial instruments	38,189	-	-	-	-	-	-	-	-	-	-	38,189
Financial investments at fair value through profit or loss	7,180,220	-	-	-	-	-	-	-	-	-	-	7,180,220
Financial assets at amortised cost - loans and advances to customers	76,924,720	7,992,884	484,257	5,563,123	79,870	348,188	22,919,295	359,844	5,302,084	2,782,215	879,371	30,212,589
Financial assets at amortised cost - debt and other instruments	20,648,075	-	253,536	2,758,038	-	-	-	-	-	-	-	17,636,501
Financial investments at fair value through other comprehensive income	19,397,252	-	-	-	-	-	-	-	-	-	-	19,397,252
Other financial assets	177,807	-	-	-	-	-	-	-	-	-	-	177,807
Total financial assets	**124,622,746**	**7,992,884**	**737,793**	**8,321,161**	**79,870**	**348,188**	**22,919,295**	**359,844**	**5,302,084**	**3,022,951**	**879,371**	**74,658,305**

GROUP

As at 31 December	2019											
		Value of collateral and credit enhancements held										
	Maximum Exposure to Credit Risk Rs.'000	Documentary Bills (Excluding Export Bills Purchased) Rs.'000	Stocks, Bonds, Debentures, Life Policies Rs.'000	Fixed, Savings and Other Deposits Rs.'000	Foreign Currency Deposits Rs.'000	Stock in Trade Rs.'000	Immovable Property Plant and Machinery Rs.'000	Leasing and Hire Purchase Agreements Rs.'000	Movable Property Rs.'000	Trust Certificates, Other Securities Rs.'000	Gold Rs.'000	Net Exposure 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

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53.2.5.2 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	2020											
	Gross Carrying Amount				Collateral				Net Exposure			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000
BANK												
Term loans	35,428,584	4,945,164	6,693,204	47,066,952	18,411,516	1,500,435	5,357,919	25,269,870	17,017,068	3,444,729	1,335,285	21,797,082
Overdrafts	9,041,952	433,529	1,606,822	11,082,303	3,495,006	278,481	707,457	4,480,944	5,546,946	155,048	899,365	6,601,359
Trade finance	7,547,522	14,280	433,852	7,995,654	7,537,479	14,280	433,852	7,985,611	10,043	-	-	10,043
Lease and hire purchase	144,372	84,895	233,549	462,816	125,733	66,080	207,660	399,473	18,639	18,815	25,889	63,343
Factoring	47,502	904	141,505	189,911	34,999	904	49,730	85,633	12,503	-	91,775	104,278
Pawning	333,464	-	3,790	337,254	333,464	-	3,790	337,254	-	-	-	-
Credit cards	1,541,299	117,960	50,203	1,709,462	77,818	3,513	-	81,331	1,463,481	114,447	50,203	1,628,131
Staff loans	1,150,428	-	-	1,150,428	944,101	-	-	944,101	206,327	-	-	206,327
Grand total	55,235,123	5,596,732	9,162,925	69,994,780	30,960,116	1,863,693	6,760,408	39,584,217	24,275,007	3,733,039	2,402,517	30,410,563
GROUP												
Term loans	36,627,411	4,669,665	7,190,970	48,488,046	19,551,608	1,829,311	5,777,620	27,158,539	17,075,803	2,840,354	1,413,350	21,329,507
Overdrafts	9,041,952	345,258	1,606,822	10,994,032	3,495,006	278,481	707,457	4,480,944	5,546,946	66,777	899,365	6,513,088
Trade finance	7,547,522	14,280	433,852	7,995,654	7,537,479	14,280	433,852	7,985,611	10,043	-	-	10,043
Lease and hire purchase	1,649,483	1,001,412	1,561,792	4,212,687	1,629,433	981,219	1,507,409	4,118,061	20,050	20,193	54,383	94,626
Factoring	505,453	195,069	771,975	1,472,497	392,783	174,020	482,247	1,049,050	112,670	21,049	289,728	423,447
Pawning & Gold loans	709,999	112,007	57,365	879,371	709,999	112,006	57,365	879,370	-	-	-	-
Credit cards	1,541,299	117,960	50,203	1,709,462	77,818	3,513	-	81,331	1,463,481	114,447	50,203	1,628,131
Staff loans	1,171,736	-	1,235	1,172,971	957,990	-	1,235	959,225	213,746	-	-	213,746
Grand total	58,794,855	6,455,651	11,674,214	76,924,720	34,352,116	3,392,830	8,967,185	46,712,131	24,442,739	3,062,820	2,707,029	30,212,589

As at 31 December	2019											
	Gross Carrying Amount				Collateral				Net Exposure			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'00
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	369,594	-	-	-	-
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	44,325,625	2,528,013	7,912,361	54,765,998	29,131,997	1,056,964	2,442,988	32,631,949

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53.2.6 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	2020		2019	
	Rs.'000	%	Rs.'000	%
Central	**1,543,776**	**2%**	1,641,416	2%
Eastern	**206,056**	**0%**	206,040	0%
North Central	**540,524**	**1%**	611,872	1%
North Western	**1,936,718**	**3%**	2,081,604	3%
Northern	**939,740**	**1%**	1,110,593	1%
Sabaragamuwa	**1,485,678**	**2%**	1,445,354	2%
Southern	**2,924,958**	**4%**	3,489,111	4%
Uva	**463,926**	**1%**	452,195	1%
Western	**57,476,298**	**85%**	66,320,116	86%
Total	**67,517,674**	**100%**	77,358,301	100%

GROUP As at 31 December	2020		2019	
	Rs.'000	%	Rs.'000	%
Central	**2,124,533**	**3%**	2,214,038	3%
Eastern	**375,089**	**1%**	371,407	0%
North Central	**937,371**	**1%**	1,035,316	1%
North Western	**2,258,647**	**3%**	2,474,333	3%
Northern	**939,740**	**1%**	1,110,593	1%
Sabaragamuwa	**1,911,930**	**3%**	1,925,173	2%
Southern	**4,170,469**	**6%**	4,933,744	6%
Uva	**463,926**	**1%**	452,195	1%
Western	**60,594,963**	**82%**	70,263,339	83%
Total	**73,776,668**	**100%**	84,780,138	100%

53.3 Liquidity risk

Liquidity risk is defined as the risk that the Bank will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Hence, the Bank may be unable to meet its payment obligations when they fall due under both normal and stress circumstances. 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.

The Bank maintains portfolio of highly marketable and diverse assets assumed to be easily liquidated in the event of an unforeseen interruption of expected cash flows. Further, the Bank has committed lines of credit that could be utilised to meet liquidity needs. Also, the Bank maintained a statutory deposit with the Central Bank of Sri Lanka equivalent to 2% (2019 - 5%) of customer rupee deposits. Liquid assets consists of cash, short term placements and liquid debt securities available for immediate sale.

Management has considered different possible outcomes to assess the possible impact from COVID-19 to the Bank's operations and forecast cash flows. The Management is of the view that the negative impacts would not pose any additional stress on the Bank's ability to maintain its regulatory capital margins which is well above the regulatory requirements. The Bank has increased its liquidity buffers on a prudent basis and maintained a strong excess liquidity position.

53. RISK MANAGEMENT (CONTD.)

53.3.1 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	BANK 2020 %	BANK 2019 %
Liquid assets ratio		
Year end	**32.9%**	23.0%
Maximum	**33.1%**	24.4%
Minimum	**22.4%**	21.1%
Average	**28.3%**	22.0%

As at 31 December	BANK 2020 %	BANK 2019 %	GROUP 2020 %	GROUP 2019 %
Advances to deposits ratio				
Year end	**85.0%**	103.6%	**88.3%**	105.6%
Maximum	**98.0%**	103.6%	**100.7%**	105.6%
Minimum	**85.0%**	100.6%	**88.3%**	103.7%
Average	**92.2%**	102.4%	**95.0%**	105.0%
Net loans to assets				
Year end	**54.9%**	63.5%	**56.9%**	65.3%
Maximum	**59.7%**	64.9%	**61.4%**	66.8%
Minimum	**54.9%**	61.0%	**56.9%**	63.1%
Average	**58.0%**	62.7%	**59.9%**	64.6%

53. RISK MANAGEMENT (CONTD.)

53.3.2 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	2020					
	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	2,405,091	-	-	-	-	2,405,091
Balances with Central Bank of Sri Lanka	-	-	-	-	722,727	722,727
Placements with banks	-	15,747	-	-	-	15,747
Derivative financial instruments	-	37,003	1,186	-	-	38,189
Financial investments at fair value through profit or loss	-	5,269,219	1,103,757	859,754	231,200	7,463,930
Financial assets at amortised cost - loans and advances to customers	11,046,635	23,212,305	14,877,757	25,456,971	6,491,369	81,085,077
Financial assets at amortised cost - debt and other instruments	-	7,107,724	7,552,786	8,497,279	-	23,157,789
Financial investments at fair value through other comprehensive income	-	967,225	12,397,137	12,569,520	1,130,622	27,064,504
Other financial assets	-	111,494	20,110	15,962	300	147,866
Total undiscounted financial assets	13,451,726	36,720,717	35,952,773	47,399,486	8,576,218	142,100,920
Financial liabilities						
Due to banks	-	4,938,090	3,703,429	4,436,680	-	13,078,199
Derivative financial instruments	-	8,099	214	-	-	8,313
Repurchased agreements	-	10,308,443	106,816	-	-	10,415,259
Due to customers	26,142,141	24,296,785	33,016,433	5,696,820	-	89,152,179
Other financial liabilities	-	476,924	304,690	278,305	-	1,059,918
Total undiscounted financial liabilities	26,142,141	40,028,341	37,131,582	10,411,804	-	113,713,868
Net undiscounted financial assets/(liabilities)	(12,690,415)	(3,307,624)	(1,178,809)	36,987,682	8,576,218	28,387,052
Cumulative gap	(12,690,415)	(15,998,039)	(17,176,848)	19,810,834	28,387,052	

53. RISK MANAGEMENT (CONTD.)

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	

53. RISK MANAGEMENT (CONTD.)

GROUP As at 31 December	2020					
	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	2,832,540	-	-	-	-	2,832,540
Balances with Central Bank of Sri Lanka	-	-	-	-	722,727	722,727
Placements with banks	-	15,747	-	-	-	15,747
Reverse repurchased agreements	-	240,736	-	-	-	240,736
Derivative financial instruments	-	37,003	1,186	-	-	38,189
Financial investments at fair value through profit or loss	-	5,269,219	1,103,757	859,754	268,017	7,500,747
Financial assets at amortised cost - loans and advances to customers	11,046,635	25,969,786	16,660,610	29,370,220	6,625,281	89,672,532
Financial assets at amortised cost - debt and other instruments	-	7,097,173	7,252,786	8,149,249	-	22,499,208
Financial investments at fair value through other comprehensive income	-	967,225	12,397,137	12,569,520	1,142,836	27,076,718
Other financial assets	-	135,572	23,857	18,077	300	177,806
Total undiscounted financial assets	13,879,175	39,732,461	37,439,333	50,966,820	8,759,161	150,776,950
Financial liabilities						
Due to banks	-	4,726,317	3,102,690	4,436,680	-	12,265,687
Derivative financial instruments	-	8,099	214	-	-	8,313
Repurchased agreements	-	10,203,432	106,816	-	-	10,310,248
Due to customers	26,124,884	25,550,161	34,891,968	7,898,277	-	94,465,290
Other borrowed funds	-	496,797	1,377,759	711,905	-	2,586,461
Other financial liabilities	-	491,924	355,859	342,245	-	1,190,028
Total undiscounted financial liabilities	26,124,884	41,476,730	39,835,306	13,389,107	-	120,826,027
Net undiscounted financial assets/(liabilities)	(12,245,709)	(1,744,269)	(2,395,973)	37,577,713	8,759,161	29,950,923
Cumulative gap	(12,245,709)	(13,989,978)	(16,385,951)	21,191,762	29,950,923	

53. RISK MANAGEMENT (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	

53. RISK MANAGEMENT (CONTD.)

53.3.3 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	2020					
	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	5,973,115	5,973,115	-	-	-	-
Commitments for unutilised facilities	9,884,431	9,884,431	-	-	-	-
Total	15,857,546	15,857,546	-	-	-	-
Contingent Liabilities						
Acceptances	4,763,752	4,763,752	-	-	-	-
Guarantees	9,225,134	2,870,330	2,734,165	2,859,308	750,536	10,795
Documentary credit	3,589,740	451,313	2,620,081	518,346	-	-
Forward contracts	4,891,487	-	4,712,024	179,463	-	-
Spot contracts	595,124	595,124	-	-	-	-
Cheque pending for realisation	322,110	322,110	-	-	-	-
Other contingent items	969,993	906,905	20,817	27,724	14,547	-
Total	24,357,340	9,909,534	10,087,087	3,584,841	765,083	10,795
Total commitments and contingent liabilities	40,214,886	25,767,080	10,087,087	3,584,841	765,083	10,795

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	-

53. RISK MANAGEMENT (CONTD.)

GROUP As at 31 December	2020					
	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	5,973,115	5,973,115	-	-	-	-
Commitments for unutilised facilities	10,030,463	10,030,463	-	-	-	-
Total	16,003,578	16,003,578	-	-	-	-
Contingent liabilities						
Acceptances	4,763,752	4,763,752	-	-	-	-
Guarantees	9,225,134	2,870,330	2,734,165	2,859,308	750,536	10,795
Documentary credit	3,589,740	451,313	2,620,081	518,346	-	-
Forward contracts	4,891,487	-	4,712,024	179,463	-	-
Spot contracts	595,124	595,124	-	-	-	-
Cheques pending for realisation	322,110	322,110	-	-	-	-
Other contingent items	969,993	906,905	20,817	27,724	14,547	-
Total	24,357,340	9,909,534	10,087,087	3,584,841	765,083	10,795
Total commitments and contingent liabilities	40,360,918	25,913,112	10,087,087	3,584,841	765,083	10,795

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	7086090	5782689	1002709	-
Total commitments and contingent liabilities	32,104,191	18,232,703	7,086,091	5,782,689	1,002,709	-

53. RISK MANAGEMENT (CONTD.)

53.4 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.

53.4.1 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.

53.4.2 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.

53.4.2.1 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.

2020	Increase/(Decrease) in basis points	BANK	GROUP
		Sensitivity of effect on Profit/(Loss)	Sensitivity of effect on Profit/(Loss)
Rate sensitive assets	**100 / (100)**	**655Mn/(655Mn)**	**676Mn/(676Mn)**
Rate sensitive liabilities	**100 / (100)**	**(701Mn)/701Mn**	**(727Mn)/727Mn**
Net effect		**(46Mn)/46Mn**	**(51Mn)/51Mn**

2019	Increase/(Decrease) in basis points	BANK
		Sensitivity of effect on Profit/(Loss)
Rate sensitive assets	100 / (100)	642Mn/(642Mn)
Rate sensitive liabilities	100 / (100)	(671Mn)/671Mn
Net effect		(29Mn)/29Mn

53. RISK MANAGEMENT (CONTD.)

53.4.2.2 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	2020					
		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	2,405,091	-	-	-	-	2,405,091
Balances with Central Bank of Sri Lanka	722,727	-	-	-	-	722,727
Placements with banks	15,747	15,747	-	-	-	-
Derivative financial instruments	38,189	-	-	-	-	38,189
Financial investments at fair value through profit or loss	7,143,403	121,309	967,764	698,590	208,420	5,147,320
Financial assets at amortised cost - loans and advances to customers	67,517,674	17,211,368	16,062,204	21,148,470	13,095,632	-
Financial assets at amortised cost - debt and other instruments	21,168,076	6,602,173	6,860,501	7,705,402	-	-
Financial investments at fair value through other comprehensive income	19,385,038	1,123,980	7,863,052	9,400,290	995,186	2,530
Other financial assets	147,865	-	-	-	-	147,865
Total	118,543,810	25,074,577	31,753,521	38,952,752	14,299,238	8,463,722
Financial liabilities						
Due to banks	9,980,590	5,963,498	3,930,572	86,521	-	-
Derivative financial instruments	8,313	-	-	-	-	8,313
Repurchased agreements	10,205,564	9,920,301	285,263	-	-	-
Due to customers	82,383,852	45,365,807	29,862,323	2,346,185	-	4,809,537
Other financial liabilities	1,059,919	-	-	-	-	1,059,919
Total	103,638,238	61,249,606	34,078,158	2,432,706	-	5,877,769
Interest rate sensitivity gap	14,905,572	(36,175,029)	(2,324,637)	36,520,047	14,299,238	2,585,953

53. RISK MANAGEMENT (CONTD.)

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	4718315	251590	-	-
Derivative financial instruments	4,515	-	-	-	-	4515
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

53. RISK MANAGEMENT (CONTD.)

GROUP As at 31 December	2020					
		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	2,832,540	-	-	-	-	2,832,540
Balances with Central Bank of Sri Lanka	722,727	-	-	-	-	722,727
Placements with banks	15,747	15,747	-	-	-	-
Reverse repurchased agreements	240,736	240,736	-	-	-	-
Derivative financial instruments	38,189	-	-	-	-	38,189
Financial investments at fair value through profit or loss	7,180,220	121,309	967,764	698,591	208,420	5,184,137
Financial assets at amortised cost - loans and advances to customers	73,776,668	18,579,514	17,102,499	23,627,401	14,467,253	-
Financial assets at amortised cost - debt and other instruments	20,509,495	6,591,622	6,560,501	7,357,372	-	-
Financial investments at fair value through other comprehensive income	19,397,252	1,123,980	7,863,052	9,400,290	995,187	14,744
Other financial assets	177,807	-	-	-	-	177,807
Total	124,891,381	26,672,908	32,493,816	41,083,654	15,670,860	8,970,144
Financial liabilities						
Due to banks	9,168,079	5,751,725	3,329,833	86,521	-	-
Derivative financial instruments	8,313	-	-	-	-	8,313
Repurchased agreements	10,100,553	9,815,290	285,263	-	-	-
Due to customers	87,104,192	46,453,979	31,555,366	4,213,719	-	4,881,128
Other borrowed funds	2,347,634	390,940	1,183,120	607,750	-	165,824
Other financial liabilities	1,264,705	-	-	-	-	1,264,705
Total	109,993,476	62,411,934	36,353,582	4,907,990	-	6,319,970
Interest rate sensitivity gap	14,897,905	(35,739,026)	(3,859,766)	36,175,664	15,670,860	2,650,174

53. RISK MANAGEMENT (CONTD.)

GROUP As at 31 December	2019					
		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	3,104,542	-	-	-	-	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

53.4.3 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.

The below tables show the currencies to which the Bank had significant exposures as at 31 December 2020 and 2019 and the impact on gain/losses if the market exchange rates increase/decrease by 5%. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Sri Lanka rupee, with all other variables held constant, on the Statement of Profit or Loss and equity.

BANK As at 31 December Foreign Exchange Position	2020		2019	
	Net Overall Long Rs.'000	Net Overall Short Rs.'000	Net Overall Long Rs.'000	Net Overall Short Rs.'000
Currency				
AED	2,311	-	1,907	-
AUD	415	-	2,081	-
CAD	-	(661)	-	(444)
CHF	1,028	-	253	-
EUR	3,769	-	4,574	-
GBP	2,290	-	2,366	-
JPY	-	(421)	593	-
NZD	897	-	6	-
USD	12,790	-	3,076	-
Main Currency Total	23,501	(1,082)	14,856	(444)
Other Currencies	1,430	-	4,880	-
Grand Total	24,931	(1,082)	19,736	(444)
Higher of Long or Short	24,931		19,736	

53. RISK MANAGEMENT (CONTD.)

BANK Impact on Statement of Profit or Loss due to Exchange Rate Shocks	2020 Net Open Position (after rate shocks) Rs.'000	 Impact on Statement of Profit or Loss for the period ended 31 December Rs.'000	2019 Net Open Position (after rate shocks) Rs.'000	 Impact on Statement of Profit or Loss for the period ended 31 December Rs.'000
5%	**26,178**	**1,247**	20,723	987
10%	**27,424**	**2,493**	21,709	1,974
(5%)	**23,685**	**(1,247)**	18,749	(987)
(10%)	**22,438**	**(2,493)**	17,762	(1,974)

53.5 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.

53.6 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.

53.6.1 Geographical analysis

BANK & GROUP As at 31 December	2020 Asia Rs.'000	 Europe Rs.'000	 America Rs.'000	 Australia Rs.'000	 Middle East Rs.'000	 Total Rs.'000
Balances with foreign banks	**89,312**	**52,430**	**161,667**	**-**	**1,161**	**304,570**
Placements with banks	**-**	**-**	**15,747**	**-**	**-**	**15,747**
Total	**89,312**	**52,430**	**177,414**	**-**	**1,161**	**320,317**

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

Except for the above, the Bank does not carry any other financial asset or financial liability outside Sri Lanka.

54. 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.

54.1 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.

54.2 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	2020		2019	
	Actual	Required	Actual	Required
Common Equity Tier 1 (CET1) Capital (Rs.'000)	**15,415,491**	**N/A**	15,286,211	N/A
Tier 1 Capital (Rs.'000)	**15,415,491**	**N/A**	15,286,211	N/A
Total Capital (Rs.'000)	**15,680,987**	**N/A**	15,413,097	N/A
Risk Weighted Assets (Rs.'000)	**92,537,255**	**N/A**	92,045,633	N/A
Common Equity Tier 1 Capital Ratio (%)	**16.66%**	**6.50%**	16.61%	7.00%
Tier 1 Capital Ratio (%)	**16.66%**	**8.00%**	16.61%	8.50%
Total Capital Ratio (%)	**16.95%**	**12.00%**	16.75%	12.50%

GROUP As at 31 December	2020		2019	
	Actual	Required	Actual	Required
Common Equity Tier 1 (CET1) Capital (Rs.'000)	**16,024,248**	**N/A**	15,810,228	N/A
Tier 1 Capital (Rs.'000)	**16,024,248**	**N/A**	15,810,228	N/A
Total Capital (Rs.'000)	**16,677,537**	**N/A**	16,050,219	N/A
Risk Weighted Assets (Rs.'000)	**98,095,081**	**N/A**	98,097,743	N/A
Common Equity Tier 1 Capital Ratio (%)	**16.34%**	**6.50%**	16.12%	7.00%
Tier 1 Capital Ratio (%)	**16.34%**	**8.00%**	16.12%	8.50%
Total Capital Ratio (%)	**17.00%**	**12.00%**	16.36%	12.50%

SUPPLEMENTARY INFORMATION

Ten Years at a Glance

	2020 Rs.'000	2019 Rs.'000	2018 Rs.'000	2017 Rs.'000
Operating Results				
Gross income	13,370,190	14,712,069	13,910,425	11,937,763
Interest income	11,179,991	12,956,243	12,142,268	10,498,284
Interest expense	7,310,035	8,477,329	8,490,006	7,452,377
Net interest income	3,869,956	4,478,914	3,652,262	3,045,907
Non interest income	2,020,293	1,541,680	1,632,999	1,329,731
Share of profit of equity accounted investees, net of tax	(28,945)	103,823	34,614	55,801
Operating expenses (Including impairment & VAT)	4,922,371	4,932,816	4,542,481	3,897,321
Profit/ (loss) before taxation	938,933	1,191,601	777,394	534,118
Income tax	362,397	481,254	304,846	73,500
Profit/ (loss) after income tax	576,536	710,347	472,548	460,618
Assets				
Cash & balances with Central Bank	3,127,818	5,033,057	7,137,798	8,483,417
Placement with banks	15,747	94,257	3,265,425	716,147
Reverse repurchased agreements	-	426,823	417,146	1,795
Derivative financial instruments	38,189	6,230	34,274	2,760
Financial investments at fair value through profit or loss	7,143,403	3,228,565	2,863,121	-
Financial investments - held for trading	-	-	-	5,949,023
Financial assets at amortised cost - loans and advances to customers	67,517,674	77,358,301	73,749,208	70,577,923
Financial assets at amortised cost - debt and other instruments	21,168,076	13,441,040	16,567,940	-
Other loans and receivables	-	-	-	9,609,639
Financial investments - held to maturity	-	-	-	2,546,553
Financial investments at fair value through other comprehensive income	19,385,038	17,503,245	17,735,959	-
Financial investments - available for sale	-	-	-	16,453,207
Current tax asset	-	1,148	336,167	436,279
Investments in subsidiaries	882,478	912,268	835,373	1,262,612
Goodwill and intangible assets	1,314,234	1,329,791	1,202,532	1,220,999
Property, plant and equipment and Right of use assets	1,317,789	1,482,366	789,158	888,359
Deferred tax asset	-	-	115,596	-
Sri Lanka government securities	-	-	-	-
Other assets	1,032,828	936,568	870,457	858,695
Total	122,943,274	121,753,659	125,920,154	119,007,408
Liabilities				
Due to banks	9,980,590	11,475,176	9,348,209	17,208,641
Derivative financial instruments	8,313	4,515	71,750	4,867
Repurchased agreements	10,205,564	12,116,040	17,585,912	10,381,193
Due to customers	82,383,852	76,532,012	79,251,073	70,325,594
Other borrowed funds	-	1,242,450	1,234,220	1,224,812
Current tax liabilities	262,689	-	-	-
Deferred tax liabilities	53,841	62,299	-	144,922
Other liabilities	1,958,408	2,810,711	1,801,642	1,859,682
Total liabilities	104,853,257	104,243,203	109,292,806	101,149,711
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	1,689,751	1,110,190	227,082	1,457,431
Total equity	18,090,017	17,510,456	16,627,348	17,857,697
Total	122,943,274	121,753,659	125,920,154	119,007,408
Share information				
Earnings per share	0.53	0.65	0.43	0.42

2016 Rs.'000	2015 Rs.'000	2014 Rs.'000	2013 Rs.'000	2012 Rs.'000	2011 Rs.'000
8,545,874	5,005,441	4,546,418	4,792,752	3,924,169	2,496,806
7,223,212	4,155,484	3,972,062	4,129,391	3,444,114	2,083,742
4,716,433	2,133,782	2,209,487	2,973,676	2,211,053	1,102,215
2,506,779	2,021,702	1,762,575	1,155,715	1,233,061	981,527
1,230,599	788,737	530,797	622,908	445,601	378,439
76,696	43,069	-	-	-	-
3,378,139	2,618,262	2,232,569	1,674,656	1,215,687	908,723
435,935	235,246	60,803	103,967	462,975	451,243
(15,244)	13,296	3,715	(8,747)	149,331	143,550
451,179	221,950	57,088	112,714	313,644	307,693
4,994,490	2,811,325	2,408,572	2,134,479	2,325,987	1,887,571
2,819,628	284,078	73,995	314,545	1,601,622	1,951,978
2,137	1,513,425	10,543,106	1,349,743	601,313	245,127
15,412	13,481	4,150	1,458	-	148
-	-	-	-	-	-
1,346,932	8,463,807	2,584,471	989,206	431,054	149,622
55,438,415	40,095,332	25,944,570	23,461,925	20,024,729	17,292,929
-	-	-	-	-	-
7,747,231	5,721,549	2,470,115	2,375,111	-	-
140,231	140,529	140,027	1,736,728	2,285,290	2,197,453
-	-	-	-	-	-
16,520,365	8,356,130	1,647,686	139,556	-	-
268,456	208,404	149,448	94,515	-	-
940,027	883,378	892,364	892,364	912,364	912,382
1,151,033	1,118,200	951,750	53,951	39,996	10,671
897,371	913,814	754,548	1,025,088	614,441	465,108
82,534	-	-	-	-	-
-	-	-	-	1,632,054	1,006,065
644,247	475,910	430,319	442,293	354,025	272,269
93,008,509	70,999,362	48,995,121	35,010,962	30,822,875	26,391,323
12,160,244	6,945,249	2,090,588	163,448	911,898	380,999
3,976	2,860	-		2,058	1,913
10,256,670	8,242,551	1,116,489	129,450	499,495	128,289
51,841,372	37,652,508	27,808,891	28,339,687	23,142,802	19,754,597
-	-	-	-	-	-
-	-	-	-	36,134	21,535
-	30,089	25,284	23,964	37,155	19,661
1,663,030	1,212,916	1,203,585	897,128	730,329	885,385
75,925,292	54,086,173	32,244,837	29,553,677	25,359,871	21,192,379
16,334,782	16,334,782	16,334,782	4,979,791	4,979,791	4,979,791
65,484	65,484	65,484	-	-	-
682,951	512,923	350,018	477,494	483,213	219,153
17,083,217	16,913,189	16,750,284	5,457,285	5,463,004	5,198,944
93,008,509	70,999,362	48,995,121	35,010,962	30,822,875	26,391,323
0.41	0.20	0.10	0.30	0.90	0.90

KEY REGULATORY RATIOS-CAPITAL AND LIQUIDITY

As at 31 December	BANK		GROUP	
	2020	2019	2020	2019
Regulatory Capital (LKR '000)				
Common Equity Tier 1	**15,415,491**	15,286,211	**16,024,248**	15,810,228
Tier 1 Capital	**15,415,491**	15,286,211	**16,024,248**	15,810,228
Total Capital	**15,680,987**	15,413,097	**16,677,537**	16,050,219
Regulatory Capital Ratios (%)				
Common Equity Tier 1 Capital Ratio (Minimum Requirement - 2020- 6.5% & 2019 -7.0%)	**16.66%**	16.61%	**16.34%**	16.12%
Tier 1 Capital Ratio (Minimum Requirement- 2020 - 8.0% & 2019 -8.5%)	**16.66%**	16.61%	**16.34%**	16.12%
Total Capital Ratio (Minimum Requirement- 2020 - 12.0% & 2019 - 12.5%)	**16.95%**	16.75%	**17.00%**	16.36%
Leverage Ratio (Minimum Requirement - 3.0%)	**10.23%**	10.64%	**10.14%**	10.36%
Regulatory Liquidity				
Statutory Liquid Assets				
Domestic Banking Unit (LKR'000)	**26,629,637**	19,095,889		
Foreign Currency Banking Unit (USD'000)	**18,585**	13,587		
Statutory Liquid Assets Ratio % (Minimum Requirement-20%)				
Domestic Banking Unit (%)	**29.08%**	22.95%		
Foreign Currency Banking Unit (%)	**21.93%**	21.95%		
Liquidity Coverage Ratio (%) (Minimum Requirement - 2020 - 90% & 2019 - 100%)				
Rupee	**861.13%**	225.57%		
All Currency	**459.60%**	154.70%		
Net Stable Funding Ratio (%) (Minimum Requirement - 2020 - 90% & 2019 - 100%)	**121.05%**	113.08%		

BASEL III COMPUTATION OF CAPITAL RATIO

As at 31 December	2020		2019	
	BANK Rs.'000	GROUP Rs.'000	BANK Rs.'000	GROUP Rs.'000
Common Equity Tier I (CETI) Capital after adjustments	15,415,491	16,024,248	15,286,211	15,810,228
Total Common Equity Tier I (CET1) Capital	18,258,861	18,077,103	18,118,854	17,923,453
Equity capital or stated capital/assigned capital	16,334,782	16,334,782	16,334,782	16,334,782
Reserve fund	204,227	228,847	175,400	200,020
Published retained earnings/(Accumulated retained losses)	1,526,894	1,232,277	1,278,438	925,538
Published accumulated other comprehensive income (OCI)	103,974	103,646	213,324	213,324
General and other disclosed reserves	88,984	88,984	116,909	116,910
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	-	88,566	-	132,879
Total adjustments to CET1 Capital	2,843,370	2,052,856	2,832,644	2,113,224
Goodwill (net)	-	113,031	-	113,031
Other intangible assets (net)	1,314,234	1,548,524	1,329,791	1,565,635
Deferred tax assets (net)	-	391,301	-	434,557
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	713,032	-	744,378	-
Shortfall of capital in financial subsidiaries	816,104	-	758,475	-
Additional Tier 1 (AT1) Capital after adjustments	-	-	-	-
Total Additional Tier 1 (ATI) Capital	-	-	-	-
Instruments issued by consolidated banking and financial subsidiaries of the Bank and held by third parties	-	-	-	-
Total adjustments to AT1 Capital	-	-	-	-
Regulatory adjustments applied to AT1 due to insufficient Tier 2 capital to cover adjustments	-	-	-	-
Tier 2 Capital after adjustments	265,495	653,290	126,886	239,991
Total Tier 2 Capital	565,495	653,290	426,886	239,991
General provisions	565,495	653,290	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	-	300,000	-
Investments in the capital of financial institutions and where the Bank own more than 10 per cent of the issued capital carrying voting rights of the issuing entity	300,000	-	300,000	-
CET1 Capital	15,415,491	16,024,248	15,286,211	15,810,228
Total Tier 1 Capital	15,415,491	16,024,248	15,286,211	15,810,228
Total Capital	15,680,987	16,677,537	15,413,097	16,050,219

As at 31 December	2020		2019	
	BANK	GROUP	BANK	GROUP
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Total Risk Weighted Assets (RWAs)	92,537,255	98,095,081	92,045,633	98,097,743
RWAs for Credit Risk	70,958,990	75,293,038	78,348,895	83,190,868
RWAs for Market Risk	14,700,057	14,794,113	7,672,787	7,751,862
RWAs for Operational Risk	6,878,208	8,007,930	6,023,952	7,155,013
CET1 Capital Ratio (including Capital Conservation Buffer,Countercyclical Capital Buffer & Surcharge on D-SIBs)(%)	16.66%	16.34%	16.61%	16.12%
of which : Capital Conservation Buffer (%)	2.00%	2.00%	2.50%	2.50%
of which : Countercyclical Buffer (%)	-	-	-	-
of which : Capital Surcharge on D-SIBs (%)	N/A	N/A	N/A	N/A
Total Tier 1 Capital Ratio (%)	16.66%	16.34%	16.61%	16.12%
Total Capital Ratio (including Capital Conservation Buffer,Countercyclical Capital Buffer & Surcharge on D-SIBs)(%)	16.95%	17.00%	16.75%	16.36%
of which : Capital Conservation Buffer (%)	2.00%	2.00%	2.50%	2.50%
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	2020		2019	
	BANK	GROUP	BANK	GROUP
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Tier 1 Capital	15,415,491	16,024,248	15,286,211	15,810,228
Total Exposure	150,631,716	158,094,288	143,732,818	152,538,544
On-balance sheet items (excluding Derivatives and Securities Financing Transactions,but including collateral)	120,061,715	127,479,318	118,488,059	127,293,785
Derivative exposures	12,311,516	12,311,516	5,974,953	5,974,953
Securities Financing Transaction exposures	11,150,135	11,150,135	12,540,997	12,540,997
Other off -balance sheet exposures	7,108,350	7,153,319	6,728,809	6,728,809
Basel III Leverage Ratio (%) (Tier 1/Total Exposure)	10.23%	10.14%	10.64%	10.36%

BASEL III COMPUTATION OF LIQUIDITY COVERAGE RATIO - BANK

As at 31 December	2020		2019	
	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)	24,769,331	23,972,769	14,356,196	14,276,051
Total Adjusted Level 1A Assets	24,769,331	24,769,331	14,356,196	14,276,051
Level 1 Assets	23,972,769	23,972,769	14,276,051	14,276,051
Total Adjusted Level 2A Assets	-	-	-	-
Level 2A Assets	-	-	-	-
Total Adjusted Level 2B Assets	-	-	-	-
Level 2B Assets	-	-	-	-
Total Cash Outflows	118,157,506	16,639,143	108,742,620	20,220,691
Deposits	63,208,421	5,601,902	59,714,795	5,722,068
Unsecured wholesale funding	20,220,809	10,122,629	21,535,751	13,291,069
Secured funding transaction	-	-	-	-
Undrawn portion of committed (irrevocable) facilities and other contingent funding obligations	34,728,275	914,612	27,492,075	1,207,554
Additional requirements	-	-	-	-
Total Cash Inflows	15,830,025	11,423,164	18,121,070	10,992,504
Maturing secured lending transactions backed by collateral	1,235,948	1,235,948	1,858,269	1,858,269
Committed facilities	-	-	-	-
Other inflows by counterparty which are maturing within 30 days	14,244,835	10,157,340	15,818,467	9,132,521
Operational deposits	319,367	-	442,620	-
Other cash inflows	29,876	29,876	1,714	1,714
Liquidity Coverage Ratio,(%)(Stock of High Quality Liquid Assets/ Total Net Cash Outflows over the Next 30 Calender Days)*100		459.60%		154.70%

MAIN FEATURES OF REGULATORY CAPITAL INSTRUMENTS

As at 31 December	2020	
	BANK Rs.'000	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	15,680,987*	16,677,537**
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 being 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 level	With reference to the letter from governor of CBSL dated 27th March 2020, the Bank is required to comply the enhancement of capital to Rs.20Bn by end of 2022. Also, the Bank makes sure to restrict cash dividend distribution to maximum 25% of distributable profits in respect of financial year end 2020 to preserve and build up capital
Internal and external capital sources	The primary source of capital is through the internally generated reserves. In addition, 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. Given the Bank does not have an immediate need for new capital, with the request of Culture Financial Holdings, the Board of Directors of the Bank decided to (i) extend the exercise period of the warrants by a further two (2) years (i.e. until 30 September 2022) and (ii) revise the exercise price to a price that is equivalent to the average closing price per share for the five-day period that immediately precedes the exercise of warrants. The Bank has obtained the concurrence of the Central Bank of Sri Lanka and the Securities and Exchange Commission of Sri Lanka for the extension of the warrants' exercise period and the revision to the exercise price, as described above and the Culture Financial Holdings Limited (CFHL), 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 mean Right issue or a debenture issue could also be an option.
Assessment of the adequacy of Bank's capital commensurate with all material risks and other capital needs in relation to its current and future activities. General contingency plan for dealing with divergences 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 ensure 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.

CREDIT RISK UNDER STANDARDISED APPROACH-CREDIT RISK EXPOSURES AND CREDIT RISK MITIGATION (CRM) EFFECTS

As at 31 December 2020	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	17,747,665	-	17,747,665	-	1,029,493	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	335,114	153,237	335,114	153,237	237,360	49%
Claims on financial institutions	5,632,485	65,691	5,632,485	65,691	4,957,052	87%
Claims on corporates	25,154,026	13,954,373	25,154,026	2,895,105	26,000,743	93%
Retail claims	19,390,944	26,317,537	16,397,909	3,529,844	16,948,674	85%
Claims secured by residential property	8,729,420	-	8,729,420	-	7,585,992	87%
Claims secured by commercial real estate	4,083,298	-	4,083,298	-	4,083,298	100%
Non-Performing Assets (NPAs)	5,251,608	-	5,251,608	-	6,152,238	117%
Higher-risk categories	169,446	-	169,446	-	423,616	250%
Cash Items and other assets	11,074,801	574,206	5,299,585	574,206	3,540,524	60%
Total	97,568,807	41,065,044	88,800,557	7,218,082	70,958,900	80%

As at 31 December 2020	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	18,093,413	-	18,093,413	-	1,029,493	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	497,319	153,237	497,319	153,237	269,802	54%
Claims on financial institutions	4,914,585	65,691	4,914,585	65,691	4,598,102	94%
Claims on corporates	25,154,189	13,954,373	25,154,189	2,895,105	26,000,906	103%
Retail claims	24,259,170	26,407,475	21,266,135	3,574,813	20,238,406	95%
Claims secured by residential property	8,729,420	-	8,729,420	-	7,585,992	87%
Claims secured by commercial real estate	4,190,188	-	4,190,188	-	4,190,188	100%
Non-Performing Assets (NPAs)	6,290,626	-	6,290,626	-	7,521,461	120%
Higher-risk categories	-	-	-	-	-	-
Cash Items and other assets	12,155,456	574,206	5,675,374	574,206	3,858,688	68%
Total	104,284,366	41,154,981	94,811,249	7,263,051	75,293,038	79%

Note :

(i) NPAs-As per Banking Act Directions on Classification of loans and advances,income recogntion and provisioning.

(ii)RWA Density-Total RWA/Exposures post CCF and CRM

CREDIT RISK UNDER STANDARDISED APPROACH: EXPOSURES BY ASSET CLASSES AND RISK WEIGHTS

As at 31 December 2020	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	12,600,202	5,147,464	-	-	-	-	-	17,747,665
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	-	307,343	10,233	-	170,776	-	-	488,351
Claims on financial institutions	-	-	1,482,247	-	4,215,929	-	-	5,698,176
Claims on corporates	-	500,078	3,296,650	-	24,252,403	-	-	28,049,130
Retail claims	2,596	9,545	-	11,853,416	8,062,196		-	19,927,754
Claims secured by residential property	-	-	2,286,855	-	6,442,564	-	-	8,729,420
Claims secured by commercial real estate	-	-	-	-	4,083,298	-	-	4,083,298
Non-Performing Assets (NPAs)	-	-	519,604	-	2,411,141	2,320,864	-	5,251,608
Higher-risk categories	-	-	-	-	-	-	169,446	169,446
Cash items and 0ther assets	1,865,867	584,251	-	-	3,423,674	-	-	5,873,791
Total	14,468,664	6,548,681	7,595,589	11,853,416	53,061,979	2,320,864	169,446	96,018,639

CREDIT RISK UNDER STANDARDISED APPROACH: EXPOSURES BY ASSET CLASSES AND RISK WEIGHTS

As at 31 December 2020	GROUP							
	Post CCF & CRM							
Risk Weight / Asset Classes	0%	20%	50%	75%	100%	150%	>150%	Total Credit Exposures Amount
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Claims on Central Government and Central Bank of Sri Lanka	12,945,949	5,147,464	-	-	-	-	-	18,093,413
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	-	469,549	10,233	-	170,776	-	-	650,557
Claims on financial institutions	-	-	764,347	-	4,215,929	-	-	4,980,276
Claims on corporates	-	500,078	3,296,650	-	24,252,566	-	-	28,049,293
Retail claims	544,471	9,545	-	16,179,767	8,107,165	-	-	24,840,948
Claims secured by residential property	-	-	2,286,855	-	6,442,564	-	-	8,729,420
Claims secured by commercial real estate	-	-	-	-	4,190,188	-	-	4,190,188
Non-Performing Assets (NPAs)	-	-	579,669	-	2,669,619	3,041,338	-	6,290,626
Higher-risk categories	-	-	-	-	-	-	-	-
Cash items and 0ther assets	1,923,491	584,251	-	-	3,741,838	-	-	6,249,580
Total	15,413,911	6,710,886	6,937,754	16,179,767	53,790,644	3,041,338	-	102,074,300

MARKET RISK UNDER STANDARDISED MEASUREMENT METHOD

As at 31 December 2020	Risk Weighted Assets	
	BANK	GROUP
	Rs.'000	Rs.'000
(a) RWA for Interest Rate Risk	525,658	525,658
General Interest Rate Risk	525,658	525,658
(I) Net Long or Short Position	525,658	525,658
(II) Horizontal Disallowance	-	-
(iii) Vertical Disallowance	-	-
(iv) Options	-	-
Specific Interest Rate Risk	-	-
(b) RWA for Equity	1,235,357	1,246,644
(i) General Equity Risk	617,678	623,562
(ii) Specific Equity Risk	617,678	623,082
(C) RWA for Foreign Exchange & Gold	2,992	2,992
Capital Charge for Market Risk [(a)+(b)+ (c)] * CAR	14,700,057	14,794,113

OPERATIONAL RISK UNDER BASIC INDICATOR APPROACH/THE STANDARDISED APPROACH/THE ALTERNATIVE STANDARDISED APPROACH

As at 31 December 2020	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%		5,103,835	5,887,527	5,516,337	15%	6,103,980	6,793,494	6,321,557
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	825,385					960,952			
The Standardised Approach									
The Alternative Standardised Approach									
Risk-Weighted Amount for Operational Risk									
The Basic Indicator Approach	6,878,208					8,007,930			
The Standardised Approach									
The Alternative Standardised Approach									

DIFFERENCE BETWEEN ACCOUNTING AND REGULATORY SCOPES AND MAPPING OF FINANCIAL STATEMENT CATEGORIES WITH REGULATORY RISK CATEGORIES - BANK

As at 31 December 2020	a Carrying Values as Reported in Published Financial Statements Rs.'000	b Carrying Values under Scope of Regulatory Reporting Rs.'000	c Subject to Credit Risk Framework Rs.'000	d Subject to Market Risk Framework Rs.'000	e Not subject to Capital Requirements or Subject to Deduction from Capital Rs.'000
Assets	122,943,274	123,361,831	85,844,919	26,131,077	11,095,517
Cash and cash equivalents	2,405,091	2,429,959	2,429,959	-	-
Balances with Central Bank of Sri Lanka	722,727	722,727	722,727	-	-
Placements with banks	15,747	15,747	15,747	-	-
Derivative financial instruments	38,189	-	-	-	-
Financial investments at fair value through profit or loss	7,143,403	7,123,312	-	7,123,312	-
Financial assets at amortised cost - loans and advances to customers	67,517,674	67,293,602	58,525,351	-	8,768,251
Financial assets at amortised cost - debt and other instruments	21,168,076	21,092,696	20,792,696	-	300,000
Financial investments at fair value through other comprehensive income	19,385,038	19,010,295	2,530	19,007,765	-
Investments in real estate	-	-	-	-	-
Investments in subsidiaries	882,478	1,172,797	169,446	-	713,032
Goodwill and intangible assets	1,314,234	1,314,234	-	-	1,314,234
Property, plant and equipment	1,317,789	585,221	585,221	-	-
Deferred tax assets	-	-	-	-	
Other assets	1,032,827	2,601,242	2,601,242	-	-
Liabilities	104,853,257	104,877,472	-	-	-
Due to banks	9,980,590	8,827,370	-	-	-
Derivative financial instruments	8,313	-	-	-	-
Repurchased agreements	10,205,564	-	-	-	-
Due to other customers	82,383,852	80,599,732	-	-	-
Other borrowings	-	10,197,594	-	-	-
Current tax liabilities	262,689	-	-	-	-
Deferred tax liabilities	53,841	-	-	-	-
Other liabilities	1,958,408	5,252,776	-	-	-
Off -balance sheet liabilities	40,214,886	40,214,886	40,214,886	-	-
Guarantees	6,561,277	6,561,277	6,561,277	-	-
Performance bonds	2,663,857	2,663,857	2,663,857	-	-
Letter of credits	3,589,740	3,589,740	3,589,740	-	-
Other contingent items	10,250,363	10,250,363	10,250,363	-	-
Undrawn loan commitments	5,973,115	5,973,115	5,973,115	-	-
Other commitments	11,176,534	11,176,534	11,176,534	-	-
Equity					
Stated capital	16,334,782	16,334,782	-	-	-
Share warrants	65,484	65,484	-	-	-
Statutory reserve fund	204,227	95,439	-	-	-
ESOP reserve	23,500	23,500	-	-	-
Fair value reserve	217,839	-	-	-	-
Retained earnings	1,244,184	1,965,155	-	-	-
Total equity attributable to equity holders of the Bank	18,090,016	18,484,360	-	-	-
Total equity and liabilities	122,943,274	123,361,831	-	-	-

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

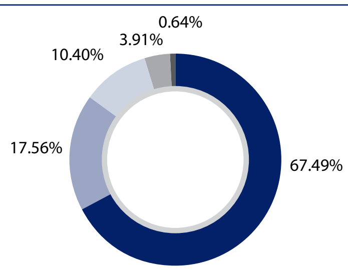
	2020			
	Quarter 1	Quarter 2	Quarter 3	Quarter 4
For the Quarter ended (Rs'000)				
Net interest income	1,030,543	991,531	1,024,742	823,140
Non Interest Income	467,750	460,908	667,117	424,518
Less:				
Impairment for Loans and Other Losses	92,808	188,378	280,542	174,003
Total Operating Expenses	1,000,797	913,506	940,843	917,100
Share of Profit of equity accounted investees, net of tax	376	(23,234)	3,060	(9,147)
Profit before value added tax (VAT), nation building tax (NBT) and debt repayment levy (DRL) on financial services	405,064	327,319	473,535	147,408
Tax expenses	225,107	191,014	239,517	121,153
Profit After Tax	179,957	136,306	234,018	26,255
As at the Quarter ended (Rs'000)				
Total Assets	131,195,752	128,643,236	122,290,728	122,943,274
Financial assets at amortised cost - loans and advances to customers	78,266,306	75,996,595	71,332,737	67,517,674
Due to other customers	83,924,389	79,778,940	81,958,208	82,383,852
Total equity attributable to equity holders of the Bank	17,599,546	18,219,469	18,175,213	18,090,017
Regulatory Capital Adequacy (%)				
Common Equity Tier 1 Capital Ratio (Minimum Requirement - 6.5%)	15.69%	15.88%	15.95%	16.66%
Tier 1 Capital Ratio (Minimum Requirement - 8.0%)	15.69%	15.88%	15.95%	16.66%
Total Capital Ratio (Minimum Requirement - 12.0%)	15.81%	16.06%	16.26%	16.95%
Leverage Ratio (Minimum Requirement - 3%)	10.02%	9.73%	10.98%	10.23%
Regulatory Liquidity (%)				
Statutory Liquid Assets Ratio % (Minimum Requirement, 20%)				
Domestic Banking Unit	24.23%	27.18%	33.21%	29.08%
Foreign Currency Banking Unit	21.91%	21.74%	21.58%	21.93%
Net Stable Funding Ratio (%) (Minimum Requirement - 90%)	113.50%	115.35%	119.28%	121.05%
Liquidity Coverage Ratio (%) (Minimum Requirement - 90%)	123.47%	144.07%	383.82%	459.60%
Asset Quality (%)				
Gross Non Performing Advances Ratio, % (net of interest suspense)	5.11%	5.30%	5.48%	6.05%
Net Non Performing Advances, % (net of interest suspense and provision)	3.37%	3.31%	3.25%	3.54%
Profitability (Annualised) (%)				
Interest Margin, %	3.26%	3.23%	3.33%	3.16%
Return on Assets (Before Tax), %	0.91%	0.83%	0.96%	0.77%
Return on Equity (After Tax), %	4.10%	3.54%	4.11%	3.24%
Ordinary share information (Rs.)				
Market Value - Closing price	8.10	9.70	11.00	11.70
High	13.30	10.30	11.80	13.00
Low	8.00	6.50	8.80	9.70

Direct Economic Value Generated & Distributed

(GRI 201-1)

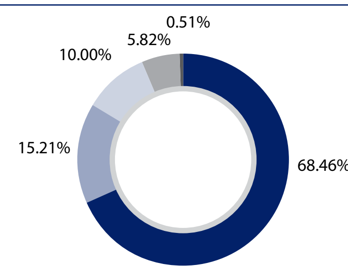
For the year ended 31st December	2020 Rs.'000	2019 Rs.'000
Direct Economic Value Generated		
Interest Income	11,179,991	12,956,243
Net Fee Commission Income	702,625	855,224
Net fair value gains/ (losses) from financial instruments at fair value through profit or loss	533,033	350,771
Net gains/(losses) from financial investments	610,463	323,660
Other Operating Income	174,172	12,025
	13,200,284	14,497,923
Economic Value Distributed		
To Depositors & Lender as an interest	7,310,035	8,477,329
To Employees as Emoluments		
- Salary, bonus & contribution plans	1,553,339	1,474,085
- Benefits	348,629	409,241
To providers of Suppliers & Services	1,127,016	1,238,515
	10,339,019	11,599,170
To Government as Taxation		
Corporate Tax	420,230	426,005
VAT on Financial Services	414,394	416,772
NBT on Financial Services	-	51,193
Debt repayment levy	-	244,562
Crop Insurance Levy	6,053	6,064
Stamp duty & other local taxes	2,751	1,847
To Central Bank of Sri Lanka as Deposit Insurance premium	69,493	63,364
	912,921	1,209,807
Economic Value Retained	1,948,344	1,688,946

Economic Value Distributed - 2020



- 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

Economic Value Distributed - 2019



- 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 20
(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.	N/A
(iii) Information about financial assets pledged as collateral and about financial or non-financial assets held as collateral.	Note 47
(iv) Reconciliation of the impairment allowance account for credit losses by class of financial assets.	Note 27.5.2
(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 6,7,8, 9,10,11,12,13,14 & 15
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 7
(ii) Fee income and expense.	Note 8
(iii) Amount of impairment losses by class of financial assets.	Note 12
(iv) Interest income on impaired financial assets.	Note 7.1
1.3 Other disclosures	
1.3.1 Accounting policies for financial instruments	Note 3.2, 3.4, 4.4, 4.5, 4.6, 4.7, 4.8
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.	N/A
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 51
(ii) Description of how fair value was determined.	Note 51
(iii) The level of inputs used in determining fair value.	Note 51
(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 51
(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 53 - Risk Management
2.1.2. Management's objectives, policies, and processes for managing those risks	Note 53.1 - 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 53 - 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 53.2 – Risk Management

- 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 53.2 – 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 4.7
(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 53.2
(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 290
(ii) Liquidity Risk	
a) A maturity analysis of financial assets and liabilities.	Note 53.3 – Risk Management
(b) Description of approach to risk management.	Note 53.3 – 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.	Market disclosures – page 290

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 53.4 N/A Note 53 and Market disclosures - Page 290
(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 53.4.2 - 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 274 Page 275 Page 277 Page 278
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 278 Page 279 Page 280, 281 Page 282 Page 283
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 284 Page 284

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 Flows
Cash flows are inflows and outflows of cash and cash equivalents.

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.

Consolidated Financial Statements
Consolidated financial statements are the financial statements of a group in which the assets, liabilities, equity, income, expenses and cash flows of the parent and its subsidiaries are presented as those of single economic entity.

Glossary of Financial Terms

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.

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.

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.

Glossary of Financial Terms

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.

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.

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.

Glossary of Financial Terms

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.

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.

Useful Life
Useful life is the period over which an asset is expected to be available for use by an entity or the number of periods production or similar units expected to be obtained from the assets by an entity.

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.	Horowpathana	Rest House Junction, Trincomalee Road, Horowpathana.	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		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 26th Annual General Meeting of UNION BANK OF COLOMBO PLC will be held as a virtual meeting streamed from the Boardroom of the Bank at No.64, Galle Road, Colombo 3 on 31 March 2021 at 2.30 p.m. 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 2020 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 Bank, Mr. Sabry Ghouse 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 Bank.

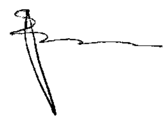
3. To re-elect as a director in terms of Article 89 of the Articles of Association of the Bank, Mr. Puneet Bhatia who retires at this Annual General Meeting in terms of Articles 88 (i) read together with Article 89 of the Articles of Association of the Bank.

4. To re-elect as a director in terms of Article 89 of the Articles of Association of the Bank, Mr. Michael J O'Hanlon 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 Bank.

5. To authorise the Directors to determine donations for the year ending 31 December 2021 and up to the date of the next Annual General Meeting.

6. 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.

By order of the Board.



Inoka Jayawardhana
Company Secretary

Date: 25 February 2021

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 Bank.
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 Bank 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. Sabry Ghouse	of No. 127A, Campbell Place, Colombo 08 or failing him
Mr. Trevine Fernandopulle	of No. 03, Austin Place, Off Kynsey Road, Colombo 08 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. Sarath Wikramanayake	of No. 08, 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 Union Bank of Colombo PLC to be held as a virtual meeting streamed from the Boardroom of the Bank at No. 64, Galle Road, Colombo 3 on 31 March 2021 at 2.30 p.m 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 31 December 2020 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 Bank, Mr. Sabry Ghouse 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 Bank.		
3.	To re-elect, as a director, in terms of Article 89 of the Articles of Association of the Bank, Mr. Puneet Bhatia 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 Bank.		
4.	To re-elect, as a director, in terms of Article 89 of the Articles of Association of the Bank, Mr. Michael J O'Hanlon 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 Bank.		
5.	To authorise the Directors to determine donations for the year ending 31 December 2021 and up to the date of the next Annual General Meeting.		
6.	To re-appoint Messrs. Ernst & Young, Chartered Accountants as Auditors for the ensuing year and authorise the Board of Directors to determine their remuneration.		

Signed on this …………………..………………….. day of …………………..………………….Two Thousand and Twenty One.

…………………………………
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 forwarded to the Company Secretary via email address csd@unionb.com or via fax to +94 112374190 or handed over/posted to the Head Office of the Bank at No.64, Galle Road, Colombo 03 not less than thirty six (36) hours before the time appointed for the holding of the Meeting. No registration of proxies will be accommodated after this deadline.

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 Bank.

   (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 Bank 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.

6. Shareholders who are unable to participate at the meeting through the online meeting platform are encouraged to appoint a director as his/her/its proxy by forwarding the duly completed Form of Proxy clearly indicating their vote in respect of the resolutions set out in the Form of Proxy to the Company Secretary as specified under section 2 above in order that their vote may be identified and recorded as if he/she/it were present at the meeting.

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 –

Financial Controller
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

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 2337818
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
Mohamed Hisham Sabry Ghouse - Deputy Chairman
Trevine Sylvester Anthony Fernandopulle - Senior Independent Director
Indrajit Asela Wickramasinghe - Executive Director/Chief Executive Officer
Puneet Bhatia
Michael J O' Hanlon
Dilshani Gayathri Wijayawardana
Sarath Wikramanayake

Alternate Directors
Sanjeev Mehra

Company Secretary
Inoka Jayawardhana

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Union Bank of Colombo PLC
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